

THE WESTAIM CORPORATION

ANNUAL REPORT 2015



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All currency amounts are in United States dollars, unless otherwise indicated.



LETTER TO SHAREHOLDERS

Dear Shareholders:

2015 was a significant year for The Westaim Corporation. Firstly, our specialty insurance business, Houston International Insurance Group, Ltd. (“HIIG”), within the strong headwinds of a soft property and casualty insurance market, grew its existing business and acquired new business lines. HIIG continued to attract high quality professionals throughout the organization adding to the depth and strength of the company. Secondly, Westaim established a new business, the Arena Group, a New York based manager of fundamentals-based, asset-oriented credit, which provides Westaim with the ability to participate in the alternative credit mid-market, an opportunity which is expanding due to the strict regulatory environment (Basel III) that has largely reduced the ability or desire of traditional financial institutions to compete in this area. Thirdly, Westaim funded the Arena Group by successfully completing an equity offering raising approximately \$170 million (net of share issue costs). This offering nearly doubled our shareholders’ equity from \$167.2 million at December 31, 2014 to \$326.1 million at December 31, 2015. Our book value per share was \$2.27 at December 31, 2015 compared to \$2.34 per share at December 31, 2014, with the small decline primarily due to other comprehensive loss arising from a change in the Company’s presentation currency from the Canadian dollar to the United States dollar on August 31, 2015, in part offset by net earnings generated from the Company’s operations. In Canadian dollars, our book value per share increased by 15.9% from C\$2.71 at December 31, 2014 to C\$3.14 at December 31, 2015, mainly due to a strengthening of the United States dollar against the Canadian dollar in 2015. Finally, Westaim expanded its platform to New York where we have opened a small office, due to our predominantly U.S. investments, as well as increased activities and opportunities in the United States.

We are pleased to report that HIIG, our July 2014 acquisition, continued to grow organically and through strategic acquisitions of which there were three in 2015. They included: (i) Elite Underwriting Services, a division of Elite Brokerage Services Inc., a Pennsylvania based leading national managing general underwriting agency specializing in excess medical insurance (often referred to as “medical stop loss”); (ii) an investment in RISCOM, a Louisiana based managing general underwriting agency specializing in underwriting and claims management for commercial vehicle lines; and (iii) Capital Risk Underwriters, a Florida based managing general underwriting agency specializing in insurance for pest control companies on a national basis.

HIIG produced gross written premiums of \$508.7 million (an increase of 14.5% year-over-year) while tempering net premiums written growth in most lines through the increased use of reinsurance designed to provide capital protection from both severity and catastrophic loss. The attraction of utilizing reinsurance is that as competitive pricing pressures ease and underwriting margins improve as the cycle progresses, HIIG can begin to retain more premium (ideally at more attractive rates) with a view to accelerating earnings growth. On the left side of the balance sheet, HIIG’s invested assets have increased significantly, though the realities of a low yield environment have dampened returns.

HIIG generated earnings of \$11.4 million in the year ended December 31, 2015. Earnings in 2015 were impacted by adverse claims reserve development predominantly in non-continuing business lines, and the effects of continued “soft market” conditions within the property and casualty insurance industry. To put the non-continuing lines into current context – over 15,000 of the claims that were pending at the end of 2010 have now been closed with approximately 1,240 remaining open, and while we expect the last to be the hardest, we believe that they are becoming less of a factor in comparison to HIIG’s growing overall business.

HIIG’s shareholders’ equity grew to \$324.5 million at December 31, 2015 from \$248.1 million at December 31, 2014, and the company generated a return on equity of approximately 3.6%. Stephen L.

Way, HIIG's CEO, expects industry competitive pressures to continue through 2016 and, as discussed at Westaim's November 17, 2015 Investor Day, he believes that in "soft market" cycles, utilizing more reinsurance, capturing non-risk bearing income and acquiring specialized profitable managing general underwriting agencies is the preferred and prudent strategy.

Lastly, we note that HIIG is well capitalized and is in a strong financial position to execute its go forward business plan. Many of you will recall that Everest Re Group, Ltd. and XL Catlin Group Limited are co-investors in the Westaim HIIG Limited Partnership (the "Partnership") and as of December, 31, 2015, Westaim's indirect ownership in HIIG, through the Partnership, was approximately 44.1%.

On May 5, 2015, Westaim announced that it was undertaking an equity offering in order to fund the Arena Group. The Arena Group is led by Daniel B. Zwirn who, over the past twenty plus years, has successfully structured and managed over \$10 billion in special situation financing and asset-oriented credit investments globally for institutional and private clients. Simplistically, the Arena Group was established to originate, structure and manage a diversified, low correlated, portfolio of fundamentals-based asset-oriented credit investments with targeted gross yields on average between 10 – 14%, predominantly monthly pay, and with many incorporating a floating rate structure to protect investors' capital from a rising interest rate environment. Fundamentals-based, asset-oriented credit are investments that we believe will appeal to yield investors seeking attractive risk adjusted returns. Dan is partnered with an experienced and accomplished management team including the addition of Jon Short as Arena's President in March 2016. Jon joins Arena from PIMCO, where he was head of global wealth management and head of the firm's New York City office.

The Arena Group consists of three businesses: Arena Investors, which is a New York City based investment manager for third party clients; Arena Finance, which acquires and holds investments for its own account; and Arena Origination, which originates investments mainly for subsequent resale. To gather a deeper understanding of how all three entities interact within the Arena Group, please see Westaim's annual information form dated March 31, 2016 in respect of the year ended December 31, 2015 available at www.sedar.com or on Westaim's website (www.westaim.com).

The establishment and funding of the Arena Group was completed on August 31, 2015 with Westaim (through a number of affiliated entities) making an aggregate investment in the Arena Group of approximately \$185 million. This investment was funded in part from the net proceeds of Westaim's previously announced equity offering which raised gross proceeds of approximately C\$234 million, including approximately C\$22 million provided by Westaim's management team, insiders and certain other investors.

The Westaim team remains active in working alongside our partners to support their execution of their business plan and goals. In addition, we are pursuing new opportunities aligned with our strategy of creating lasting, long term shareholder value and we drive this effort from our Toronto and recently opened New York office. Our New York based Managing Director, Joseph A. Schenk, joined Westaim in March 2016 from the Carlyle Group and prior to Carlyle, he spent 15 years with Jefferies Group, LLC in various roles including Chief Financial Officer and Executive Vice President.

On behalf of the Board of Directors, I want to thank Westaim shareholders, employees and our partners at HIIG and Arena Group for their ongoing efforts and long work days to create shareholder value. We believe that our collective capital is aligned and we remain focused to produce a rewarding 2016.

Sincerely,



J. Cameron MacDonald,
President and Chief Executive Officer

The Westaim Corporation
Management's Discussion and Analysis
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"Westaim" or the "Company" in this Management's Discussion and Analysis ("MD&A") refers to The Westaim Corporation on a consolidated basis. This MD&A, which has been approved by the Board of Directors of Westaim, should be read in conjunction with Westaim's audited annual consolidated financial statements including notes for the years ended December 31, 2015 and 2014 as set out on pages 34 to 56 of this annual report. Financial data in this MD&A has been derived from the audited annual consolidated financial statements for the years ended December 31, 2015 and 2014 and is intended to enable the reader to assess Westaim's results of operations for the three months and year ended December 31, 2015 and financial condition as at December 31, 2015. The Company reports its consolidated financial statements using accounting policies consistent with International Financial Reporting Standards ("IFRS"). All currency amounts are in United States dollars ("US\$") unless otherwise indicated. The following commentary is current as of March 31, 2016. Additional information relating to Westaim is available on SEDAR at www.sedar.com. Certain totals, subtotals and percentages may not reconcile due to rounding.

IFRS for Investment Entities

Westaim qualifies as an investment entity under IFRS and uses fair value as the key measure to monitor and evaluate its primary investments. The Company commenced reporting its financial results in accordance with IFRS applicable to investment entities, on a prospective basis, effective July 1, 2014. See Section 11, *Critical Accounting Policies and Recently Adopted and Pending Accounting Pronouncements* of this MD&A.

Functional and Presentation Currency

International Accounting Standard ("IAS") 21 "*The Effects of Changes in Foreign Exchange Rates*" ("IAS 21") describes functional currency as the currency of the primary economic environment in which an entity operates. As a result of the completion of the Arena Transactions (as hereinafter defined), the Company expected a significant majority of revenues and costs to be sourced and incurred in US\$. Therefore, the Company changed its functional currency from Canadian dollars ("C\$") to US\$, prospectively from the date of change of August 31, 2015.

On August 31, 2015, the Company also changed its presentation currency from C\$ to US\$. Comparative information has been restated in US\$ in accordance with IAS 21. See note 2 to the Company's audited annual consolidated financial statements for the years ended December 31, 2015 and 2014 for the procedures used in translating the Company's comparative consolidated financial statements and associated notes prior to August 31, 2015.

Non-GAAP Measures

Westaim uses both 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. Management believes these measures allow for a more complete understanding of the underlying business. These measures are used to monitor Westaim's results and should not be viewed as a substitute for those determined in accordance with IFRS. Reconciliations of such measures to the most comparable IFRS figures are included herein. Book value per share represents shareholders' equity at the end of the period, determined on an IFRS basis, adjusted upwards by the Company's liability with respect to restricted share units ("RSUs"), divided by the aggregate of the total number of common shares outstanding at that date and the number of common shares that would have been issued if all outstanding RSUs were exercised. The Company believes that this is a useful measurement as the relative increase or decrease from period to period in book value per share should approximate over the long term the relative increase or decrease in the intrinsic value of the business, in large part because book value reflects the fair value of the Company's primary investments which are accounted for at fair value through profit or loss under IFRS. However, book value is not necessarily equivalent to the net realizable value of the Company's assets per share.

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Cautionary Statement Regarding the Valuation of Investments in Private Entities

In the absence of an active market for its investments in private entities, fair values for these investments are determined by management using the appropriate valuation methodologies after considering the history and nature of the business, operating results and financial conditions, outlook and prospects, general economic, industry and market conditions, capital market and transaction market conditions, contractual rights relating to the investment, public market comparables, private market transaction multiples and, where applicable, other pertinent considerations. The process of valuing investments for which no active market exists is inevitably based on inherent uncertainties and the resulting values may differ from values that would have been used had an active market existed. The amounts at which the Company's investments in private entities could be disposed of may differ from the fair value assigned and the differences could be material.

Cautionary Statement Regarding Financial Information of Houston International Insurance Group, Ltd.

Selected financial information concerning Houston International Insurance Group, Ltd. ("HIIG") (the "HIIG Financial Information") contained in this MD&A is unaudited and has been derived from the annual consolidated financial statements of HIIG for the years ended December 31, 2015 and 2014 (the "HIIG Statements") which have been prepared in accordance with United States generally accepted accounting principles ("US GAAP"). Such statements are the responsibility of management of HIIG. The HIIG Financial Information, including any HIIG 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. The HIIG Statements are available on SEDAR under the Company's issuer profile at www.sedar.com.

The HIIG Financial Information should be read in conjunction with Westaim's historical financial statements including the notes thereto and the related MD&A as well as Westaim's other public filings.

The HIIG Financial Information has been provided solely by HIIG. Although Westaim has no knowledge that would indicate that any of the HIIG Financial Information contained herein is untrue or otherwise misleading, neither Westaim nor any of its directors or officers assumes any responsibility for the accuracy or completeness of such information, or for any failure by HIIG to disclose to Westaim events or facts which may have occurred or which may affect the significance or accuracy of any such financial information but which are unknown to Westaim.

Westaim disclaims and excludes all liability (to the extent permitted by law), for losses, claims, damages, demands, costs and expenses of whatever nature arising in any way out of or in connection with the HIIG Financial Information, its accuracy, completeness or by reason of reliance by any person on any of it.

Cautionary Statement Regarding Financial Information of the Arena Group

Selected financial information concerning the Arena Group (as hereinafter defined) (the "Arena Financial Information") contained in this MD&A is unaudited and has been derived from financial statements of the Arena Group for the period from commencement of operations to December 31, 2015 which have been prepared in accordance with either IFRS or US GAAP. Such statements are the responsibility of management of the Arena Group. The Arena Financial Information, including any Arena Group non-GAAP measures contained therein, may not be reconciled to IFRS and so may not be comparable to the financial information of issuers that present their financial information in accordance with IFRS.

The Arena Financial Information should be read in conjunction with Westaim's historical financial statements including the notes thereto and the related MD&A as well as Westaim's other public filings.

The Arena Financial Information has been provided by the Arena Group. Although Westaim has no knowledge that would indicate that any of the Arena Financial Information contained herein is untrue or otherwise misleading, neither Westaim nor any of its directors or officers assumes any responsibility for the accuracy or completeness of such information, or for any failure by the Arena Group to disclose to Westaim events or facts which may have occurred or which may affect the significance or accuracy of any such financial information but which are unknown to Westaim.

Westaim disclaims and excludes all liability (to the extent permitted by law), for losses, claims, damages, demands, costs and expenses of whatever nature arising in any way out of or in connection with the Arena Financial Information, its accuracy, completeness or by reason of reliance by any person on any of it.

Future Oriented Financial Information

This MD&A may contain forward-looking statements that involve risks and uncertainties. The Company's actual results could differ materially from these forward-looking statements as a result of various factors, including those discussed hereinafter, and in the Company's Annual Information Form dated March 31, 2016 for its fiscal year ended December 31, 2015 which is available on SEDAR at www.sedar.com. Please refer to the cautionary note in Section 14 of this MD&A.

The Westaim Corporation
Management's Discussion and Analysis
Year ended December 31, 2015
(Currency amounts in United States dollars unless otherwise indicated)

1. THE COMPANY

The Westaim Corporation (TSXV: WED) 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 global financial services industry and grow shareholder value over the long term.

During 2014, the Company, along with third party investors, completed the acquisition of a significant interest in HIIG, through Westaim HIIG Limited Partnership (the "HIIG Partnership"), an Ontario limited partnership managed by a subsidiary of the Company. HIIG is a U.S. based diversified specialty insurance company providing coverage primarily in the United States but also globally for certain risks. For additional information on the acquisition and related financing transactions, see discussion in Section 3, *Investments*, Section 4, *Equity Financings* of this MD&A and the Business Acquisition Reports related thereto dated October 8, 2014 and March 31, 2015 available on SEDAR at www.sedar.com.

On May 5, 2015, the Company announced the execution of a letter of intent with U.S. based Arena Investors, LLC ("Old Arena") to develop (i) an investment management business to manage fundamentals-based, asset-oriented credit investments for third-party investors and (ii) a specialty finance business to make fundamentals-based, asset-oriented credit investments. On August 31, 2015, the Company completed the Arena Transactions. For additional information on the Arena Transactions and related financing transactions, see discussion in Section 3, *Investments* and Section 4, *Equity Financings* of this MD&A.

2. OVERVIEW OF PERFORMANCE

Highlights	Three months ended December 31		Year ended December 31	
	2015	2014 (restated)	2015	2014 (restated)
(millions except share and per share data)				
Revenue	\$ 0.5	\$ 0.5	\$ 1.6	\$ 1.1
Net results of investments	(3.2)	11.4	12.7	23.2
Share-based compensation expense	(0.2)	(2.6)	(2.7)	(2.7)
Other expenses	(2.8)	(2.4)	(3.9)	(3.9)
(Loss) profit	\$ (5.7)	\$ 6.9	\$ 7.7	\$ 17.7
(Loss) earnings per share - basic and diluted	\$ (0.04)	\$ 0.10	\$ 0.08	\$ 0.47
(Loss) profit	\$ (5.7)	\$ 6.9	\$ 7.7	\$ 17.7
Other comprehensive loss	-	(5.6)	(20.6)	(11.4)
Comprehensive (loss) income	\$ (5.7)	\$ 1.3	\$ (12.9)	\$ 6.3
At December 31:				
Shareholders' equity	\$ 326.1	\$ 167.2	\$ 326.1	\$ 167.2
Number of common shares outstanding	143,186,718	70,297,342	143,186,718	70,297,342
Book value per share - in US\$ ¹	\$ 2.27	\$ 2.34	\$ 2.27	\$ 2.34
Book value per share - in C\$ ²	\$ 3.14	\$ 2.71	\$ 3.14	\$ 2.71

¹ Book value per share at the end of the period represents shareholders' equity at the end of the period determined on an IFRS basis and adjusted upwards by the Company's liability with respect to RSUs (December 31, 2015 - \$3.8 million; December 31, 2014 - \$2.5 million), divided by the aggregate of the total number of common shares outstanding at that date and the number of common shares that would have been issued if all outstanding RSUs (December 31, 2015 - 2,209,563 units, December 31, 2014 - 2,375,000 units) were exercised.

² Book value per share at December 31, 2015 and 2014 converted from US\$ to C\$ at period end rates of 1.3840 and 1.1601, respectively.

Three months ended December 31, 2015 and 2014

The Company reported a loss of \$5.7 million and comprehensive loss of \$5.7 million for the three months ended December 31, 2015 (2014 - profit of \$6.9 million and comprehensive income of \$1.3 million).

Revenue for the three months ended December 31, 2015 of \$0.5 million (2014 - \$0.5 million) consisted of interest income of \$0.3 million (2014 - \$0.3 million) and advisory fees of \$0.2 million (2014 - \$0.2 million).

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2. OVERVIEW OF PERFORMANCE (continued)

Net results of investments were a loss of \$3.2 million for the three months ended December 31, 2015 (2014 - gain of \$11.4 million), consisting of an unrealized loss on the Company's investments in private entities of \$2.7 million (2014 - unrealized gain of \$11.4 million), an unrealized loss on other investments of \$0.1 million (2014 - \$nil), the Company's share of losses of its Associates (as hereinafter defined) of \$0.5 million (2014 - \$nil), offset in part by a realized gain on other investments of \$0.1 million (2014 - \$nil). See discussion in Section 3, *Investments* of this MD&A.

Expenses for the three months ended December 31, 2015 of \$3.0 million (2014 - \$5.0 million) consisted of share-based compensation expense of \$0.2 million (2014 - \$2.6 million), professional fees of \$0.5 million (2014 - \$0.3 million), site restoration provision expense of \$0.7 million (2014 - \$0.7 million), general and administrative costs of \$1.7 million (2014 - \$1.9 million), net of a foreign exchange gain of \$0.1 million (2014 - \$0.5 million).

The other comprehensive loss of \$5.6 million for the three months ended December 31, 2014 related to exchange differences from currency restatement as a result of a change in presentation currency from the C\$ to the US\$ on August 31, 2015.

Years ended December 31, 2015 and 2014

The Company reported a profit of \$7.7 million and comprehensive loss of \$12.9 million for the year ended December 31, 2015 (2014 - profit of \$17.7 million and comprehensive income of \$6.3 million).

Revenue for the year ended December 31, 2015 of \$1.6 million (2014 - \$1.1 million) consisted of interest income of \$0.6 million (2014 - \$0.7 million) and advisory fees of \$1.0 million (2014 - \$0.4 million).

Net results of investments were a gain of \$12.7 million for the year ended December 31, 2015 (2014 - \$23.2 million), consisting of an unrealized gain on the Company's investments in private entities of \$13.6 million (2014 - \$23.2 million) and a realized gain on other investments of \$0.1 million (2014 - \$nil), offset in part by the Company's share of losses of its Associates of \$1.0 million (2014 - \$nil). See discussion in Section 3, *Investments* of this MD&A.

Expenses for the year ended December 31, 2015 of \$6.6 million (2014 - \$6.6 million) consisted of share-based compensation expense of \$2.7 million (2014 - \$2.7 million), professional fees of \$1.6 million (2014 - recovery of \$0.3 million), site restoration provision expense of \$1.0 million (2014 - \$1.6 million), general and administrative costs of \$3.0 million (2014 - \$3.2 million), net of a foreign exchange gain of \$1.7 million (2014 - \$0.6 million).

The other comprehensive loss of \$20.6 million for the year ended December 31, 2015 (2014 - \$11.4 million) related to exchange differences from currency restatement as a result of a change in presentation currency from the C\$ to the US\$ on August 31, 2015.

3. INVESTMENTS

The Company's principal investments as at December 31, 2015 consist of its investments in HIIG, through the HIIG Partnership, and the Arena Group, as follows:

As at December 31, 2015	Place of establishment	Ownership interest
HIIG:		
- HIIG Partnership	Ontario, Canada	58.5% owned by Westaim
Arena Group:		
- Arena Finance Company Inc. ("Arena Finance")	Ontario, Canada	100% owned by Westaim
- Westaim Origination Holdings, Inc. ("Arena Origination")	Delaware, U.S.	100% owned by Westaim
- Westaim Arena Holdings II, LLC ("WAHII")	Delaware, U.S.	51% owned by The Westaim Corporation of America ("WCA") * (formerly known as Westaim Arena Holdings, Inc.)
- Arena Special Opportunities Fund (Onshore) GP, LLC ("ASOF-ON GP")	Delaware, U.S.	51% owned by WCA *
- Arena Special Opportunities Fund (Offshore) II GP, LP ("ASOF-OFF II GP")	Delaware, U.S.	51% owned by Westaim *

* legal equity ownership is 100%, beneficial ownership denotes profit percentage subject to change over time pursuant to the earn-in rights granted to BP LLC (as hereinafter defined) described under "Investment in the Arena Group - Arena Investors"

For additional information on the Company's corporate structure, see the Company's Annual Information Form dated March 31, 2016 for its fiscal year ended December 31, 2015 which is available on SEDAR at www.sedar.com.

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3. INVESTMENTS (continued)

Houston International Insurance Group, Ltd.

In 2014, the Company, along with third party investors, acquired a significant interest in HIIG, through the HIIG Partnership. HIIG is a U.S. based diversified specialty insurance company providing coverage primarily in the United States but also globally for certain risks. At December 31, 2015, the Company owned an approximate 44.1% indirect ownership interest in HIIG, through the HIIG Partnership. The Company's investment in HIIG (through the HIIG Partnership) is recorded under investments in private entities in the Company's consolidated financial statements.

Arena Group

On April 27, 2015, the Company entered into a letter of intent with Old Arena to develop (i) an investment management business to manage fundamentals-based, asset-oriented credit investments for third-party investors and (ii) a specialty finance business to make fundamentals-based, asset-oriented credit investments. For a description of the strategy of the Arena Group, see "Investment in the Arena Group" below.

As part of developing the business, the Company established the following three businesses that collectively make up the Arena Group:

- **Arena Investors** – WAHII, ASOF-ON GP and ASOF-OFF II GP (collectively, "Arena Investors") was established to operate as an investment manager offering clients access to fundamentals-based, asset-oriented credit investments. The business of Arena Investors is recorded under investments in associates in the Company's consolidated financial statements.
- **Arena Finance** – Arena Finance, through Arena Finance Holdings Co., LLC ("AFHC"), a Delaware limited liability company wholly-owned by Arena Finance, and AFHC's subsidiaries, was set up as a specialty finance company to primarily purchase fundamentals-based, asset-oriented credit investments for its own account. The business of Arena Finance is recorded under investments in private entities in the Company's consolidated financial statements.
- **Arena Origination** – Arena Origination, through Arena Origination Co., LLC ("AOC"), a Delaware limited liability company wholly-owned by Arena Origination, was set up to facilitate the origination of fundamentals-based, asset-oriented credit investments for its own account and/or possible future sale to Arena Finance, clients of Arena Investors and/or other third parties. The business of Arena Origination is recorded under investments in private entities in the Company's consolidated financial statements.

The establishment, capitalization and organization of Arena Investors, Arena Finance and Arena Origination are referred to as the "Arena Transactions", and Arena Investors, Arena Finance and Arena Origination and related entities are collectively referred to as "Arena" or the "Arena Group".

For a detailed discussion of the business model of the Arena Group, see the Company's Annual Information Form dated March 31, 2016 for its fiscal year ended December 31, 2015 which is available on SEDAR at www.sedar.com.

Accounting for the Company's Investments

The Company's investments in private entities consist of its investments in HIIG, through the HIIG Partnership, Arena Finance and Arena Origination. Westaim qualifies as an investment entity under IFRS and uses fair value as the key measure to monitor and evaluate its primary investments. Accordingly, the Company's investments in private entities are accounted for at fair value through profit or loss ("FVTPL"). See note 2 to the Company's audited annual consolidated financial statements for the year ended December 31, 2014 for the Company's adoption of IFRS applicable to investment entities, on a prospective basis, effective July 1, 2014.

In determining the valuation of investments in private entities at December 31, 2015 and 2014, the Company used net asset value as the primary valuation technique. For a detailed description of the valuation of the Company's investments in private entities, see note 5 to the Company's audited annual consolidated financial statements for the years ended December 31, 2015 and 2014.

The Company's investments in associates consist of its investment in Arena Investors, including the Company's indirect investment in WAHII (through WCA), ASOF-ON GP (through WCA), and its direct investment in ASOF-OFF II GP. WAHII, ASOF-ON GP and ASOF-OFF II GP are collectively referred to as the "Associates". The Company's investments in Associates are accounted for using the equity method and consist of investments in corporations or limited partnerships where the Company has significant influence.

Change in the fair value of the Company's investments in private entities and the Company's share of profit (loss) and other comprehensive income (loss) of Associates are reported under "Net results of investments" in the consolidated statements of profit and other comprehensive (loss) income.

3. INVESTMENTS (continued)

A. INVESTMENT IN HIIG

(i) Initial HIIG Acquisition

On July 31, 2014, the HIIG Partnership completed the 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 \$138.7 million (the "Initial HIIG Acquisition"). The Initial HIIG Acquisition involved the purchase by the HIIG Partnership of an aggregate of 16,588,865 HIIG Shares from certain shareholders of HIIG for an aggregate purchase price of \$53.7 million and the purchase by the HIIG Partnership from HIIG of an aggregate of 18,702,673 HIIG Shares from treasury for an aggregate purchase price of \$85.0 million.

In order to complete the Initial HIIG Acquisition and to provide working capital, the HIIG Partnership received funding of approximately \$141.1 million from investors, of which \$75.7 million was provided by Westaim (see discussion in Section 4, *Equity Financings* of this MD&A).

The Company's investment in the HIIG Partnership at closing on July 31, 2014 was \$75.7 million, representing a 53.3% ownership interest in the HIIG Partnership at that time.

In 2014, the Company was reimbursed \$2.9 million in transaction and related costs incurred in connection with the Initial HIIG Acquisition and the formation of the HIIG Partnership, and \$1.0 million in share issuance costs related to its investment in the HIIG Partnership.

After the closing of the Initial HIIG Acquisition and prior to December 31, 2014, certain HIIG Shares were issued to HIIG management and employees in accordance with their stock incentive plans. As a result, the HIIG Partnership's ownership of HIIG was reduced from 70.8% upon closing on July 31, 2014 to 69.0% as at December 31, 2014.

(ii) Additional HIIG Acquisition

On January 14, 2015, the HIIG Partnership raised \$70.0 million through the sale of additional Class A Units of the HIIG Partnership. The proceeds from this offering were used to subscribe for 14,213,487 HIIG Shares (the "Additional HIIG Acquisition") at a purchase price of approximately \$4.93 per share in order to fund (i) the purchase by HIIG, through HIIG Underwriters Agency, Inc., of all of the assets of the underwriting business operating as "Elite Underwriting Services", a division of U.S. based Elite Brokerage Services, Inc., (ii) an additional capital contribution to HIIG's subsidiary insurance companies and (iii) general corporate purposes.

In connection with this offering, the Company subscribed for additional Class A Units of the HIIG Partnership for an aggregate subscription amount of approximately \$50.6 million. Based on this additional investment, effective January 14, 2015 the Company owned approximately 58.7% of the HIIG Partnership and the HIIG Partnership owned approximately 75.7% of HIIG. Upon closing of the Additional HIIG Acquisition, the Company was further reimbursed \$2.5 million in share issuance costs.

On March 30, 2015, a new investor acquired Class A Units of the HIIG Partnership for \$1.0 million and the funds were used by the HIIG Partnership to acquire 203,049 HIIG shares at \$4.93 per HIIG Share.

Units of the HIIG Partnership cannot be issued without the prior approval of the unitholders and, in connection with any such issuance, the holders of units have pre-emptive rights entitling them to purchase their pro rata share of any units that may be so issued.

At December 31, 2015, the HIIG Partnership owned 75.4% of the HIIG Shares and the Company owned 58.5% of the HIIG Partnership, representing an approximate 44.1% indirect ownership interest in HIIG.

3. INVESTMENTS (continued)

(iii) Fair Value

The investment in HIIG, through the HIIG Partnership, is accounted for at FVTPL. The fair value of the Company's investment in the HIIG Partnership was determined to be \$146.0 million and \$93.7 million at December 31, 2015 and 2014, respectively.

Management used net asset value as the primary valuation technique to arrive at the fair value of the Company's investment in the HIIG Partnership at December 31, 2015. The fair value of the HIIG Partnership of \$146.0 million at December 31, 2015 was derived from a valuation of the HIIG Shares reflected in the fair value of the HIIG Partnership Units and other net assets of the HIIG Partnership at December 31, 2015. The carrying values of the HIIG Partnership's other net assets, consisting of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, approximate their fair values due to the short maturity of these financial instruments. In valuing the HIIG Shares, using net asset value as the primary valuation technique, fair value was determined to be 1.0x the adjusted book value of HIIG, or 100% of the adjusted HIIG stockholders' equity, as at December 31, 2015. Management determined that this valuation technique produced the best indicator of the fair value of the HIIG Shares as at December 31, 2015 as it was also used in prior HIIG share transactions with arm's length third parties. This same basis of valuation was used to determine the fair value of the Company's investment in the HIIG Partnership of \$93.7 million at December 31, 2014 and to price the Additional HIIG Acquisition completed in January 2015.

Management considers other secondary valuation methodologies as a way to ensure no significant contradictory evidence exists that would suggest an adjustment to the fair value as determined by the primary valuation methodology used. In order to do this, the Company may also consider valuation techniques including the discounted cash flow method, the review of comparable arm's length transactions involving other specialty insurance companies and comparable publicly traded company valuations. For greater certainty, these secondary valuation techniques were not used to arrive at the fair value of the Company's investment in the HIIG Partnership at the end of each reporting period.

In the three months and year ended December 31, 2015, the Company recorded an unrealized gain on its investment in the HIIG Partnership of \$0.2 million and \$18.4 million, respectively. The unrealized gain reflected an upward adjustment in the fair value of the investment in the HIIG Partnership, resulting from positive operating results of HIIG of \$0.2 million and \$1.7 million for the three months and year ended December 31, 2015, respectively, as well as a foreign exchange gain of \$nil and \$16.7 million for the respective periods. The foreign exchange gain resulted from a strengthening of the US\$ against the C\$ during the eight months ended August 31, 2015, prior to the adoption of the US\$ as the Company's functional currency on August 31, 2015.

In the three months and year ended December 31, 2014, the Company recorded an unrealized gain on its investment in the HIIG Partnership of \$11.4 million and \$23.2 million, respectively. An unrealized gain of \$9.5 million was recognized upon the Initial HIIG Acquisition on July 31, 2014 as the purchase of HIIG Shares from certain shareholders of HIIG was completed at an approximately 29% discounted purchase price. An additional unrealized gain of \$8.4 million was recognized in the period from August 1 to December 31, 2014 and resulted from positive operating results of HIIG. The unrealized gain of \$23.2 million also included a foreign exchange gain of \$5.3 million resulting from a strengthening of the US\$ against the C\$ during the period from July 31 to December 31, 2014.

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3. INVESTMENTS (continued)

(iv) Selected Financial Information of HIIG for the three months and years ended December 31, 2015 and 2014

The Company considers certain financial results of HIIG to be important measures for investors in assessing the Company's financial position and performance. In particular, premium volumes provide a measure of HIIG's growth, "net loss and LAE ratios" (calculated by dividing net loss and loss adjustment expense by net premiums earned) provide a measure of HIIG's underwriting profitability, net income provides a measure of HIIG's overall profitability, and shareholders' equity is a measure that is generally used by investors to determine the value of insurance companies.

Set out in the following table is certain selected financial information relating to HIIG. The HIIG Financial Information is unaudited and has been derived from the supporting schedules to the audited consolidated financial statements of HIIG for the years ended December 31, 2015 and 2014 which have been prepared in accordance with US GAAP. Such statements are the responsibility of management of HIIG. Readers are cautioned that the HIIG financial information 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.

(unaudited) (millions)	Three months ended December 31		Year ended December 31	
	2015	2014	2015	2014
Income Statement				
Gross written premium	\$ 121.0	\$ 94.1	\$ 508.7	\$ 444.2
Net premiums written	\$ 77.9	\$ 65.0	\$ 332.3	\$ 289.7
Net premiums earned	\$ 85.3	\$ 61.7	\$ 326.1	\$ 302.0
Net income	\$ 2.8	\$ 3.9	\$ 11.4	\$ 19.5
Selected Information				
Net premiums written:				
Accident and Health	\$ 14.0	\$ n/a ¹	\$ 35.1	\$ n/a ¹
Construction	3.4	12.9	27.0	47.4
Energy	8.3	11.5	44.3	53.0
Specialty	21.1	26.0	114.4	130.5
Professional	6.8	6.5	31.7	29.5
Property	24.5	8.3	80.3	26.2
Non-continuing and other lines	(0.2)	(0.2)	(0.5)	3.1
	<u>\$ 77.9</u>	<u>\$ 65.0</u>	<u>\$ 332.3</u>	<u>\$ 289.7</u>
Net Loss and LAE Ratio:				
Accident and Health	80%	n/a ¹	71%	n/a ¹
Construction	88%	79%	95%	65%
Energy	38%	54%	52%	55%
Specialty	65%	76%	64%	71%
Professional	52%	37%	47%	54%
Property	41%	29%	36%	36%
Non-continuing and other lines	n.m. ²	n.m. ²	n.m. ²	n.m. ²
	<u>66%</u>	<u>76%</u>	<u>68%</u>	<u>67%</u>
Balance Sheet Information				
	December 31, 2015	December 31, 2014		
Investments, cash and cash equivalents	\$ 700.4	\$ 626.9		
Stockholders' equity	\$ 324.5	\$ 248.1		

¹ Not applicable, as the Accident and Health division (Elite) was acquired in January, 2015.

² Not meaningful, but included in the aggregate ratios.

3. INVESTMENTS (continued)

Gross written premium for the three months ended December 31, 2015 was \$121.0 million versus \$94.1 million for the three months ended December 31, 2014, an increase of 29%. The increase in gross written premium resulted from the restructuring of a fee-based property program and the contribution of the Elite acquisition completed in January 2015, partially offset by a decline in the construction division. Gross written premium for the year ended December 31, 2015 was \$508.7 million versus \$444.2 million for the year ended December 31, 2014, an increase of 15%. The increase resulted from the restructuring of a fee-based property program, the contribution of the Elite acquisition completed in January 2015, and organic growth in other divisions, partially offset by a decline in the construction division and the non-renewal by HIIG in April 2015 of another fee-based property program.

Net premiums written for the three months ended December 31, 2015 were \$77.9 million versus \$65.0 million for the three months ended December 31, 2014, an increase of 20%. Net premiums written were \$332.3 million versus \$289.7 million for the years ended December 31, 2015 and 2014, respectively, an increase of 15%. The contribution from the Elite acquisition and the fee-based property program were partially offset by a decrease in the construction division and the increased use of proportional reinsurance in several divisions that reduced net premiums written. While there is a cost to the increased use of reinsurance, it is designed to allow HIIG to better regulate growth of net premiums written in a competitive industry environment, and reduce its exposure to catastrophic events and severity losses. This is also expected to allow for future expansion of net written premium by HIIG when appropriate.

Net premiums earned for the three months ended December 31, 2015 were \$85.3 million versus \$61.7 million for the three months ended December 31, 2014, an increase of 38%. Net premiums earned were \$326.1 million versus \$302.0 million for the years ended December 31, 2015 and 2014, respectively, an increase of 8%. The increase in the quarter and year-to-date was driven primarily by the Elite acquisition as well as an increase in the property division, partially offset by declines in most other divisions in both periods.

The overall net loss and LAE ratio for the three months and year ended December 31, 2015 was 66% and 68%, respectively. The net loss and LAE ratio was higher than expected due to frequency of claims and unfavourable prior period development primarily in the construction division, largely offset by favourable development in the energy, professional and property divisions. In addition, HIIG experienced unfavourable prior period development in the non-continuing lines of business representing approximately 6% of the net loss and LAE ratio for the three months ended December 31, 2015 (2014 – 5%) and 6% for the year ended December 31, 2015 (2014 – 6%). At December 31, 2015, non-continuing net loss reserves decreased to 20% (\$60.5 million) of total net reserves, compared to 22% (\$64.9 million) at September 30, 2015; 30% (\$84.8 million) at December 31, 2014; and 51% (\$121.7 million) at December 31, 2013, as HIIG continues to judicially settle non-continuing claims.

HIIG stockholders' equity increased to \$324.5 million at December 31, 2015 from \$248.1 million at December 31, 2014. The increase was the result of the capital raise completed by HIIG in the first quarter of 2015 of \$67.6 million (net of share issuance costs), the issuance of shares under the employee stock purchase program and stock-based compensation of \$2.4 million, net income for the year of \$11.4 million, partially offset by unrealized losses on HIIG's investment portfolio for the year (net of income taxes) of \$5.0 million.

B. INVESTMENT IN THE ARENA GROUP

On August 31, 2015, the Company completed the Arena Transactions and capitalized Arena Finance in the amount of approximately \$146.6 million and Arena Origination in the amount of approximately \$34.3 million, consisting of \$17.3 million in the form of equity and \$17.0 million in the form of a term loan. The capital invested by the Company in Arena Finance and Arena Origination less expenses incurred during the period ended December 31, 2015 was held by their subsidiaries in cash and cash equivalents as well as investments made by Arena Finance and Arena Origination. In addition, Westaim capitalized and started up the business of Arena Investors.

The Arena Group was established to make and manage fundamentals-based, asset-oriented credit investments. Fundamentals-based, asset-oriented credit investments refer to loans or credit arrangements which are generally secured by assets. These assets could include hard assets such as real estate, inventory, vehicles, aircraft, watercraft, oil and gas reserves, or a borrower's plant and equipment and other hard assets, or soft assets such as securities, receivables, contractual income streams, and certain intellectual property types. Fundamentals-based, asset-oriented lenders manage their risk and exposure by carefully assessing the value of the assets securing the loan, receiving periodic and frequent reports on collateral value and the status of those assets, and tracking the financial performance of borrowers.

The Arena Group seeks to capitalize on opportunities in both private as well as public investments subject to approved investment policies. These investment opportunities include:

Corporate Private Credit. Senior private corporate debt, bank debt, including secondary market bank debt, distressed debt such as senior secured bank debt before or during a Chapter 11 bankruptcy filing, corporate bonds, including bonds in liquidation or out-of-court exchange offers and trade claims of distressed companies in anticipation of a recapitalization, bridge loans/transition financing, debtor-in-possession ("DIP") financings, junior secured loans, junior capital to facilitate restructurings, equity co-investments or warrants alongside corporate loans;

3. INVESTMENTS (continued)

Real Estate and Real Estate-Related Credit Assets. Real property, secured or unsecured mezzanine financings, DIP loans, "A-tranche" loans (senior secured loans) and "B-tranche" loans (junior secured loans) for real estate properties requiring near-term liquidity, structured letters of credit, real estate loans secured by land, single family homes, multi-family apartments, condominium towers, hospitality providers, health care service providers, and corporate campuses, leases and lease residuals;

Commercial and Industrial Assets. Commercial receivables, investments in entities (including start-up businesses) engaged, or to be engaged, in activities or investments such as distressed commercial and industrial loans, commercial and industrial assets such as small-scale asset-based loans, trade claims and vendor puts, specialized or other types of equipment leases and machinery, non-performing loans globally, hard assets (including airplanes and components, industrial machinery), commodities (physical and synthetic), reinsurance and premium finance within life and property casualty insurance businesses, legal-related finance including law firm loans, settled and appellate judgments and probate finance, royalties, trust certificates, intellectual property and other financial instruments that provide for the contractual or conditional payment of an obligation;

Structured Finance. Thinly traded or more illiquid loans and securities backed by mortgages (commercial and residential), other small loans including equipment leases, auto loans, commercial mortgage-backed securities, residential mortgage-backed securities, collateralized loan obligations, collateralized debt obligations, other structured credits and consumer credit securitizations, aviation and other leased asset securitizations, esoteric asset securitization, revenue interests, synthetics, and catastrophe bonds;

Consumer Assets. Auto and title loans, credit cards, consumer installment loans, charged-off consumer obligations, consumer bills, consumer receivables, product-specific purchase finance, residential mortgages, tax liens, real estate owned homes, other consumer credit securitizations, retail purchase loans and unsecured consumer loans as well as distressed or charged-off obligations of all of these types, peer-to-peer originated loans of all types, manufactured housing, and municipal consumer obligations; and

Corporate and Other Securities. Hedged and unhedged investments in public securities (including public real estate), preferred stock, common stock, municipal bonds, senior public corporate debt, other industry relative value, merger arbitrage in transactions such as mergers, hedged investments in regulated utilities, integrated utilities, merchant energy providers, acquisitions, tender offers, spin-offs, recapitalizations and Dutch auctions, event-driven relative value equity investments in transactions such as corporate restructurings, strategic block, other clearly defined event, high-yield bonds, credit arbitrage and convertible bond arbitrage, in/post bankruptcy equities, demutualizations, liquidations and litigation claims, real estate securities, business development companies, master limited partnership interests, royalty trusts, publicly traded partnerships, options and other equity derivatives.

The various investments made by the Company in the Arena Group during 2015 are described in further detail below.

Funding of Start-up and Transaction Costs of the Arena Group

As at December 31, 2015, the Company had provided in aggregate \$8.7 million in funding, directly and indirectly through Arena Finance and Arena Origination, to Arena Investors, as described below.

Start-up Costs

As part of establishing the Arena Group, the Company entered into an acquisition and funding agreement (the "Funding Agreement") with Old Arena, Bernard Partners, LLC ("BP LLC") a limited liability company controlled by certain members of the Arena Group management team, and Arena Investors, LP, an entity owned by WAHII. Under the Funding Agreement, Westaim agreed to provide funding to the Arena Group of up to \$4.3 million for operational start-up costs and the acquisition of start-up capital assets. At December 31, 2015, Westaim had provided funding of \$1.8 million pursuant to the Funding Agreement, \$0.6 million to Arena Finance and \$0.3 million to Arena Origination for operational start-up costs, \$0.3 million to Arena Investors for acquiring capital assets, and \$0.6 million for operational start-up costs indirectly incurred by Westaim through WCA. The costs related to Arena Finance and Arena Origination were reflected in the unrealized loss on investments in private entities as part of the fair value determination of these entities at December 31, 2015. The funding to Arena Investors of \$0.3 million was included in its assets at December 31, 2015, consisting of \$0.1 million in capital assets and \$0.2 million in restricted cash relating to a lease security deposit. The operational start-up costs of \$0.6 million incurred indirectly by Westaim (through WCA) were included in the Company's professional fees in the consolidated statements of profit and other comprehensive (loss) income for the year ended December 31, 2015.

Transaction Costs

Transaction costs (not part of the Funding Agreement noted above) relating to the Arena Transactions ("Transactions Costs") totaled \$1.2 million and were reported as an expense by Arena Investors. This funding of \$1.2 million is expected to be repaid to Westaim in priority. The Company's 51% share of these costs amounting to \$0.6 million was reflected in share of losses in Associates in the consolidated statements of profit and other comprehensive (loss) income for the year ended December 31, 2015.

3. INVESTMENTS (continued)

Operating Advances

Westaim has also provided funding to Arena Investors for ongoing operating costs and general working capital (not part of the Funding Agreement or Transaction Costs noted above) totaling \$2.6 million consisting of funding for \$0.9 million in net direct expenses incurred by Arena Investors and \$1.7 million in funding for general working capital of Arena Investors. This total funding of \$2.6 million is expected to be repaid to Westaim in priority.

Additionally, in 2015, pursuant to management services agreements with a subsidiary of Arena Investors, Arena Finance was allocated \$2.5 million in administrative and service fees and Arena Origination was allocated \$0.6 million in administrative and service fees and operating expenses.

As noted above, certain costs funded by Westaim are expected to be repaid to Westaim in priority to any profit distribution or cash flow participation by the owners or profit participants of the Arena Group. Of the total funding of \$8.7 million, \$3.8 million related to Arena Investors is expected to be repaid in priority, and is recorded as part of the investments in associates in the consolidated statement of financial position at December 31, 2015.

Arena Finance

Arena Finance is a specialty finance company that, through its subsidiaries, primarily purchases fundamentals-based, asset-oriented credit investments for its own account. Arena Finance, through its subsidiaries, uses the funds that it received from Westaim to primarily acquire loans and/or other credit investments from Arena Origination or other third parties at their fair market value. Arena Finance does not have a target range of investment; the size of the loans and/or other credit investments acquired from Arena Origination or other third parties depends on, among other things, any diversity requirements which may be imposed by any lender as well as the Investment Policy of Arena Finance. In the absence of such requirements, Arena Finance is not subject to concentration limitations but management of Arena Finance will use its best judgment as to what is prudent in the circumstances. Arena Finance seeks to capitalize on opportunities in both private and public investments subject to its Investment Policy.

Before acquiring any such loans or other investments, Arena Finance reviews the nature of the loan, the creditworthiness of the borrower, the nature and extent of any collateral and the expected return on such loan or investment. Arena Finance acquires such loans or investments based on its assessment of the fair market value of the investment at the time of purchase.

On August 31, 2015, the Company capitalized Arena Finance in the amount of approximately \$146.6 million.

The primary revenue of Arena Finance, through its subsidiaries, consists of interest income, dividend income and any gain (loss) on its investments.

Rights Granted to BP LLC

In connection with the Arena Transactions, on August 31, 2015, Arena Finance and BP LLC entered into a limited liability company agreement in respect of AFHC (the "AFHC LLC Agreement") setting forth each of Arena Finance's and BP LLC's respective rights and obligations as members of AFHC. Under the AFHC LLC Agreement, BP LLC was issued Class M units which are convertible into Class A units, entitling BP LLC to acquire an equity interest of up to 20% (16.67% on a fully-diluted basis) in AFHC. The Class M units vest equally over 5 years from August 31, 2015 and carry pre-determined escalating conversion prices which are in excess of the price paid by the Company for its investment in AFHC (through Arena Finance).

Accounting for Arena Finance

The investment in Arena Finance is accounted for at FVTPL and is included in investments in private entities. The fair value of the Company's investment in Arena Finance was determined to be \$143.1 million at December 31, 2015.

Management used net asset value as the primary valuation technique and arrived at the fair value of the Company's investment in Arena Finance of \$143.1 million at December 31, 2015. In valuing Arena Finance, using net asset value as the primary valuation technique, fair value was determined to be 1.0x the book value, or 100% of the shareholder's equity, of Arena Finance as at December 31, 2015. The Company determined that the shareholder's equity of Arena Finance at December 31, 2015 in the amount of \$143.1 million approximated its fair value, as the value of the Company's investment in Arena Finance was, through its subsidiaries, composed largely of cash and cash equivalents and investments carried at fair value at December 31, 2015.

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3. INVESTMENTS (continued)

Management considers other secondary valuation methodologies as a way to ensure no significant contradictory evidence exists that would suggest an adjustment to the fair value as determined by the primary valuation methodology used. In order to do this, the Company may also consider valuation techniques including the review of comparable arm's length transactions involving other specialty finance companies and comparable publicly traded company valuations. For greater certainty, these secondary valuation techniques were not used to arrive at the fair value of the Company's investment in Arena Finance at the end of each reporting period.

The Company recorded an unrealized loss on its investment in Arena Finance of \$2.2 million and \$3.5 million in the three months and year ended December 31, 2015, respectively. The losses resulted primarily from costs incurred for operational start-up and other ongoing operating expenses of the Arena Group allocated to Arena Finance, offset in part by investment income earned in the periods.

Selected Financial Information of Arena Finance

The Company considers certain financial results of Arena Finance and its subsidiary, AFHC, to be important measures in assessing the Company's financial position and performance, in particular, the net assets which can be invested to generate investment income, and operating expenses. Selected financial information related to Arena Finance and AFHC set out below is unaudited and has been derived from the audited financial statements of Arena Finance and the unaudited financial statements of AFHC for the period from commencement of operations to December 31, 2015 which have been prepared in accordance with IFRS. Such statements are the responsibility of the management of Arena Finance and AFHC.

The following table shows a summary of the net assets of AFHC:

(unaudited)				
(millions except for number of positions and percentage)				
December 31, 2015	Number of positions	Cost	Fair value	Percentage
Cash and cash equivalents	n/a	\$ 88.6	\$ 88.6	61.8%
Due from brokers	n/a	13.3	13.3	9.3%
Investments:				
Corporate Private Credit	6	16.0	16.0	11.1%
Consumer Assets	1	4.3	4.3	3.0%
Corporate and Other Securities	37	22.2	22.1	15.4%
	44	42.5	42.4	29.5%
Other net liabilities	n/a	(0.9)	(0.9)	(0.6)%
Net assets	44	\$ 143.5	\$ 143.4	100.0%

The net assets of AFHC at December 31, 2015 were \$143.4 million. In the fourth quarter of 2015, Arena Finance began to invest its cash and cash equivalents in investments in accordance with its Investment Policy. It is expected that the capital of Arena Finance will be fully deployed over the next 6 to 12 months.

Due from brokers of \$13.3 million at December 31, 2015 consisted of cash balances as well as amounts due from brokers for unsettled securities transactions. Corporate and other securities were net of securities sold short.

The following table shows a summary of the operating results of Arena Finance and AFHC:

(unaudited) (millions)	Three months ended	Period from
	December 31, 2015	commencement of operations to December 31, 2015
Operating results of AFHC:		
Investment income	\$ 0.1	\$ 0.1
Operating expenses	(1.9)	(2.6)
	(1.8)	(2.5)
Operating results of AFC:		
Operating expenses	-	(0.6)
Deferred income tax expense	(0.4)	(0.4)
	(0.4)	(1.0)
	\$ (2.2)	\$ (3.5)

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3. INVESTMENTS (continued)

The operating expenses of AFHC included administrative and service fees charged by Arena Investors based on the net assets of AFHC of \$1.8 million in the three months ended December 31, 2015 and \$2.5 million in the period from commencement of operations to December 31, 2015. The operating expenses of Arena Finance of \$0.6 million related to start-up costs which are not expected to be recurring in future periods.

The following table shows a continuity of the carrying value of the Company's investment in Arena Finance included in the Company's investments in private entities in the consolidated statements of financial position:

(unaudited) (millions)	Three months ended December 31, 2015	Period from commencement of operations to December 31, 2015
Carrying value of Arena Finance:		
Opening balance	\$ 145.3	\$ -
Share capital issued and paid	-	146.6
Unrealized loss	(2.2)	(3.5)
Ending balance	<u>\$ 143.1</u>	<u>\$ 143.1</u>

Arena Origination

Arena Origination is a specialty finance company that, through its subsidiary AOC, uses the funds that it received from Westaim to originate fundamentals-based, asset-oriented credit investments for its own account and/or possible future sale to Arena Finance, clients of Arena Investors and/or third parties. Arena Origination is a taxable C-Corporation established in the state of Delaware and AOC is a U.S. based limited liability company established in the state of Delaware. Arena Origination invests in both debt and equity instruments, with an emphasis on debt instruments comprised of multiple investment strategies, including, but not limited to corporate private credit, real estate and real estate related credit assets, commercial and industrial assets, structured finance, consumer assets and corporate and other securities. Arena Origination does not have a target range of investment; the size of the loans and/or other credit investments originated depends on, among other things, any diversity requirements which may be imposed by any lender as well as the Investment Policy of AOC. In the absence of such requirements, Arena Origination is not subject to concentration limitations but management of Arena Origination will use its best judgment as to what is prudent in the circumstances. Arena Origination seeks to capitalize on opportunities in both private and public investments subject to its Investment Policy.

Before originating any such loans or other investments, Arena Origination reviews the nature of the loan, the creditworthiness of the borrower, the nature and extent of any collateral and the expected return on such loan or investment. Arena Origination originates such loans or investments based on its assessment of the fair market value of the investment at the time of purchase.

On August 31, 2015, the Company capitalized Arena Origination in the amount of approximately \$34.3 million, consisting of \$17.3 million in the form of equity and \$17.0 million in the form of a term loan.

The primary revenue of Arena Origination, through its subsidiary, consists of interest income and/or investment-related fees earned on the credit investments that it originates as well as any gain (loss) on the disposition of any investments that it sells.

Rights Granted to BP LLC

In connection with the Arena Transactions, on August 31, 2015, Arena Origination and BP LLC entered into a limited liability company agreement in respect of AOC (the "AOC LLC Agreement") setting forth each of Arena Origination's and BP LLC's respective rights and obligations as members of AOC. Under the AOC LLC Agreement, BP LLC was issued Class M units which are convertible into Class A units, entitling BP LLC to acquire an equity interest of up to 20% (16.67% on a fully-diluted basis) in AOC. The Class M units vest equally over 5 years from August 31, 2015 and carry pre-determined escalating conversion prices which are in excess of the price paid by the Company for its investment in AOC (through Arena Origination).

Accounting for Arena Origination

The investment in Arena Origination is accounted for at FVTPL and is included in investments in private entities. The fair value of the Company's investment in Arena Origination was determined to be \$33.0 million at December 31, 2015.

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3. INVESTMENTS (continued)

Management used net asset value as the primary valuation technique and arrived at the fair value of the Company's investment in Arena Origination of \$33.0 million at December 31, 2015. In valuing Arena Origination, using net asset value as the primary valuation technique, management determined that 1.0x the book value, or 100% of the shareholder's equity, of Arena Origination of \$16.0 million at December 31, 2015 and the fair value of the term loan of \$17.0 million, totaling \$33.0 million, approximated the fair value of the Company's investment in Arena Origination. The Company's investment in Arena Origination, through AOC, composed largely of cash and cash equivalents and investments carried at fair value at December 31, 2015.

Management considers other secondary valuation methodologies as a way to ensure no significant contradictory evidence exists that would suggest an adjustment to the fair value as determined by the primary valuation methodology used. In order to do this, the Company may also consider valuation techniques including the review of comparable arm's length transactions involving other specialty finance companies and comparable publicly traded company valuations. For greater certainty, these secondary valuation techniques were not used to arrive at the fair value of the Company's investment in Arena Origination at the end of each reporting period.

The Company recorded an unrealized loss on its investment in Arena Origination of \$0.7 million and \$1.3 million in the three months and year ended December 31, 2015, respectively, resulting from costs incurred for operational start-up and other ongoing operating expenses of AOC, and operating expenses of the Arena Group allocated to Arena Origination, offset in part by investment income earned in the period.

Selected Financial Information of Arena Origination

The Company considers certain financial results of Arena Origination and its subsidiary, AOC, to be important measures in assessing the Company's financial position and performance, in particular, the net assets which can be invested to generate investment income, and operating expenses. Selected financial information related to Arena Origination and AOC set out below is unaudited and has been derived from the unaudited financial statements of Arena Origination and the audited financial statements of AOC for the period from commencement of operations to December 31, 2015 which have been prepared in accordance with US GAAP. Such statements are the responsibility of the management of Arena Origination and AOC. Readers are cautioned that the financial information 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.

The following table shows a summary of the net assets of AOC:

(unaudited)				
(millions except for number of positions and percentage)				
December 31, 2015	Number of positions	Cost	Fair value	Percentage
Cash and cash equivalents	n/a	\$ 7.0	\$ 7.0	20.9%
Due from brokers	n/a	10.4	10.4	31.0%
Escrow deposits	n/a	3.0	3.0	9.0%
Investments:				
Corporate Private Credit	1	6.0	6.0	17.9%
Real Estate Private Credit	1	2.7	2.7	8.1%
Corporate and Other Securities	39	5.3	5.3	15.8%
	41	14.0	14.0	41.8%
Other net liabilities	n/a	(0.9)	(0.9)	(2.7)%
Net assets	41	\$ 33.5	\$ 33.5	100.0%

The net assets of AOC at December 31, 2015 were \$33.5 million. In the fourth quarter of 2015, Arena Origination began to invest its cash and cash equivalents in investments in accordance with its Investment Policy. Arena Origination has commenced selling its investments after 90 to 120 days after origination in accordance with its strategy, and it is expected that the capital of Arena Origination will be substantially deployed over the next 3 to 6 months.

Due from brokers of \$10.4 million at December 31, 2015 consisted of cash balances as well as amounts due from brokers for unsettled securities transactions. Corporate and other securities were net of securities sold short.

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3. INVESTMENTS (continued)

The following table shows a summary of the operating results of Arena Origination and AOC:

(unaudited) (millions)	Three months ended December 31, 2015	Period from commencement of operations to December 31, 2015
Operating results of AOC:		
Investment income	\$ 0.1	\$ 0.1
Operating expenses	(0.5)	(0.7)
	(0.4)	(0.6)
Arena Origination operating expenses	(0.3)	(0.7)
	\$ (0.7)	\$ (1.3)

The operating expenses of Arena Origination included interest expense on the term loan owed by Arena Origination to Westaim of \$0.3 million in the three months ended December 31, 2015 and \$0.4 million in the period from commencement of operations to December 31, 2015. The operating expenses of Arena Origination in the period from commencement of operations to December 31, 2015 also included start-up costs of \$0.3 million which are not expected to be recurring in future periods.

The following table shows a continuity of the carrying value of the Company's investment in Arena Origination included in the Company's investments in private entities in the consolidated statements of financial position:

(unaudited) (millions)	Three months ended December 31, 2015	Period from commencement of operations to December 31, 2015
Carrying value of Arena Origination:		
Opening balance	\$ 33.7	\$ -
Share capital issued and paid	-	34.3
Unrealized loss	(0.7)	(1.3)
Ending balance	\$ 33.0	\$ 33.0

Arena Investors

Arena Investors consists of the Associates including the Company's indirect investment in WAHII (through WCA), ASOF-ON GP (through WCA), and its direct investment in ASOF-OFF II GP. WAHII is the sole limited partner of Arena Investors, LP, a limited partnership established under the laws of Delaware to carry on the third-party investment management business of the Arena Group.

Arena Investors operates as an investment manager offering third-party clients access to fundamentals-based, asset-oriented credit investments that aim to deliver attractive yields with low volatility. Arena Investors provides investment services to third-party clients consisting of but not limited to institutional clients, insurance companies, private investment funds and other pooled investment vehicles.

Arena Investors generates revenues primarily from Management Fees and Performance Fees. "Management Fees" are the fees calculated on Arena Investors' various segregated client accounts and managed funds as a percentage of assets under management ("AUM"). "Performance Fees" are the fees or profit allocation earned by Arena Investors calculated annually as a percentage of the appreciation (net of Management Fees and other expenses) in each of the client accounts and funds managed by Arena Investors, subject to a "high water mark" in respect of such client or fund, as determined from time to time.

At December 31, 2015, Arena Investors had established a U.S. onshore fund (Arena Special Opportunities Fund, LP) as an investment fund for third party investors. Arena Investors continues to be in discussions with potential clients for additional capital to invest in its various pools of capital, in accordance with its business strategy.

At December 31, 2015, Arena Investors had 30 employees and AUM of approximately \$40.0 million.

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3. INVESTMENTS (continued)

Rights Granted to BP LLC

In connection with the completion of the Arena Transactions, on August 31, 2015, agreements were entered into between the Company (through WCA) and BP LLC in respect of WAHII and ASOF-ON GP and between Westaim and BP LLC in respect of ASOF-OFF II GP (the "Associate Agreements"). The Associate Agreements set forth the members' respective rights and obligations, as well as BP LLC's right to participate in distributions of the capital and profits of the Associates. BP LLC's initial profit sharing percentage is 49%, and under the Associate Agreements, BP LLC has the right to earn-in up to 75% equity ownership percentage in the Associates and share up to 75% of the profits of the Associates based on achieving certain AUM and cashflow (measured by the margin of trailing twelve months earnings before income taxes, depreciation and amortization to trailing twelve month revenues) thresholds in accordance with the Associate Agreements.

Accounting for Arena Investors

The Company's investments in the Associates (Arena Investors) are accounted for using the equity method. At December 31, 2015, the carrying amount of the Company's investments in the Associates was \$3.0 million. In the three months and year ended December 31, 2015, the total of the Company's 51% share of losses of the Associates of \$0.5 million and \$1.0 million, respectively, was reported under "Net results of investments" in the consolidated statements of profit and other comprehensive (loss) income.

Selected Financial Information of Arena Investors

The Company considers certain financial results of Arena Investors to be important measures in assessing the Company's financial position and performance, in particular, the AUM used in the calculation of revenues from the provision of investment management services, and operating expenses. Selected financial information related to Arena Investors set out below is unaudited and has been derived from the audited financial statements of WAHII and the unaudited financial statements of ASOF-ON GP and ASOF-OFF II GP for the period from commencement of operations to December 31, 2015 which have been prepared in accordance with US GAAP. Such statements are the responsibility of the management of Arena Investors. Management concluded that any reconciling items to IFRS are not material.

At December 31, 2015, the Company had invested nominal capital in ASOF-OFF II GP. Selected financial information of Arena Investors is as follows:

Statement of Financial Position ¹

(unaudited) (millions)	December 31, 2015
Cash and cash equivalents	\$ 1.2
Restricted cash	1.5
Advances from Westaim	(4.0)
Other net liabilities	(0.7)
Net liabilities	\$ (2.0)
Company's share (51%)	\$ (1.0)
Advances to Arena Investors	4.0
Carrying amount of the Company's interest in Associates	\$ 3.0

¹ includes the accounts of WAHII and ASOF-ON GP prepared in accordance with IFRS

The restricted cash of \$1.5 million at December 31, 2015 consisted of \$1.3 million in prepaid deposits related to investments and \$0.2 million used as a security deposit for Arena Investors' New York office lease. The advances from Westaim of \$4.0 million were used by Arena Investors to fund its operations, including \$1.2 million in transaction costs and \$0.8 million in operating costs incurred in the period from commencement of operations to December 31, 2015 as well as its net working capital of \$2.0 million at December 31, 2015.

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3. INVESTMENTS (continued)

Statement of Loss and Other Comprehensive Loss¹

(unaudited) (millions)	Three months ended December 31, 2015	Period from commencement of operations to December 31, 2015
Management fees	\$ 0.1	\$ 0.1
Administrative and service fees	2.3	3.0
Operating expenses	(3.4)	(5.1)
Loss and other comprehensive loss	\$ (1.0)	\$ (2.0)
Company's share of losses of Associates (51%)	\$ (0.5)	\$ (1.0)

¹ includes the accounts of WAHII and ASOF-ON GP prepared in accordance with IFRS

The management fees were generated from the AUM of Arena Investors.

Operating expenses of \$3.4 million for the three months ended December 31, 2015 included \$2.1 million in salaries and benefits, \$0.4 million in professional fees, \$0.6 million in general administrative expenses and depreciation expense, and \$0.3 million in transaction costs. Operating expenses of \$5.1 million for the period from commencement of operations to December 31, 2015 included \$2.6 million in salaries and benefits, \$0.4 million in professional fees, \$0.9 million in general administrative expenses and depreciation expense, and \$1.2 million in transaction costs.

C. OTHER INVESTMENTS

In connection with the Arena Transactions, the Company entered into an agreement with Zwirn & Co., LLC ("ZCL"), an entity affiliated with Daniel B. Zwirn, the Chief Executive Officer of the Arena Group, pursuant to which the Company agreed to purchase from ZCL limited partnership interests in Lantern Endowment Partners, L.P. ("Lantern") (the "Lantern Purchase"). On August 31, 2015, the Company paid \$1.8 million for this portfolio investment in Lantern. On October 1, 2015, the assets of Lantern were transferred to Arena Special Opportunities Fund, LP, a U.S. onshore fund managed by Arena Investors, and the Company's investment in Lantern was correspondingly exchanged into an investment in Arena Special Opportunities Fund, LP.

The Company's investment in Arena Special Opportunities Fund, LP with a fair value of \$1.9 million at December 31, 2015 was included in accounts receivable and other assets in the consolidated statements of financial position. In the year ended December 31, 2015, the Company recorded a realized gain of \$0.1 million with respect to the investment in Lantern. The gain was reported under "Net results of investments" in the consolidated statements of profit and other comprehensive (loss) income.

4. EQUITY FINANCINGS

A. HIIG Financing

On April 23, 2014, Westaim completed the sale of an aggregate of 50,995,385 subscription receipts (the "2014 Subscription Receipts") at a purchase price of C\$2.65 per 2014 Subscription Receipt (the "2014 Offering"). On July 29, 2014, an aggregate of 50,995,385 common shares of Westaim ("Westaim Shares") were issued upon the conversion of the 2014 Subscription Receipts. On July 31, 2014, an additional 5,399,020 Westaim Shares were issued to certain funds and co-investors (collectively, the "Investors") pursuant to subscription agreements entered into by the Investors on April 23, 2014 (the "Additional Private Placement"). Aggregate gross proceeds of the 2014 Offering and the Additional Private Placement to the Company amounted to \$137.7 million, before share issuance costs. The Company incurred total share issuance costs of \$6.8 million, and \$1.0 million was reimbursed by HIIG and the HIIG Partnership in the year ended December 31, 2014.

Together with funds committed by other investors in the HIIG Partnership, the Company used \$75.7 million and \$50.6 million of the proceeds from the 2014 Offering and the Additional Private Placement to purchase Class A Units in the HIIG Partnership to enable the HIIG Partnership to complete the Initial HIIG Acquisition on July 31, 2014 and the Additional HIIG Acquisition on January 14, 2015, respectively. See discussion in Section 3, *Investments* of this MD&A.

B. Arena Financing

In order to provide funding to Arena Finance and Arena Origination, and capitalize and fund the start-up costs of the Arena Group, on May 28, 2015 the Company entered into an agreement (the "Underwriting Agreement") with a syndicate of underwriters (collectively, the "Underwriters"), pursuant to which the Underwriters agreed to purchase, on a private placement basis, 61,540,000 special warrants of the Company (the "Special Warrants") at a price of C\$3.25 per Special Warrant (the "2015 Offering"). The Company also granted the Underwriters an option (the "Underwriters' Option") to arrange for the purchase of up to an additional 9,231,000 Special Warrants at a price of C\$3.25 per Special Warrant.

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4. EQUITY FINANCINGS (continued)

Each Special Warrant was deemed to be exercisable into one subscription receipt of Westaim (each, a "2015 Subscription Receipt"), without further consideration or action, and each 2015 Subscription Receipt entitled the holder to receive upon the deemed conversion thereof one common share of Westaim subject to adjustment, without further consideration or action.

On May 28, 2015, the Company completed the 2015 Offering and an aggregate of 65,296,993 Special Warrants were sold pursuant to the Underwriting Agreement. The Special Warrants sold included the partial exercise of the Underwriters' Option. An additional 6,823,152 Special Warrants were sold pursuant to a concurrent non-brokered private placement of Special Warrants on the same terms as the 2015 Offering (the "2015 Concurrent Private Placement"). The 2015 Concurrent Private Placement included subscriptions by members of the Company's Board of Directors and management team.

The gross proceeds from the sale of the Special Warrants, less an amount equal to 50% of the Underwriters' commission and certain costs and expenses of the Underwriters, were held in escrow, pending the satisfaction or waiver of certain escrow release conditions.

Concurrent with closing of the 2015 Offering and the 2015 Concurrent Private Placement, the Company entered into a subscription agreement with Daniel B. Zwirn pursuant to which Mr. Zwirn irrevocably agreed to subscribe for 769,231 common shares of Westaim at a price of C\$3.25 per share (the "Zwirn Subscription").

On August 31, 2015, the Company satisfied the escrow release conditions under the 2015 Offering and the 2015 Concurrent Private Placement and an aggregate of 72,120,145 additional common shares of the Company were issued for aggregate gross proceeds of \$177.3 million upon the deemed conversion of the 2015 Subscription Receipts issued on the deemed exercise of the Special Warrants. The Company used the proceeds of the 2015 Offering, the 2015 Concurrent Private Placement, and cash on hand to capitalize Arena Finance and Arena Origination in an amount of approximately \$146.6 million and \$34.3 million, respectively. The Company also completed the Zwirn Subscription and an additional 769,231 common shares of the Company were issued to Mr. Zwirn on August 31, 2015 for aggregate gross proceeds of \$1.9 million. At August 31, 2015 and December 31, 2015, the Company had a total of 143,186,718 common shares issued and outstanding.

The proceeds from the 2015 Offering, the 2015 Concurrent Private Placement and the Zwirn Subscription to the Company was \$179.2 million, before share issuance costs of \$9.9 million.

For additional information on the Arena Transactions, see discussion in Section 3, *Investments* of this MD&A.

5. ANALYSIS OF FINANCIAL RESULTS

Details of the Company's operating results are as follows:

(millions)	Three months ended December 31		Year ended December 31	
	2015	2014 (restated)	2015	2014 (restated)
Revenue	\$ 0.5	\$ 0.5	\$ 1.6	\$ 1.1
Net results of investments	(3.2)	11.4	12.7	23.2
Expenses				
Salaries and benefits	1.5	1.5	2.1	2.1
General, administrative and other	0.2	0.4	0.9	1.1
Professional fee expense (recovery)	0.5	0.3	1.6	(0.3)
Site restoration provision expense	0.7	0.7	1.0	1.6
Share-based compensation expense	0.2	2.6	2.7	2.7
Foreign exchange gain	(0.1)	(0.5)	(1.7)	(0.6)
	\$ 3.0	\$ 5.0	\$ 6.6	\$ 6.6
(Loss) profit	\$ (5.7)	\$ 6.9	\$ 7.7	\$ 17.7
Other comprehensive loss	-	(5.6)	(20.6)	(11.4)
Comprehensive (loss) income	\$ (5.7)	\$ 1.3	\$ (12.9)	\$ 6.3

5. ANALYSIS OF FINANCIAL RESULTS (continued)

5.1 Revenue

Revenue for the three months ended December 31, 2015 of \$0.5 million (2014 - \$0.5 million) consisted of interest income of \$0.3 million (2014 - \$0.3 million) and advisory fees of \$0.2 million (2014 - \$0.2 million). Revenue for the year ended December 31, 2015 of \$1.6 million (2014 - \$1.1 million) consisted of interest income of \$0.6 million (2014 - \$0.7 million) and advisory fees of \$1.0 million (2014 - \$0.4 million).

In the year ended December 31, 2015, the Company received interest of \$0.4 million, representing interest on the loan made by the Company to Arena Origination earned during the period from September 1 to December 31, 2015.

The Company, through its wholly-owned subsidiary, HIIG GP, entered into a management services agreement (the "HIIG MSA") with HIIG commencing on July 31, 2014, whereby HIIG GP is entitled to receive from HIIG an advisory fee of \$1.0 million annually for the first three years of the agreement and \$0.5 million annually for two years thereafter relating to advisory services provided under the HIIG MSA. The Company earned fees under the HIIG MSA of \$0.2 million and \$1.0 million in the three months and year ended December 31, 2015, respectively (2014 - \$0.2 million and \$0.4 million, respectively).

5.2 Net Results of Investments

Net results of investments were a loss of \$3.2 million for the three months ended December 31, 2015 (2014 - gain of \$11.4 million), consisting of an unrealized loss on the Company's investments in private entities of \$2.7 million (2014 - unrealized gain of \$11.4 million), an unrealized loss on other investments of \$0.1 million (2014 - \$nil), the Company's share of losses of its Associates of \$0.5 million (2014 - \$nil), offset in part by a realized gain on other investments of \$0.1 million (2014 - \$nil).

Net results of investments were a gain of \$12.7 million for the year ended December 31, 2015 (2014 - \$23.2 million), consisting of an unrealized gain on the Company's investments in private entities of \$13.6 million (2014 - \$23.2 million) and a realized gain on other investments of \$0.1 million (2014 - \$nil), offset in part by the Company's share of losses of its Associates of \$1.0 million (2014 - \$nil).

Investments in Private Entities

In the three months and year ended December 31, 2015, the Company recorded an unrealized gain on its investment in the HIIG Partnership of \$0.2 million and \$18.4 million, respectively (2014 - \$11.4 million and \$23.2 million, respectively). The unrealized gain reflected an upward adjustment in the fair value of the investment in the HIIG Partnership, resulting from an increase in the value of HIIG of \$0.2 million and \$1.7 million for the three months and year ended December 31, 2015, respectively (2014 - \$8.4 million and \$17.9 million, respectively), as well as a foreign exchange gain of \$nil and \$16.7 million for the respective periods (2014 - \$2.9 million and \$5.3 million, respectively). The foreign exchange gains resulted from a strengthening of the US\$ against the C\$ during the respective periods, prior to the adoption of the US\$ as the Company's functional currency on August 31, 2015.

The Company recorded unrealized losses with respect to its investments in Arena Finance and Arena Origination of \$2.2 million and \$0.7 million, respectively, in the three months ended December 31, 2015, and \$3.5 million and \$1.3 million, respectively, in the year ended December 31, 2015. These unrealized losses resulted primarily from costs incurred for operational start-up and other ongoing operating expenses of the Arena Group allocated to each company.

Investments in Associates

The Company's investments in the Associates are accounted for using the equity method. In the three months and year ended December 31, 2015, the total of the Company's 51% share of losses of the Associates amounted to \$0.5 million and \$1.0 million, respectively.

Other Investments

The Company recognized a gain on its other investments of \$0.1 million in the year ended December 31, 2015. This gain was included under "Net results of investments" in the consolidated statements of profit and other comprehensive (loss) income.

See Section 3, *Investments* of this MD&A for a discussion of the Company's investments.

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5. ANALYSIS OF FINANCIAL RESULTS (continued)

5.3 Expenses

Three months ended December 31, 2015 and 2014

Expenses for the three months ended December 31, 2015 of \$3.0 million (2014 - \$5.0 million) consisted of share-based compensation expense of \$0.2 million (2014 - \$2.6 million), professional fees of \$0.5 million (2014 - \$0.3 million), site restoration provision expense of \$0.7 million (2014 - \$0.7 million), general and administrative costs of \$1.7 million (2014 - \$1.9 million), net of a foreign exchange gain of \$0.1 million (2014 - \$0.5 million).

The decrease of \$2.0 million in expenses in the three months ended December 31, 2015 when compared to the same period in 2014 related primarily to \$2.4 million higher in stock-based compensation expense in the fourth quarter of 2014. In November 2014, 2,375,000 RSUs were issued to certain officers, employees and consultants and the Company recorded an RSU related compensation expense of \$2.6 million in the fourth quarter of 2014. General and administrative costs in the fourth quarter of 2015 were \$0.2 million lower than the comparable period in the prior year which included \$0.2 million in director fees in lieu of which DSUs were issued in February 2015. These decreases in expenses were offset by lower foreign exchange gains of \$0.4 million and higher professional fees of \$0.2 million.

Years ended December 31, 2015 and 2014

Total expenses were \$6.6 million for the years ended December 31, 2015 and 2014.

The site restoration provision expense was \$0.6 million lower in 2015 when compared to 2014. Higher estimated future site restoration expenditures were more than offset by the effect of lower risk-free rates used for discounting estimated cash flows in arriving at the site restoration provision. Operating results in 2015 also benefited from an increase in foreign exchange gains totaling \$1.1 million. These changes were in part offset by an increase in professional fees of \$1.9 million in 2015 when compared to 2014. Following the completion of the Initial HIIG Acquisition in 2014, the Company was reimbursed \$2.5 million by HIIG and \$0.4 million by the HIIG Partnership in transaction and related costs previously expensed by the Company. These reimbursements contributed to a recovery of professional fees in 2014.

5.4 Other Comprehensive Loss

Other comprehensive loss for the various periods comprised exchange differences from currency restatement as a result of a change in presentation currency from the C\$ to the US\$ on August 31, 2015.

6. ANALYSIS OF FINANCIAL POSITION

The Company's assets, liabilities and shareholders' equity as at the dates indicated below consisted of the following:

(millions)	December 31, 2015	December 31, 2014 (restated)
Assets		
Cash and cash equivalents	\$ 7.8	\$ 80.0
Accounts receivable and other assets	2.6	0.6
Investments in private entities	322.1	93.7
Investments in associates	3.0	-
	<u>\$ 335.5</u>	<u>\$ 174.3</u>
Liabilities		
Accounts payable and accrued liabilities	\$ 5.5	\$ 3.6
Site restoration provision	3.9	3.5
	<u>9.4</u>	<u>7.1</u>
Shareholders' equity	326.1	167.2
Total liabilities and shareholders' equity	<u>\$ 335.5</u>	<u>\$ 174.3</u>

5. ANALYSIS OF FINANCIAL RESULTS (continued)

6.1 Cash and Cash Equivalents

At December 31, 2015, the Company had cash and cash equivalents of \$7.8 million compared to \$80.0 million at December 31, 2014.

On January 14, 2015, the Company made an additional cash investment in the HIIG Partnership of approximately \$50.6 million. See discussion in Section 3, *Investments* of this MD&A.

On August 31, 2015, the Company received net proceeds of \$169.3 million from the 2015 Offering, the 2015 Concurrent Private Placement and the Zwirn Subscription and capitalized Arena Finance and Arena Origination in the amount of approximately \$146.6 million and \$34.3 million, respectively. See discussion in Section 3, *Investments* and Section 4, *Equity Financings* of this MD&A.

6.2 Accounts Receivable and Other Assets

Accounts receivable and other assets at December 31, 2015 included \$0.1 million of capital assets (December 31, 2014 - \$0.2 million). Depreciation expense for the capital assets was nominal for the three months and year ended December 31, 2015 (2014 - \$nil). Accounts receivable and other assets at December 31, 2015 also included the Company's portfolio investment in Arena Special Opportunities, LP with a fair value of \$1.9 million.

6.3 Investments in Private Entities

The Company's investments in private entities consisted of its investments in HIIG (through the HIIG Partnership), Arena Finance and Arena Origination at December 31, 2015, and its investment in HIIG (through the HIIG Partnership) at December 31, 2014. These investments are accounted for at FVTPL. The fair value of HIIG (through the HIIG Partnership) was determined to be \$146.0 million at December 31, 2015 and \$93.7 million at December 31, 2014. The fair values of Arena Finance and Arena Origination were determined to be \$143.1 million and \$33.0 million, respectively, at December 31, 2015. See discussion in Section 3, *Investments* of this MD&A.

6.4 Investments in Associates

The Company's investments in associates at December 31, 2015 consisted of the Company's indirect investment in WAHII (through WCA), ASOF-ON GP (through WCA), and its direct investment in ASOF-OFF II GP. These investments are accounted for using the equity method. At December 31, 2015, the carrying value of the Company's investments in the Associates was \$3.0 million. See discussion in Section 3, *Investments* of this MD&A.

6.5 Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities were \$5.5 million at December 31, 2015 and \$3.6 million at December 31, 2014. Accounts payable and accrued liabilities at December 31, 2015 included liabilities related to RSUs of \$3.8 million (December 31, 2014 - \$2.5 million), DSUs of \$0.6 million (2014 - \$0.3 million) and Arena Group start-up costs of \$0.2 million (2014 - \$nil), respectively. See Section 8, *Liquidity and Capital Resources* of this MD&A for additional information on the Company's share-based compensation plans.

6.6 Site Restoration Provision

The site restoration provision of \$3.9 million at December 31, 2015 and \$3.5 million at December 31, 2014 relates to costs associated with soil and groundwater reclamation and remediation costs. The provision expense of \$0.7 million and \$1.0 million for the three months and year ended December 31, 2015, respectively, resulted primarily from a change in estimated future expenditures and the discount rates used during the respective periods. The Company conducts periodic reviews of the underlying assumptions supporting the provision, including remediation costs and regulatory requirements. Future reimbursements of costs resulting from indemnifications provided to the Company by previous owners of the industrial sites have not been recognized in the Company's consolidated financial statements. Future reimbursements will be recorded when received. There were no payments or reimbursements with respect to site restoration in the three months and years ended December 31, 2015 and 2014.

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5. ANALYSIS OF FINANCIAL RESULTS (continued)

6.7 Shareholders' Equity

The details of shareholders' equity are as follows:

(millions)	December 31, 2015	December 31, 2014 (restated)
Common shares	\$ 382.2	\$ 210.4
Contributed surplus	11.5	11.5
Accumulated other comprehensive (loss) income	(2.3)	18.3
Deficit	(65.3)	(73.0)
Shareholders' equity	\$ 326.1	\$ 167.2

Common Shares

On May 28, 2015, the Company completed the 2015 Offering and the 2015 Concurrent Private Placement and on August 31, 2015, an aggregate of 72,120,145 additional common shares of the Company were issued upon the deemed conversion of the 2015 Subscription Receipts which were issued on the deemed exercise of the Special Warrants. The Company also completed the Zwirn Subscription and an additional 769,231 common shares of the Company were issued to Mr. Zwirn on August 31, 2015. See discussion in Section 4, *Equity Financings* of this MD&A. The Company had 143,186,718 common shares outstanding at December 31, 2015 and 70,297,342 common shares outstanding at December 31, 2014.

The proceeds from the 2015 Offering, the 2015 Concurrent Private Placement and the Zwirn Subscription to the Company were \$169.3 million, net of shares issuance costs of \$9.9 million.

In the year ended December 31, 2015, the Company received an additional reimbursement of \$2.5 million in share issuance costs in connection with the equity financings completed in 2014. The amount was recorded as an increase in the Company's share capital.

Accumulated Other Comprehensive Income (Loss)

Accumulated other comprehensive loss of \$2.3 million at December 31, 2015 and accumulated other comprehensive income of \$18.3 million at December 31, 2014 comprised cumulative exchange differences from currency restatement as a result of a change in presentation currency from the C\$ to the US\$ on August 31, 2015.

Deficit

The decrease in deficit of \$7.7 million from December 31, 2014 to December 31, 2015 is due to the profit for the year ended December 31, 2015.

7. OUTLOOK

The Company, through the HIIG Partnership, completed its initial investment in HIIG in the third quarter of 2014 and an additional investment in HIIG in the first quarter of 2015 (see discussion in Section 3, *Investments* of this MD&A). These investments are consistent with Westaim's strategy to deploy capital with a view to earning attractive risk-adjusted returns. Westaim has partnered with third party investors and an experienced management team with a proven track record in the global specialty P&C insurance market. Currently, HIIG is well capitalized and pursuing growth opportunities both organically and through selected acquisitions in accordance with its strategy. As HIIG continues to grow, it is expected that it will experience operating leverage which will contribute to earnings over time.

On August 31, 2015, the Company completed the Arena Transactions and related financing transactions (see discussion in Section 3, *Investments* and Section 4, *Equity Financings* of this MD&A). The Arena Transactions are expected to provide Westaim with the opportunity to make fundamentals-based, asset-oriented credit investments under the management of an experienced investment management team.

With the closing of the Arena Transactions on August 31, 2015, the Arena Group had established an office in New York, New York and had approximately 30 full time employees as at December 31, 2015. Arena is building each of its businesses, namely Arena Finance, Arena Origination and Arena Investors, and has begun to execute their business plans.

The Company continues to seek additional investment opportunities to create shareholder value through partnering with aligned and experienced management teams to build profitable businesses that generate attractive returns over the long term.

8. LIQUIDITY AND CAPITAL RESOURCES

Capital Management Objectives

The Company's capital currently consists of common shareholders' equity. It may have different components in the future.

The Company's guiding principles for capital management are to maintain the stability and safety of the Company's capital for its stakeholders through an appropriate capital mix and a strong balance sheet.

The Company monitors the mix and adequacy of its capital on a continuous basis. The Company employs internal metrics. The capital of the Company is not subject to any restrictions.

The Company has not entered into any hedging with respect to currencies.

Share Capital

The Company's authorized share capital consists of an unlimited number of common shares, Class A preferred shares and Class B preferred shares.

In the year ended December 31, 2015, the Company issued 72,889,376 common shares in connection with the 2015 Offering, the 2015 Concurrent Private Placement and the Zwirn Subscription for net proceeds of \$169.3 million, after share issuance costs of \$9.9 million. In the same period, the Company received an additional reimbursement of \$2.5 million in share issuance costs in connection with the equity financings completed in 2014.

In the year ended December 31, 2014, the Company issued 56,394,405 common shares in connection with the 2014 Offering and the Additional Private Placement for net proceeds of \$131.9 million, after share issuance costs of \$5.8 million.

At December 31, 2015 and 2014, the Company had 143,186,718 common shares and 70,297,342 common shares outstanding, respectively, with a stated capital of \$382.2 million at December 31, 2015 and \$210.4 million at December 31, 2014.

There were no Class A or Class B preferred shares outstanding at December 31, 2015 and 2014.

Dividends

No dividends were paid in the years ended December 31, 2015 and 2014.

Share-based Compensation Plans

At the annual and special meeting of the shareholders of the Company held on June 19, 2014 (the "2014 Meeting"), the Company's shareholders approved an amendment to the Company's amended and restated long-term equity incentive plan (the "Incentive Plan") to adopt substantially the form of long-term incentive plan of the Company in place prior to the Company's shares being listed on the TSXV, with certain exceptions. The amendments included (a) providing for grants of RSUs, stock appreciation rights and other share-based awards in addition to DSUs, (b) providing the Board of Directors with the discretion of establishing a share purchase program; and (c) removing the ability of the Company to grant stock options under the Incentive Plan. Also at the 2014 Meeting, the shareholders of the Company approved the adoption of a stand-alone incentive stock option plan (the "Option Plan") in accordance with the policies of the TSXV. At the most recent annual and special meeting of the shareholders of the Company held on May 15, 2015, the Company's shareholders confirmed and approved the Option Plan, as required by the TSXV on an annual basis.

Unless increased in accordance with the terms of the plan or as may be approved by the TSXV and the shareholders of the Company, from time to time, the maximum number of common shares which may be issued under the Incentive Plan was fixed at 7,042,150. On March 31, 2016, the Company's Board of Directors approved amendments to the Incentive Plan which would, among other things, increase the maximum number of common shares which may be issued under the Incentive Plan to 14,318,671. Such amendments are subject to approval of the shareholders of the Company at the annual and special meeting of shareholders to be held on May 12, 2016. The Option Plan is a "rolling plan" which provides that the aggregate number of common shares which may be reserved for issuance under the Option Plan is limited to not more than 10% of the aggregate number of common shares outstanding. However, each of the Incentive Plan and the Option Plan provide that under no circumstances shall there be common shares issuable under such plan, together with all other security-based compensation arrangements of the Company, which exceed 10% of the aggregate number of common shares outstanding.

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8. LIQUIDITY AND CAPITAL RESOURCES (continued)

At December 31, 2015, the Company had 3,000 stock options outstanding (December 31, 2014 - 5,000 stock options outstanding) and 319,465 DSUs outstanding (December 31, 2014 - 113,200 DSUs outstanding). DSUs are issued to non-executive directors in lieu of director fees, at their election, at the market value of the Company's common shares at the date of grant and, with respect to the DSUs that are outstanding, are paid out in cash no later than the end of the calendar year following the year the participant ceases to be a director.

The Company also had 2,209,563 RSUs outstanding at December 31, 2015 (December 31, 2014 - 2,375,000 RSUs outstanding). The RSUs were issued on November 14, 2014 to certain officers, employees and consultants. RSUs are payable when vested with either cash or common shares of the Company, at the option of the holder. The vesting dates of the RSUs are: 783,750 (33%) units on December 31, 2014, 522,500 units (22%) on May 31, 2015, remaining 1,068,750 units (45%) evenly over 24 months, with the first vesting on June 30, 2015. At December 31, 2015, 1,617,968 RSUs (68.1%) had vested. During the year ended December 31, 2015, 165,437 RSUs were exercised with a cash payment of C\$2.78 per RSU and the RSU liability was correspondingly reduced by \$0.3 million. At December 31, 2015, accounts payable and accrued liabilities included amounts related to outstanding DSUs of \$0.6 million (December 31, 2014 - \$0.3 million) and outstanding RSUs of \$3.8 million (December 31, 2014 - \$2.5 million).

Market for Securities

Westaim's common shares trade on the TSXV under the symbol "WED".

Cash Flow Objectives

The Company manages its liquidity with a view to ensuring that there is sufficient cash to meet all financial commitments and obligations as they fall due. The Company believes its liquidity requirements for the next year will be met with the cash and cash equivalents on hand. The Company has sufficient funds to meet its financial obligations. As part of pursuing one or more new opportunities, the Company may from time to time issue shares from treasury.

The following tables illustrate the duration of the financial assets of the Company compared to its financial obligations:

December 31, 2015 (millions)	One year or less	No specific date	Total
Financial assets:			
Cash and cash equivalents	\$ 7.8	\$ -	\$ 7.8
Accounts receivable and other assets *	2.5	-	2.5
Investments in private entities	-	322.1	322.1
Investments in associates	-	3.0	3.0
Total financial assets	10.3	325.1	335.4
Financial obligations:			
Accounts payable and accrued liabilities	1.1	4.4	5.5
Site restoration provision	-	3.9	3.9
Total financial obligations	1.1	8.3	9.4
Financial assets net of financial obligations	\$ 9.2	\$ 316.8	\$ 326.0

* excluding capital assets

December 31, 2014 (millions) (restated)	One year or less	No specific date	Total
Financial assets:			
Cash and cash equivalents	\$ 80.0	\$ -	\$ 80.0
Accounts receivable and other assets *	0.4	-	0.4
Investments in private entities	-	93.7	93.7
Total financial assets	80.4	93.7	174.1
Financial obligations:			
Accounts payable and accrued liabilities	0.8	2.8	3.6
Site restoration provision	-	3.5	3.5
Total financial obligations	0.8	6.3	7.1
Financial assets net of financial obligations	\$ 79.6	\$ 87.4	\$ 167.0

* excluding capital assets

The Company's investment guidelines stress preservation of capital and market liquidity to support payment of liabilities. The matching of the duration of financial assets and liabilities is monitored to ensure that all obligations will be met.

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9. RELATED PARTY TRANSACTIONS

Related parties include key management personnel, close family members of key management personnel and entities which are, directly or indirectly, controlled by, jointly controlled by or significantly influenced by key management personnel or their close family members. Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Company, directly or indirectly, and include executive officers and current and former directors of the Company.

Compensation expenses related to the Company's key management personnel are as follows:

(millions)	Three months ended December 31		Year ended December 31	
	2015	2014 (restated)	2015	2014 (restated)
Salaries and benefits	\$ 1.4	\$ 1.5	\$ 1.9	\$ 2.1
Share-based compensation	0.2	2.2	2.4	2.3
	\$ 1.6	\$ 3.7	\$ 4.3	\$ 4.4

Fees paid to Hartford Consulting, Inc. (the "Consultant"), a company owned by William R. Andrus, a director of HIIG, for insurance industry related consulting services was nominal and \$0.1 million for the three months and year ended December 31, 2015, respectively (nominal and \$0.1 million in the three months and year ended December 31, 2014, respectively). Compensation relating to RSUs issued to the Consultant included in share-based compensation expense for the three months and year ended December 31, 2015 was nominal and \$0.2 million, respectively (\$0.2 million in the three months and year ended December 31, 2014, respectively). During the year ended December 31, 2015, 115,937 RSUs were exercised with a cash payment of C\$2.78 per RSU. At December 31, 2015, a liability of \$0.1 million (December 31, 2014 - \$0.2 million) had been accrued with respect to these outstanding RSUs in the consolidated statements of financial position.

On May 28, 2015, pursuant to the 2015 Concurrent Private Placement, 6,823,152 Special Warrants were sold at a price of C\$3.25 per Special Warrant to members of the Company's Board of Directors and management team, a shareholder of HIIG and members of the future Arena Group management team as well as to HIIG and certain HIIG subsidiaries for portfolio investment purposes, on terms equivalent to the other participants in the 2015 Concurrent Private Placement. See discussion in Section 4, *Equity Financings* of this MD&A. On August 31, 2015, an aggregate of 6,823,152 additional common shares of the Company were issued under the 2015 Concurrent Private Placement upon the deemed conversion of the 2015 Subscription Receipts issued on the deemed exercise of the Special Warrants. The aggregate gross proceeds from the 2015 Concurrent Private Placement to the Company was \$16.8 million.

On August 31, 2015, the Company completed the Lantern Purchase and the Zwirn Subscription (see discussion in Section 3, *Investments* and Section 4, *Equity Financings* of this MD&A), and 769,231 common shares of the Company were issued to Mr. Zwirn for aggregate gross proceeds of \$1.9 million.

An aggregate of 3,400,000 common shares were issued to certain directors and officers of the Company pursuant to the 2014 Concurrent Private Placement completed on July 29, 2014 for aggregate gross proceeds of \$8.3 million, on terms equivalent to the other participants in the 2014 Concurrent Private Placement. See discussion in Section 4, *Equity Financings* of this MD&A.

In the three months and year ended December 31, 2015, the Company earned fees from HIIG of \$0.2 million and \$1.0 million, respectively, under the HIIG MSA (three months and year ended December 31, 2014 - \$0.2 million and \$0.4 million, respectively).

On August 31, 2015, the Company provided \$17.0 million in funding to Arena Origination in the form of an unsecured term loan (see discussion in Section 3, *Investments* of this MD&A). In the year ended December 31, 2015, the Company received interest of \$0.4 million, representing interest earned on the loan for the period from September 1 to December 31, 2015.

In the year ended December 31, 2015, the Company was reimbursed \$2.5 million by HIIG in share issuance costs related to its investment in the HIIG Partnership and the amount was recorded as an increase in the Company's share capital. In the year ended December 31, 2014, the Company was reimbursed \$0.9 million by HIIG and \$0.1 million by the HIIG Partnership in share issuance costs, and the total reimbursed amount of \$1.0 million was recorded as an increase in the Company's share capital.

10. CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS

Preparation of the financial statements in conformity with IFRS requires management to make estimates and assumptions, some of which relate to matters that are uncertain. As more information becomes known, these estimates and assumptions could change and thus have a material impact on the Company's financial condition and results of operations in the future. The Company has established detailed policies and control procedures that are intended to ensure that management's judgments and estimates are well controlled, independently reviewed and consistently applied from period to period. Management believes that its estimates for determining the valuation of the Company's assets and liabilities are appropriate.

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10. CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS (continued)

Management used net asset value as the primary valuation technique in determining the fair value of the Company's investments in private entities at December 31, 2015. Management determined that this valuation technique produced the best indicator of the fair value of the HIIG Partnership, Arena Finance and Arena Origination at December 31, 2015. The significant unobservable inputs used in the valuation of the HIIG Partnership, Arena Finance and Arena Origination at December 31, 2015 were the equity of each of the entities at December 31, 2015 and the multiple applied. Management applied a multiple of 1.0x as the equity (adjusted where applicable) of each of the HIIG Partnership, Arena Finance and Arena Origination approximated the net assets of the respective entity which were carried at fair value at December 31, 2015. For a detailed description of the valuation of the Company's investments in private entities, see note 5 to the Company's audited annual consolidated financial statements for the years ended December 31, 2015 and 2014. Due to the inherent uncertainty of valuation, management's estimated values may differ significantly from the values that would have been used had a ready market for the investment existed, and the differences could be material.

Other key estimates include the Company's provision for site restoration, fair value of share-based compensation, and unrecognized deferred tax assets. Details of these items are disclosed in note 7, note 10 and note 12, respectively, to the Company's audited annual consolidated financial statements for the years ended December 31, 2015 and 2014.

11. CRITICAL ACCOUNTING POLICIES AND RECENTLY ADOPTED AND PENDING ACCOUNTING PRONOUNCEMENTS

A description of the Company's accounting policies and other recently adopted and pending accounting pronouncements are disclosed in note 2 and note 3, respectively, to the audited annual consolidated financial statements for the years ended December 31, 2015 and 2014.

12. QUARTERLY FINANCIAL INFORMATION

	Q4 2015	Q3 2015	Q2 2015	Q1 2015	Q4 2014	Q3 2014	Q2 2014	Q1 2014
(millions)					(restated)			
Revenue	\$ 0.5	\$ 0.4	\$ 0.3	\$ 0.4	\$ 0.5	\$ 0.5	\$ -	\$ 0.1
Net results of investments - (loss) gain	(3.2)	6.1	(2.1)	11.9	11.4	11.8	-	-
(Expenses) recovery of expenses	(3.0)	0.5	(1.7)	(2.4)	(5.0)	2.6	(2.7)	(1.5)
(Loss) profit	(5.7)	7.0	(3.5)	9.9	6.9	14.9	(2.7)	(1.4)
Other comprehensive (loss) income	-	(9.0)	2.9	(14.4)	(5.6)	(5.5)	0.8	(1.1)
Comprehensive (loss) income	\$ (5.7)	\$ (2.0)	\$ (0.6)	\$ (4.5)	\$ 1.3	\$ 9.4	\$ (1.9)	\$ (2.5)

Revenue consisted of investment income and advisory fee income. Prior to Q3, 2014, quarterly revenue consisted of investment income only.

Net results of investments in Q4, 2015 included an unrealized loss on investments in private entities of \$2.7 million and share of losses of Associates of \$0.5 million. Net results of investments in Q3, 2015 consisted of an unrealized gain on investments in private entities of \$6.6 million, share of losses of Associates of \$0.6 million and an unrealized gain on other investments of \$0.1 million. Net results of investments prior to Q3, 2015 represented unrealized gains (losses) on the Company's investment in the HIIG Partnership

Expenses in Q4, 2015 comprised general and administrative costs of \$1.7 million, site restoration provision expense of \$0.7 million, professional fees of \$0.5 million and share-based compensation expense of \$0.2 million, net of a foreign exchange gain of \$0.1 million. Recovery of expenses in Q3, 2015 included a recovery of professional fees of \$0.4 million, a recovery of site restoration provision of \$0.3 million and a foreign exchange gain of \$0.4 million. Expenses in Q2, 2015 included \$0.8 million in stock-based compensation with respect to outstanding RSUs, \$1.0 million in professional fees incurred mainly in connection with the Arena Transactions and a recovery of site restoration provision of \$0.7 million. Expenses in Q1, 2015 included stock-based compensation of \$1.5 million with respect to outstanding RSUs and \$0.4 million related to outstanding DSUs, a site restoration provision expense of \$0.8 million, net of a foreign exchange gain on US\$ bank balances of \$1.2 million.

Expenses in Q4, 2014 included stock-based compensation of \$2.6 million with respect to outstanding RSUs and site restoration provision expense of \$0.7 million, net of a foreign exchange gain of \$0.5 million. Expenses included transaction and related costs incurred in connection with the investment in HIIG, through the HIIG Partnership, of \$0.1 million in Q3, 2014, \$0.5 million in Q2, 2014, \$1.1 million in Q1, 2014 and \$1.9 million in Q4, 2013, with \$2.8 million reimbursed to the Company Q3, 2014. The Company recorded a foreign exchange gain of \$0.7 million in Q3, 2014.

Other comprehensive income (loss) arose from exchange differences from currency restatement as a result of a change in presentation currency from the C\$ to the US\$ on August 31, 2015.

13. RISKS

The Company is subject to a number of risks which could affect its business, prospects, financial condition, results of operations and cash flows, including risks relating to lack of significant revenues, regulatory risks, foreign exchange risks and risks relating to the businesses of HIIG and Arena. Certain of these risks are described below. A detailed description of the risk factors associated with the Company and its business is contained in the Company's Annual Information Form dated March 31, 2016 for its fiscal year ended December 31, 2015 which is available on SEDAR at www.sedar.com.

Risks Relating to Westaim

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, capital appreciation and/or investment income, 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 or Arena 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.

Risks Relating to HIIG's Business

Risk of unforeseen catastrophic losses

Property and casualty insurers are subject to claims arising from catastrophes. Catastrophes can be caused by various events, including hurricanes, tsunamis, tornados, cyclones, windstorms, icestorms, earthquakes, hailstorms, explosions, spills, flooding, severe winter weather and wild 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

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 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.

13. RISKS (continued)

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 regularly 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.

HIIG is exposed to credit and other risks in connection with its reinsurance

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.

Risks Related to the Arena Group

Arena has a limited operating history

Arena is effectively a start-up venture with very limited operating history. While Mr. Zwirn and the Arena management team have substantial previous experience at other investment management firms, the historical performance of any of them individually or collectively is not intended to be, nor should it be construed as an indication or forecast of future performance or an indication as to the future value or return on investment in respect of Arena or the Common Shares. Because Arena's investment approach may differ from the approach of the prior funds managed by Mr. Zwirn and his affiliates, and because market conditions are continually changing, Mr. Zwirn's prior firm's results may be largely irrelevant to the prospects for profitability of Arena. There can be no assurance that Arena will achieve any particular results or returns.

The start up of the operations of the Arena Group has and will involve significant expenditures by the Company. These expenditures include tax, accounting and legal fees, office premises expenses, software costs, market data costs, employment expenses, utilities and overhead, leasing costs, regulatory filing fees, marketing expenses and other expenses associated with starting a new business. The aggregate amount of these expenditures is difficult to forecast accurately and cost overruns may occur. Westaim cannot predict when if at all these expenses will be offset by revenues. Accordingly, there can be no assurance that the Arena Group will achieve profitability in the future, nor that, if it does become profitable, it will sustain profitability.

Arena is subject to operational risks

Operational risks may disrupt Arena's businesses, result in losses or limit growth. Although Arena is expected to take protective measures and to endeavour to modify them as circumstances warrant, the security of Arena's computer systems, software and networks may be vulnerable to breaches, unauthorized access, misuse, computer viruses or other malicious code and other events that could have a security impact. Additionally, breaches of security may occur through intentional or unintentional acts by those having authorized or unauthorized access to confidential or other information of Arena or its clients or counterparties. One or more such events could potentially jeopardize the confidential and other information processed and stored in, and transmitted through, Arena's computer systems and networks, or otherwise cause interruptions or malfunctions which could result in significant losses or reputational damage to Arena and/or Westaim.

In addition, Arena operates in an industry that is highly dependent on its information systems and technology. There can be no assurance that Arena's information systems and technology will continue to be able to accommodate its operations, or that the cost of maintaining such systems will not increase from its current level. Such a failure to accommodate Arena's operations, or a material increase in costs related to such information systems, could have a material adverse effect on Arena, which could adversely affect the business, financial condition and/or profitability of Westaim.

13. RISKS (continued)

The valuation of Arena's investment will be subject to significant subjectivity

Valuation methodologies for certain of Arena's investments may be subject to significant subjectivity, and the value of assets or investments established pursuant to such methodologies may never be realized, which could result in significant losses for Arena or its funds. There may be no readily-ascertainable market prices for the types of illiquid investments that Arena may acquire. The fair value of such investments is determined periodically by Arena based on its valuation methodologies. These policies are based on a number of factors, including the nature of the investment, the expected cash flows from the investment, bid or ask prices provided by third parties for the investment, the length of time the investment has been held, the trading price of securities (in the case of publicly traded securities), restrictions on transfer and other recognized valuation methodologies.

Arena may face challenges relating to its illiquid investments

The investment strategies contemplated for clients of Arena involve investments with limited or no liquidity which could make it challenging to raise investment capital from third party investors, making Arena a less profitable investment for Westaim. Illiquid investments might not be able to be disposed of at favourable prices or at all, which could lead to investment losses and lower fees, and accordingly, could adversely affect the business, financial condition and/or profitability of Westaim.

Arena is dependent on key management and staff

Failure by the Arena Group to retain and attract qualified staff could lead to a loss of key employees and clients and could lead to a decline in the Arena Group's revenues and consequentially the financial condition and/or profitability of Westaim. The Arena Group's business is dependent on the highly skilled and often highly specialized individuals engaged by Arena Investors. These employees have critical industry experience and relationships that is relied upon to implement the business plan of the Arena Group. However, there can also be no assurance that their historical success can be replicated. The contribution of these individuals to the investment management, client service, sales, marketing and operational teams is important to attracting and retaining clients. While resources will be devoted to recruiting, training and compensating these individuals, the growth in total AUM in the investment management industry, the number of new firms entering the industry and the reliance on performance results to sell financial products have increased the demand for high quality professionals in all aspects of asset management.

Risks Related to Specialty Finance Operations

Arena Origination and Arena Finance depend on the creditworthiness of borrowers

The specialty finance operations of Arena Origination and Arena Finance depend on the creditworthiness of borrowers and their ability to fulfill their obligations. Although Arena Origination originates opportunities only with borrowers which it believes to be creditworthy, there can be no assurance that borrowers will not default and that Arena Origination or Arena Finance will not sustain a loss on their loans as a result. Arena Origination and Arena Finance also rely on representations made by borrowers in their loan documentation. However, there can be no assurance that such representations are accurate or that Arena Origination or Arena Finance will have any recourse against the borrower in the event a representation proves to be untrue.

Collateral securing loans may be inadequate

While loans will be generally secured by a lien on specified collateral of the borrower (particularly inventory, receivables and tangible fixed assets), there can be no assurance that such security will be properly obtained or perfected, or that the value of the collateral securing any particular loan will protect Arena Origination or Arena Finance from suffering a partial or complete loss if the loan becomes non-performing and Arena Origination or Arena Finance moves to enforce against the collateral. In such event, loan losses could be suffered which could materially adversely affect the business, financial condition and/or profitability of Arena Origination or Arena Finance, as applicable, and accordingly, adversely affect the financial condition and/or profitability of Westaim.

The operations of Arena Origination and Arena Finance are largely unregulated

Unlike major commercial banks, asset-based lenders are not subject to regulatory capital requirements that would impede their ability to extend credit. Any changes to the regulation of the asset-based lending industry could have a material adverse effect on Arena Origination's and Arena Finance's business and, accordingly, adversely affect the financial condition and/or profitability of Westaim.

14. CAUTIONARY NOTE REGARDING FUTURE ORIENTED FINANCIAL INFORMATION

Certain portions of this MD&A, as well as other public statements by the Company, contain forward-looking statements. In particular, the words "strategy", "may", "will", "continue", "developed", "objective", "potential", "exploring", "could", "expect", "expected", "expects", "tends", "indicates", and words and expressions of similar import, are intended to identify forward-looking statements. Such forward-looking statements include but are not limited to statements concerning: strategies, alternatives and objectives to maximize value for shareholders; expectations and assumptions relating to the Company's business plan; expectations and assumptions relating to the business and operations of HIIG and the Arena Group; expectations regarding the Company's assets and liabilities; the Company's ability to retain key employees; 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; the effect of changes to interpretations of tax legislation on income tax provisions in future periods; 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 the Company can give no assurance that these expectations are correct. By their nature, these statements are subject to inherent risks and uncertainties that may be general or specific. A variety of material factors, many of which are beyond the Company's control, may affect the operations, financial position, performance and results of the Company and its business, and could cause actual results to differ materially from the expectations expressed in any of these forward-looking statements.

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: risks inherent in acquisitions generally; 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; the Company's ability to generate revenue from its investments; the Company's ability to raise additional capital; environmental risks; regulatory requirements may delay or deter a change in control of the Company; fluctuations in the US\$ to C\$ exchange rate; the potential treatment of the Company as a passive foreign investment company for U.S. federal income tax purposes; the occurrence of catastrophic events including terrorist attacks and weather related natural disasters; the cyclical nature of the property and casualty insurance industry; HIIG's ability to adequately maintain loss reserves to cover its estimated liability for unpaid losses and loss adjustment expenses; 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; 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's possible exposure to goodwill or intangible asset impairment in connection with its acquisitions; HIIG's ability to receive dividends from its subsidiaries; HIIG's reliance on information technology and telecommunications systems; dependence by HIIG on certain third party service providers; Arena's limited operating history; Arena's ability to mitigate operational and due diligence risks; the subjective nature of the valuation methods for certain of Arena's investments; Arena's ability to mitigate regulatory and other legal risks; Arena's ability to find appropriate investment opportunities; Arena Investors' ability to successfully navigate and secure compliance with regulations applicable to it and its business; the performance of the investments of Arena; Arena's investment in illiquid investments; Arena's ability to manage risks related to its risk management procedures; dependence by Arena on key management and staff; Arena Investors' ability to compete against current and potential future competitors; conflicts of interest; employee error or misconduct; Arena's ability to finance borrowers in a variety of industries; dependence by Arena Origination and Arena Finance on the creditworthiness of borrowers; the ability of Arena Origination and/or Arena Finance to mitigate the risk of default by and bankruptcy of a borrower; the ability of Arena Origination and/or Arena Finance to adequately obtain, perfect and secure loans; the ability of Arena Origination and/or Arena Finance to limit the need for enforcement or liquidation procedures; the ability of Arena Origination and/or Arena Finance to protect against fraud; changes to the regulation of the asset-based lending industry; United States tax law implications relating to the conduct of a U.S. trade or business; and other risk factors set forth herein or in the Company's annual report or other public filings.

The Company 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



March 31, 2016

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL INFORMATION

The accompanying consolidated financial statements including the notes thereto have been prepared by, and are the responsibility of, the management of The Westaim Corporation. This responsibility includes selecting appropriate accounting policies and making estimates and informed judgments based on the anticipated impact of current transactions, events and trends, consistent with International Financial Reporting Standards. The Board of Directors is responsible for ensuring that management fulfills its responsibility for financial reporting and internal control. In meeting our responsibility for the reliability and timeliness of financial information, the Company maintains and relies upon a comprehensive system of internal controls including organizational, procedural and disclosure controls. The Audit Committee, which is comprised of four Directors, all of whom are independent, meets with management as well as the external auditors to satisfy itself that management is properly discharging its financial reporting responsibilities and to review the consolidated financial statements and the report of the auditors. It reports its findings to the Board of Directors who approve the consolidated financial statements.

The accompanying consolidated financial statements have been audited by Deloitte LLP, the independent auditors, in accordance with generally accepted auditing standards. The auditors have full and unrestricted access to the Audit Committee.

A handwritten signature in cursive script, appearing to read 'J. Cameron MacDonald'.

J. Cameron MacDonald
President and Chief Executive Officer

A handwritten signature in cursive script, appearing to read 'Glenn G. MacNeil'.

Glenn G. MacNeil
Chief Financial Officer

Independent Auditor's Report

TO THE SHAREHOLDERS OF THE WESTAIM CORPORATION

We have audited the accompanying consolidated financial statements of The Westaim Corporation, which comprise the consolidated statements of financial position as at December 31, 2015 and December 31, 2014, and the consolidated statements of profit and other comprehensive (loss) income, consolidated statements of changes in equity and consolidated statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of The Westaim Corporation as at December 31, 2015 and December 31, 2014, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.



Chartered Professional Accountants
Licensed Public Accountants
March 31, 2016


The Westaim Corporation
Consolidated Statements of Financial Position

	December 31 2015	December 31 2014 (Restated) note 2(b)
(thousands of United States dollars)		
ASSETS		
Cash and cash equivalents	\$ 7,798	\$ 80,091
Accounts receivable and other assets (note 4)	2,586	556
Investments in private entities (note 5)	322,133	93,670
Investments in associates (note 5)	2,991	-
	\$ 335,508	\$ 174,317
LIABILITIES		
Accounts payable and accrued liabilities (note 6)	\$ 5,521	\$ 3,633
Site restoration provision (note 7)	3,899	3,456
	9,420	7,089
Commitments and contingent liabilities (note 8)		
SHAREHOLDERS' EQUITY		
Share capital (note 9)	382,182	210,404
Contributed surplus	11,498	11,498
Accumulated other comprehensive (loss) income (note 2m)	(2,227)	18,331
Deficit	(65,365)	(73,005)
	326,088	167,228
	\$ 335,508	\$ 174,317

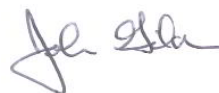
Comparative amounts have been restated due to a change in presentation currency from the Canadian dollar to the United States dollar

The accompanying notes are an integral part of these consolidated financial statements

Approved on behalf of the Board



Ian W. Delaney
Director



John W. Gildner
Director

The Westaim Corporation

Consolidated Statements of Profit and Other Comprehensive (Loss) Income

	Year Ended December 31	
	2015	2014
		(Restated)
		note 2(b)
<hr/> (thousands of United States dollars except share and per share data) <hr/>		
Revenue		
Investment income	\$ 606	\$ 659
Fee income (notes 5 and 11)	1,000	417
	<hr/> 1,606	<hr/> 1,076
Net results of investments		
Unrealized (loss) gain on investments in private entities (note 5):		
Unrealized (loss) gain on investments before foreign exchange gain	(3,099)	17,958
Unrealized foreign exchange gain on investments	16,698	5,303
Share of loss of associates (note 5)	(1,046)	-
Unrealized gain on other investments (note 4)	5	-
Realized gain on sale of other investments (note 4)	84	-
	<hr/> 12,642	<hr/> 23,261
Expenses		
Salaries and benefits	2,165	2,076
General, administrative and other	881	1,096
Professional fee expense (recovery) (note 5)	1,591	(263)
Site restoration provision expense (note 7)	1,014	1,612
Share-based compensation expense (note 10)	2,693	2,667
Depreciation and amortization (note 4)	39	10
Foreign exchange gain	(1,775)	(601)
	<hr/> 6,608	<hr/> 6,597
Profit	<hr/> \$ 7,640	<hr/> \$ 17,740
Earnings per share - basic and diluted (note 13)	<hr/> \$ 0.08	<hr/> \$ 0.47
Weighted average number of common shares outstanding (in thousands)		
Basic and diluted	94,660	37,976
Profit	\$ 7,640	\$ 17,740
Other comprehensive loss		
Exchange differences on change in presentation currency	(20,558)	(11,446)
Comprehensive (loss) income	<hr/> \$ (12,918)	<hr/> \$ 6,294

Comparative amounts have been restated due to a change in presentation currency from the Canadian dollar to the United States dollar

The accompanying notes are an integral part of these consolidated financial statements

The Westaim Corporation
Consolidated Statements of Changes in Equity

Year ended December 31, 2015					
(thousands of United States dollars)	Share Capital	Contributed Surplus	Accumulated Other Comprehensive Income (Loss)	Deficit	Total Equity
Balance at January 1, 2015	\$ 210,404	\$ 11,498	\$ 18,331	\$ (73,005)	\$ 167,228
Share capital issued and paid (note 9)	171,778	-	-	-	171,778
Profit	-	-	-	7,640	7,640
Other comprehensive loss (note 2m)	-	-	(20,558)	-	(20,558)
Balance at December 31, 2015	\$ 382,182	\$ 11,498	\$ (2,227)	\$ (65,365)	\$ 326,088

Year ended December 31, 2014 (Restated) note 2(b)					
(thousands of United States dollars)	Share Capital	Contributed Surplus	Accumulated Other Comprehensive Income (Loss)	Deficit	Total Equity
Balance at January 1, 2014	\$ 78,524	\$ 11,498	\$ 29,777	\$ (90,745)	\$ 29,054
Share capital issued and paid (note 9)	131,880	-	-	-	131,880
Profit	-	-	-	17,740	17,740
Other comprehensive loss (note 2m)	-	-	(11,446)	-	(11,446)
Balance at December 31, 2014	\$ 210,404	\$ 11,498	\$ 18,331	\$ (73,005)	\$ 167,228

Comparative amounts have been restated due to a change in presentation currency from the Canadian dollar to the United States dollar

The accompanying notes are an integral part of these consolidated financial statements

The Westaim Corporation
Consolidated Cash Flow Statements

	Year Ended December 31	
	2015	2014
		(Restated)
		note 2(b)
<hr/> (thousands of United States dollars) <hr/>		
Operating activities		
Profit	\$ 7,640	\$ 17,740
Unrealized gain on investments in private entities	(13,599)	(23,261)
Share of loss of associates	1,046	-
Unrealized gain on other investments	(5)	-
Share-based compensation expense	2,693	2,667
Share-based compensation payments	(336)	-
Site restoration provision expense	1,014	1,612
Lease expense	(87)	194
Depreciation and amortization	39	10
Unrealized foreign exchange gain	(359)	-
Net change in other non-cash balances		
Accounts receivable and other assets	(235)	(273)
Accounts payable and accrued liabilities	455	(1,328)
Cash used in operating activities	(1,734)	(2,639)
<hr/>		
Investing activities		
Purchase of capital assets	(14)	(179)
Purchase of investments in private entities	(231,562)	(75,712)
Purchase of investments in associates	(4,037)	-
Purchase of other investments	(1,870)	-
Cash used in investing activities	(237,483)	(75,891)
<hr/>		
Financing activities		
Issuance of share capital, net of issuance costs	171,778	131,880
Cash provided from financing activities	171,778	131,880
<hr/>		
Effect of exchange rate fluctuations on cash held	(4,854)	(6,553)
Net (decrease) increase in cash and cash equivalents	(72,293)	46,797
Cash and cash equivalents, beginning of year	80,091	33,294
Cash and cash equivalents, end of year	\$ 7,798	\$ 80,091
<hr/>		
Cash and cash equivalents is composed of:		
Cash	\$ 7,798	\$ 80,091
<hr/>		

Comparative amounts have been restated due to a change in presentation currency from the Canadian dollar to the United States dollar

The accompanying notes are an integral part of these consolidated financial statements

The Westaim Corporation
Notes to Consolidated Financial Statements
For the years ended December 31, 2015 and 2014

(Currency amounts in thousands of United States dollars except per share data, unless otherwise indicated)

1 Nature of Operations

The Westaim Corporation ("Westaim" or the "Company") was incorporated on May 7, 1996 by articles of incorporation under the Business Corporations Act (Alberta). The Company's head office is located at Suite 1700, 70 York Street, Toronto, Ontario, Canada. These consolidated financial statements were authorized for issue by the Board of Directors of the Company on March 31, 2016.

Westaim is a Canadian investment company specializing in providing long-term capital to businesses operating primarily within the global financial services industry. The Company's common shares are traded on the TSX Venture Exchange (the "TSXV") under the symbol WED.

These consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, Westaim Management Limited Partnership ("Management LP"), Westaim Management GP Inc. ("Management GP"), Westaim HIIG GP Inc. ("HIIG GP") and The Westaim Corporation of America ("WCA", formerly Westaim Arena Holdings, Inc.).

On August 31, 2015, the Company completed the Arena Transactions as described in note 5 and the related equity financing as described in note 9.

All currency amounts are expressed in thousands of United States dollars ("US\$") except per share data, unless otherwise indicated. See note 2(b) for a description of the change in the Company's functional and presentation currency.

2 Summary of Significant Accounting Policies

The significant accounting policies used to prepare these consolidated financial statements are as follows:

(a) Basis of preparation

These consolidated financial statements are prepared in compliance with International Financial Reporting Standards ("IFRS").

The Company meets the definition of an investment entity under IFRS 10 "Consolidated Financial Statements" ("IFRS 10") and measures its investments in particular subsidiaries at fair value through profit or loss ("FVTPL"), instead of consolidating those subsidiaries in its consolidated financial statements. Entities accounted for at FVTPL consist of Westaim HIIG Limited Partnership (the "HIIG Partnership"), Arena Finance Company Inc. ("Arena Finance") and Westaim Origination Holdings, Inc. ("Arena Origination").

The financial statements of entities controlled by the Company which provide investment-related services are consolidated. These entities consist of its wholly-owned subsidiaries, Management LP, Management GP, HIIG GP and WCA. The financial results of these entities are included in the consolidated financial statements from the date that control commences until the date that control ceases. The Company controls an entity when the Company has power over the entity, is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Assessment of control is based on the substance of the relationship between the Company and the entity and includes consideration of both existing voting rights and, if applicable, potential voting rights that are currently exercisable and convertible. Intercompany balances and transactions are eliminated upon consolidation.

Investments in associates are accounted for using the equity method in accordance with International Accounting Standard ("IAS") 28 "Investments in Associates and Joint Ventures" ("IAS 28") and consist of investments in corporations or limited partnerships where the Company has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over these policies. The Company's investments in associates consist of its investments in Westaim Arena Holdings II, LLC ("WAHII") (through WCA), Arena Special Opportunities Fund (Onshore) GP, LLC ("ASOF-ON GP") (through WCA), and Arena Special Opportunities Fund (Offshore) II GP, LP ("ASOF-OFF II GP") (the "Associates"). These investments are reported in investments in associates in the consolidated statements of financial position, with the Company's share of profit (loss) and other comprehensive income (loss) of the Associates reported under "Net results of investments" in the consolidated statements of profit and other comprehensive (loss) income.

(b) Functional and presentation currency

IAS 21 "The Effects of Changes in Foreign Exchange Rates" ("IAS 21") describes functional currency as the currency of the primary economic environment in which an entity operates. As a result of the completion of the Arena Transactions, the Company expects a significant majority of revenues and costs to be earned and incurred in US\$. Therefore, the Company changed its functional currency from Canadian dollars ("C\$") to US\$, prospectively from the date of change of August 31, 2015.

The Westaim Corporation
Notes to Consolidated Financial Statements
For the years ended December 31, 2015 and 2014

(Currency amounts in thousands of United States dollars except per share data, unless otherwise indicated)

2 Summary of Significant Accounting Policies (continued)

On August 31, 2015, the Company also changed its presentation currency from C\$ to US\$. Comparative information has been restated in US\$ in accordance with IAS 21. The comparative consolidated financial statements and associated notes prior to August 31, 2015 presented herein have been translated from C\$ to US\$ using the following procedures:

- Assets and liabilities were translated into US\$ at period end exchange rates.
- Operating results were translated into US\$ at the exchange rates prevailing at the dates of the transactions, or average rates where they are suitable proxies.
- Share capital, contributed surplus and deficit were translated at the historic rates prevailing at the dates of the transactions.
- Differences resulting from the translation of the opening net assets and the results for the periods have been included in other comprehensive income (loss).

(c) Use of estimates

The preparation of financial statements requires management to make estimates that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates and changes in estimates are recorded in the reporting period in which they are determined. Key estimates include the fair value of investments in private entities, provision for site restoration, fair value of share-based compensation, and unrecognized deferred tax assets.

(d) Judgments made by management

Key areas where management has made difficult, complex or subjective judgments in the process of applying the Company's accounting policies, often as a result of matters that are inherently uncertain, include determining that the Company meets the definition of an investment entity under IFRS 10, valuation techniques for fair value determination of investments in private entities, applying the equity method of accounting for associates, determining that the Company's functional currency is the US\$, site restoration provision and income taxes. For additional information on these judgments, see note 5 for investments in private entities and associates, note 2(b) for functional currency, note 7 for site restoration provision and note 12 for income taxes.

(e) Foreign currency translation

The US\$ is the functional and presentation currency of the Company. Transactions in foreign currencies are translated into US\$ at rates of exchange prevailing at the time of such transactions. Monetary assets and liabilities in foreign currencies are translated into US\$ at rates of exchange at the end of the reporting period. Any resulting foreign exchange gain or loss is included in the consolidated statements of profit and other comprehensive (loss) income.

(f) Revenue recognition

Investment income includes interest income and dividend income. Interest income is recognized on an accrual basis and dividend income is recognized on the ex-dividend date. Advisory and management fees are recorded as fee income on an accrual basis when earned.

(g) Cash and cash equivalents

Cash and cash equivalents consist of cash on deposit and highly liquid short-term investments with original maturities of 90 days or less.

(h) Capital assets

The Company's capital assets are reported at cost less accumulated depreciation. Depreciation is calculated based on the estimated useful lives of the particular assets which is 3 to 10 years for furniture and equipment. Leasehold improvements are depreciated using the straight-line method over the lesser of the term of the lease or the estimated useful life of the assets. At the end of each reporting period, management reviews the carrying amounts of capital assets for indications of impairment. An impairment loss is recognized for the amount by which the carrying amount of the asset exceeds its recoverable amount. The recoverable amount is the higher of fair value less cost to sell and value in use. Capital assets are included in accounts receivable and other assets in the consolidated statements of financial position.

The Westaim Corporation
Notes to Consolidated Financial Statements
For the years ended December 31, 2015 and 2014

(Currency amounts in thousands of United States dollars except per share data, unless otherwise indicated)

2 Summary of Significant Accounting Policies (continued)

(i) Investments

The Company's investments in marketable securities and private entities are classified as FVTPL and are carried at fair value. At initial recognition, the investments are measured at fair value, and gains and losses arising from changes in their fair value are included in the consolidated statements of profit and other comprehensive (loss) income for the period in which they arise. Transaction costs on the investments are expensed as incurred.

Marketable securities are carried at fair value. Quoted market prices, that fall between the bid and close prices for that day, are used in determining the fair value of individual investments held. The Company records security purchases and sales on a trade date basis. At December 31, 2015 and 2014, the Company did not have any marketable securities.

Investments in associates are initially recorded at cost and subsequently adjusted to recognize the Company's share of profit (loss) and other comprehensive income (loss) of the associates and any dividends from the associates. Transaction costs on the investments are expensed as incurred.

Investments in financial assets and instruments that are not traded in an active market, including private entities, are generally valued initially at the cost of acquisition on the basis that such cost is a reasonable estimate of fair value. Such investments are subsequently revalued using accepted industry valuation techniques. The Company considers a variety of methods and makes assumptions that are based on market conditions existing at each period end date. Valuation techniques used include initial acquisition cost, net asset value, discounted cash flow analysis, comparable recent arm's length transactions, comparable publicly traded companies, reference to other instruments that are substantially the same, option pricing models and other valuation techniques commonly used by market participants. Any sale, size or other liquidity restrictions on the investment are also considered by management in its determination of fair value. Due to the inherent uncertainty of valuation, management's estimated values may differ significantly from the values that would have been used had a ready market for the investments existed, and the differences could be material.

The Company may use internally developed models, which are usually based on valuation methods and techniques generally recognized as standard within the industry. Valuation models are used primarily to value unlisted equity and debt securities for which no market quotes exist or where markets were or have been inactive during the financial period. Some of the inputs to these models may not be observable and are therefore estimated based on assumptions. The output of a model is always an estimate or approximation of a value that cannot be determined with certainty, and valuation techniques employed may not fully reflect all factors relevant to the positions the Company holds. Valuations are therefore adjusted, where appropriate, to allow for additional factors including model risk, liquidity risk and counterparty risk.

Management is responsible for performing fair value measurements included in the Company's consolidated financial statements for each quarter. The Company prepares a detailed valuation each reporting period describing the valuation processes and procedures undertaken by management. The valuation memorandum is provided to members of the Company's audit committee and all Level 3 valuation results are reviewed with the audit committee as part of its review of the Company's consolidated financial statements.

(j) *Income taxes*

Income tax expense is recognized in the consolidated statements of profit and other comprehensive (loss) income. Current tax is based on taxable income which differs from profit (loss) and other comprehensive income (loss) because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible.

Deferred tax assets are generally recognized for all deductible temporary income tax differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets and liabilities are determined based on the enacted or substantively enacted tax laws and rates that are anticipated to apply in the year of realization. The measurement of deferred tax assets and liabilities reflects the tax consequences that would follow from the manner in which the Company expects to recover or settle the carrying amount of the related assets and liabilities. The carrying amount of the deferred tax asset is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Income tax assets and liabilities are offset when the Company intends to settle on a net basis and there is a legally enforceable right to offset.

The Westaim Corporation
Notes to Consolidated Financial Statements
For the years ended December 31, 2015 and 2014

(Currency amounts in thousands of United States dollars except per share data, unless otherwise indicated)

2 Summary of Significant Accounting Policies (continued)

(k) Site restoration provision

Future site restoration costs relate to industrial sites previously owned by the Company and are estimated taking into consideration the anticipated method and extent of the remediation consistent with regulatory requirements, industry practices, current technology and possible uses of the site. The estimated amount of future restoration costs is reviewed periodically based on available information. The amount of the provision is the present value of the estimated future restoration costs discounted using interest rates of a high quality government bond in relation to the estimated cash outflows.

Recoveries of costs resulting from indemnifications provided by previous owners of the Company's industrial sites have not been recognized in these consolidated financial statements. Future recoveries of site restoration costs will be recorded when received.

(l) Contributed surplus

The cost of stock options is recognized over the period from the issue date to the vesting date and recorded as contributed surplus. When share capital of the Company is repurchased by the Company, the amount by which the average carrying value of the shares exceeds the cost to repurchase the shares is removed from share capital and included in contributed surplus.

(m) Accumulated other comprehensive income (loss)

Comprehensive income (loss) consists of profit (loss) and other comprehensive income (loss). Accumulated other comprehensive loss of \$2,227 at December 31, 2015 and accumulated other comprehensive income of \$18,331 at December 31, 2014 comprised cumulative exchange differences from currency restatement as a result of a change in presentation currency from the C\$ to the US\$ on August 31, 2015.

(n) Share-based compensation

The Company maintains share-based compensation plans, which are described in note 10. The cost of stock options is recognized in income as an expense over the period from the issue date to the vesting date with a corresponding increase in contributed surplus. Any consideration paid by stock option holders for the purchase of stock is credited to share capital. As at December 31, 2015, all stock options issued by the Company had vested.

Obligations related to Deferred Share Units ("DSUs") and Restricted Share Units ("RSUs") are recorded as liabilities at fair value. At each reporting date they are re-measured at fair value with reference to the fair value of the Company's stock price and the number of units that have vested. The corresponding share-based compensation expense is recognized over the vesting period. When a change in value occurs, it is recognized in share-based compensation expense in the applicable financial period.

(o) Earnings per share

Basic earnings per share is calculated by dividing profit or loss by the weighted average number of common shares outstanding during the reporting period.

Diluted earnings per share is calculated by dividing profit or loss by the weighted average number of shares outstanding during the reporting period after adjusting both amounts for the effects of all dilutive potential common shares, which consist of options and RSUs. Anti-dilutive potential common shares are not included in the calculation of diluted earnings per share.

3 Accounting Pronouncements Issued but not yet Adopted

In November 2009, the International Accounting Standards Board ("IASB") issued IFRS 9 "Financial Instruments" ("IFRS 9") as part of its plan to replace IAS 39 "Financial Instruments: Recognition and Measurement". IFRS 9 requires financial assets, including hybrid contracts, to be measured at either fair value or amortized cost. In October 2010, the IASB amended the requirements for classification and measurement of financial assets and liabilities. In November 2013, the IASB introduced a new hedge accounting model and allowed early adoption of the own credit provisions of IFRS 9. In July 2014, the IASB issued the final version of IFRS 9 incorporating a new expected loss impairment model and introducing limited amendments to the classification and measurement requirements for financial assets. This version supersedes all previous versions and is mandatorily effective for periods beginning on or after January 1, 2018 with early adoption permitted. The Company is currently assessing the impact of this new standard on its consolidated financial statements.

The Westaim Corporation
Notes to Consolidated Financial Statements
For the years ended December 31, 2015 and 2014

(Currency amounts in thousands of United States dollars except per share data, unless otherwise indicated)

3 Accounting Pronouncements Issued but not yet Adopted (continued)

On May 28, 2014, the IASB and the FASB jointly issued a converged standard on the recognition of revenue from contracts with customers, which will replace all existing revenue standards and interpretations, once mandatorily effective. The core principle of the new standard is for companies to recognize revenue to depict the transfer of goods or services to customers in amounts that reflect the consideration to which the company expects to be entitled in exchange for those goods or services. The new standard will also result in enhanced disclosures about revenue and provide guidance for transactions that were not previously addressed comprehensively. Application of the standard is mandatory and it applies to nearly all contracts with customers. The main exceptions are leases, financial instruments, insurance contracts and certain non-monetary exchange transactions. IFRS 15 "Revenue from Contracts with Customers" is available for early application with mandatory adoption required for fiscal years commencing on or after January 1, 2017 and is to be applied using the retrospective or the modified retrospective approach. While the standards are largely converged, the U.S. standard does not permit early adoption. The Company is currently assessing the impact of this new standard on its consolidated financial statements.

In December 2014, a Disclosure Initiative was issued, which amends IAS 1 "Presentation of Financial Statements". The amendments are designed to encourage entities to use professional judgment to determine what information to disclose in the financial statements and accompanying notes by clarifying the guidance on materiality, presentation, and note structure. These amendments are effective for annual periods beginning on or after January 1, 2016. The Company is currently assessing the impact of this revised standard on its consolidated financial statements.

4 Accounts Receivable and Other Assets

Accounts receivable and other assets consist of the following:

	December 31, 2015	December 31, 2014 (restated)
Capital assets (a)	\$ 115	\$ 159
Investment in Arena Special Opportunities Fund, LP (b)	1,875	-
Receivables from related parties (c)	411	26
Accounts receivable and other	185	371
	<u>\$ 2,586</u>	<u>\$ 556</u>

(a) Details of the movement in the carrying values by class of capital assets are as follows:

Year ended December 31, 2015	Cost				Accumulated depreciation				Net book value
	Opening balance	Additions	Exchange adjustment	Ending balance	Opening balance	Depreciation	Exchange adjustment	Ending balance	Ending balance
Leasehold improvements	\$ 68	\$ -	\$ (9)	\$ 59	\$ 4	\$ 13	\$ (2)	\$ 15	\$ 44
Furniture and equipment	55	10	(7)	58	2	11	-	13	45
Computers	46	4	(6)	44	4	15	(1)	18	26
	<u>\$ 169</u>	<u>\$ 14</u>	<u>\$ (22)</u>	<u>\$ 161</u>	<u>\$ 10</u>	<u>\$ 39</u>	<u>\$ (3)</u>	<u>\$ 46</u>	<u>\$ 115</u>

Year ended December 31, 2014	Cost (restated)				Accumulated depreciation (restated)				Net book value (restated)
	Opening balance	Additions	Exchange adjustment	Ending balance	Opening balance	Depreciation	Ending balance	Ending balance	
Leasehold improvements	\$ -	\$ 71	\$ (3)	\$ 68	\$ -	\$ 4	\$ 4	\$ 64	
Furniture and equipment	-	59	(4)	55	-	2	2	53	
Computers	-	49	(3)	46	-	4	4	42	
	<u>\$ -</u>	<u>\$ 179</u>	<u>\$ (10)</u>	<u>\$ 169</u>	<u>\$ -</u>	<u>\$ 10</u>	<u>\$ 10</u>	<u>\$ 159</u>	

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4 Accounts Receivable and Other Assets (continued)

(b) In connection with the Arena Transactions, the Company entered into an agreement with Zwirn & Co., LLC ("ZCL"), an entity affiliated with Daniel B. Zwirn, the Chief Executive Officer of the Arena Group (as described in note 5), pursuant to which the Company agreed to purchase from ZCL limited partnership interests in Lantern Endowment Partners, L.P. ("Lantern") (the "Lantern Purchase"). On August 31, 2015, the Company paid \$1,786 for this portfolio investment in Lantern. On October 1, 2015, the assets of Lantern were transferred to Arena Special Opportunities Fund, LP, a fund managed by Arena Investors, at fair value and the Company's investment in Lantern was correspondingly exchanged into an investment in Arena Special Opportunities Fund, LP. For a description of Arena Investors, see note 5. The Company's investment in Arena Special Opportunities Fund, LP is classified at Level 3 of the fair value hierarchy and measured at FVTPL. At December 31, 2015, the fair value of the Company's interest in the Arena Special Opportunities Fund, LP was determined by Arena Investors to be \$1,875, on the same valuation basis applicable to other investors in the fund. The Company recorded a realized gain of \$84 and an unrealized gain of \$5 with respect to the investments in Lantern and Arena Special Opportunities Fund, LP, respectively. The gains were reported under "Net results of investments" in the consolidated statements of profit and other comprehensive (loss) income for the year ended December 31, 2015.

(c) Receivables from related parties totaled \$411 at December 31, 2015 and \$26 at December 31, 2014 and represent miscellaneous costs paid by the Company on behalf of Houston International Insurance Group, Ltd. ("HIIG") and the Arena Group from time to time which are subject to reimbursement.

5 Investments in Private Entities and Associates

The Company's principal investments as at December 31, 2015 consisted of its investment in HIIG (through the HIIG Partnership) and its investments in the Arena Group. Investments in private entities are measured at FVTPL and investments in associates are accounted for using the equity method.

As at December 31, 2015	Place of establishment	Principal place of business	Ownership interest
Investments in private entities:			
- HIIG Partnership	Ontario, Canada	Ontario, Canada	58.5% owned by Westaim
- Arena Finance	Ontario, Canada	Ontario, Canada	100% owned by Westaim
- Arena Origination	Delaware, U.S.	New York, U.S.	100% owned by Westaim
Investments in Associates:			
- WAHII (through WCA)	Delaware, U.S.	New York, U.S.	51% beneficially owned by WCA *
- ASOF-ON GP (through WCA)	Delaware, U.S.	New York, U.S.	51% beneficially owned by WCA *
- ASOF-OFF II GP	Delaware, U.S.	New York, U.S.	51% beneficially owned by Westaim *

* legal equity ownership is 100%, beneficial ownership denotes profit percentage subject to change over time pursuant to the earn-in rights granted to BP LLC described below under "Investments in Associates"

The HIIG Partnership, Arena Finance and Arena Origination are investment entities, as defined in IFRS 10, and account for their investments in subsidiaries at FVTPL instead of consolidating them. The subsidiaries of the HIIG Partnership, Arena Finance and Arena Origination are as follows:

As at December 31, 2015	Place of establishment	Principal place of business	Ownership interest
HIIG Partnership:			
- HIIG	Delaware, U.S.	Texas, U.S.	75.4% owned by HIIG Partnership
Arena Finance:			
- Arena Finance Holdings Co., LLC ("AFHC")	Delaware, U.S.	New York, U.S.	100% owned by Arena Finance
- Arena Finance National, LLC	Delaware, U.S.	New York, U.S.	100% owned by AFHC
- Arena Finance Global, LLC	Delaware, U.S.	New York, U.S.	100% owned by AFHC
Arena Origination:			
- Arena Origination Co., LLC ("AOC")	Delaware, U.S.	New York, U.S.	100% owned by Arena Origination

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5 Investments in Private Entities and Associates (continued)

Houston International Insurance Group, Ltd.

The Company's investment in HIIG (through the HIIG Partnership) is recorded as an investment in private entities and is measured at FVTPL in the Company's financial statements. See "Investments in Private Entities" below for a further description of the Company's investment in the HIIG Partnership.

Arena Group

On August 31, 2015, the Company completed the Arena Transactions (as hereinafter defined) in order to develop (i) an investment management business to manage fundamentals-based, asset-oriented credit investments for third-party investors and (ii) a specialty finance business to make fundamentals-based, asset-oriented credit investments. As part of developing the business, the Company established the following three businesses:

- Arena Investors – WAHII, ASOF-ON GP and ASOF-OFF II GP (collectively, "Arena Investors") was established to operate as an investment manager offering clients access to fundamentals-based, asset-oriented credit investments. The business of Arena Investors is accounted for using the equity method in the Company's consolidated financial statements. See "Investments in Associates" below.
- Arena Finance – Arena Finance, through AFHC and AFHC's subsidiaries, was set up as a specialty finance company to primarily purchase fundamentals-based, asset-oriented credit investments for its own account. The business of Arena Finance is measured at FVTPL in the Company's consolidated financial statements. See "Investments in Private Entities" below.
- Arena Origination – Arena Origination, through AOC, was set up to facilitate the origination of fundamentals-based, asset-oriented credit investments for its own account and/or possible future sale to Arena Finance, clients of Arena Investors and/or other third parties. The business of Arena Origination is measured at FVTPL in the Company's consolidated financial statements. See "Investments in Private Entities" below.

On August 31, 2015, the Company capitalized Arena Finance in the amount of \$146,585 and Arena Origination in the amount of \$34,340, consisting of \$17,340 in the form of equity and \$17,000 in the form of a term loan. At December 31, 2015, the Company owned 100% of both Arena Finance and Arena Origination.

The establishment, capitalization and organization of Arena Investors, Arena Finance and Arena Origination are referred to as the "Arena Transactions"; and Arena Investors, Arena Finance and Arena Origination and related entities are collectively referred to as "Arena" or the "Arena Group".

As part of establishing the Arena Group, the Company also entered into an acquisition and funding agreement (the "Funding Agreement") with Arena Investors, LLC, Bernard Partners, LLC ("BP LLC"), a limited liability company controlled by certain members of the Arena Group management team, and Arena Investors, LP, an entity owned by WAHII. Under the Funding Agreement, Westaim agreed to provide funding to the Arena Group of up to \$4,300 for operational start-up costs and the acquisition of start-up capital assets. At December 31, 2015, Westaim had provided funding of \$1,832 pursuant to the Funding Agreement, \$584 to Arena Finance and \$340 to Arena Origination for operational start-up costs, \$299 to Arena Investors for acquiring capital assets, and \$609 for operational start-up costs indirectly incurred by Westaim (through WCA). The costs related to Arena Finance and Arena Origination were reflected in the unrealized loss on investments in private entities as part of the fair value determination of these entities at December 31, 2015. The funding to Arena Investors of \$299 was included in its assets at December 31, 2015, consisting of \$97 in capital assets and \$202 in restricted cash relating to a lease security deposit. The operational start-up costs of \$609 incurred indirectly by Westaim (through WCA) were included in the Company's professional fees in the consolidated statements of profit and other comprehensive (loss) income for the year ended December 31, 2015.

Transaction costs (not part of the Funding Agreement noted above) relating to the Arena Transactions totaled \$1,158 and were reported as an expense by Arena Investors. The Company's 51% share of these costs amounting to \$591 was reflected in share of losses in associates in the consolidated statements of profit and other comprehensive (loss) income for the year ended December 31, 2015.

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5 Investments in Private Entities and Associates (continued)

INVESTMENTS IN PRIVATE ENTITIES

The Company's investments in private entities are classified as FVTPL and are carried at fair value in the consolidated statements of financial position. Changes in fair value are reported under "Net results of investments" in the consolidated statements of profit and other comprehensive (loss) income.

The table below summarizes the fair value hierarchy under which the Company's investments in private entities are valued. Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities. Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs). Inputs are considered as observable if they are developed using market data, such as publicly available information about actual events or transactions, and that reflect the assumption that market participants would use when pricing the asset or liability.

The Company's investments in private entities are as follows:

As at December 31, 2015	Fair value	Level 1	Level 2	Level 3
Investments in private entities:				
- HIIG Partnership	\$ 146,066	\$ -	\$ -	\$ 146,066
- Arena Finance	143,082	-	-	143,082
- Arena Origination	32,985	-	-	32,985
	<u>\$ 322,133</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 322,133</u>

As at December 31, 2014 (restated)	Fair value	Level 1	Level 2	Level 3
Investments in private entities:				
- HIIG Partnership	\$ 93,670	\$ -	\$ -	\$ 93,670

Changes in investments in private entities included in Level 3 of the fair value hierarchy are as follows:

Year ended December 31, 2015	Opening balance	Additions - Equity	Additions - Debt	Unrealized gain (loss)	Ending balance
Investments in private entities:					
- HIIG Partnership	\$ 93,670	\$ 50,637	\$ -	\$ 1,759	\$ 146,066
- Arena Finance	-	146,585	-	(3,503)	143,082
- Arena Origination	-	17,340	17,000	(1,355)	32,985
	<u>\$ 93,670</u>	<u>\$ 214,562</u>	<u>\$ 17,000</u>	<u>\$ (3,099)</u>	<u>\$ 322,133</u>

Year ended December 31, 2014 (restated)	Opening balance	Additions - Equity	Unrealized gain	Ending Balance
Investments in private entities:				
- HIIG Partnership	\$ -	\$ 75,712	\$ 17,958	\$ 93,670

There were no transfers between any levels during the years ended December 31, 2015 or 2014. The Company recorded an unrealized loss on investments in private entities of \$3,099 in the year ended December 31, 2015 and an unrealized gain on investments in private entities of \$17,958 in the year ended December 31, 2014.

Investment in Houston International Insurance Group, Ltd.

The Company owns a significant interest in HIIG, through the HIIG Partnership, an Ontario limited partnership managed by HIIG GP. HIIG is a U.S. based diversified specialty insurance company providing coverage primarily in the United States but also globally for certain risks.

The HIIG Partnership exercises control over HIIG and its insurance subsidiaries through its ownership of 75.4% of the issued and outstanding common shares of HIIG ("HIIG Shares") at December 31, 2015. Westaim is also considered to exercise control over HIIG and its insurance subsidiaries as HIIG GP, a wholly-owned subsidiary of Westaim, is the general partner of the HIIG Partnership. The amount of dividends paid by the insurance subsidiaries of HIIG to HIIG may be subject to restrictions imposed by the insurance regulators in the United States, thereby limiting the amount of dividends HIIG can pay to its shareholders, including the HIIG Partnership. Payment of dividends from HIIG to the HIIG Partnership may also be restricted as a result of covenants in credit facilities entered into by HIIG from time to time.

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5 Investments in Private Entities and Associates (continued)

(i) Initial HIIG Acquisition

On July 31, 2014, the Company used a portion of the proceeds raised through several private placement transactions (described in note 9) to purchase Class A Units of the HIIG Partnership ("HIIG Partnership Units") and the HIIG Partnership (together with funds committed by other investors in the HIIG Partnership) completed the acquisition (the "Initial HIIG Acquisition") of approximately 70.8% of HIIG Shares for an aggregate purchase price of \$138,683. The Company's investment in the HIIG Partnership at closing on July 31, 2014 was \$75,712, representing a 53.3% ownership interest in the HIIG Partnership.

The Company incurred and expensed \$3,494 in transaction and related costs in 2013 and 2014 in connection with the Initial HIIG Acquisition, and \$2,500 was reimbursed by HIIG and \$374 was reimbursed by the HIIG Partnership in 2014. The reimbursed amounts were recorded as an offset to professional fee expense in the year ended December 31, 2014.

After the closing of the Initial HIIG Acquisition and prior to December 31, 2014, certain HIIG Shares were issued to HIIG management and employees in accordance with their stock incentive plans. As a result, the HIIG Partnership's ownership of HIIG was reduced from 70.8% upon closing, to 69.0% at December 31, 2014.

(ii) Additional HIIG Acquisition

On January 14, 2015, the HIIG Partnership raised \$70,000 through the sale of additional HIIG Partnership Units. In connection with the offering, the Company acquired additional HIIG Partnership Units for \$50,637. The proceeds from this offering were used to subscribe for additional HIIG Shares (the "Additional HIIG Acquisition") in order to fund (i) the purchase by HIIG, through HIIG Underwriters Agency, Inc., of all of the assets of the underwriting business operating as "Elite Underwriting Services", a division of U.S. based Elite Brokerage Services, Inc., (ii) an additional capital contribution to HIIG's subsidiary insurance companies and (iii) general corporate purposes.

On March 30, 2015, a new investor acquired HIIG Partnership Units for \$1,000. At December 31, 2015, the HIIG Partnership owned 75.4% of the HIIG Shares and the Company owned 58.5% of the HIIG Partnership Units, representing an approximate 44.1% indirect ownership interest in HIIG.

(iii) FVTPL

The investment in HIIG, through the HIIG Partnership, is accounted for at FVTPL. The fair value of the Company's investment in the HIIG Partnership was determined to be \$146,066 at December 31, 2015 and \$93,670 at December 31, 2014.

Management used net asset value as the primary valuation technique to arrive at the fair value of the Company's investment in the HIIG Partnership at December 31, 2015. The fair value of the HIIG Partnership of \$146,066 at December 31, 2015 was derived from a valuation of the HIIG Shares reflected in the fair value of the HIIG Partnership Units and other net assets of the HIIG Partnership at December 31, 2015. The carrying values of the HIIG Partnership's other net assets, consisting of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, approximate their fair values due to the short maturity of these financial instruments. In valuing the HIIG Shares, using net asset value as the primary valuation technique, fair value was determined to be 1.0x the adjusted book value of HIIG, or 100% of the adjusted HIIG stockholders' equity, as at December 31, 2015. Management determined that this valuation technique produced the best indicator of the fair value of the HIIG Shares as at December 31, 2015 as it was also used in prior HIIG share transactions with arm's length third parties. This same basis of valuation was used to determine the fair value of the Company's investment in the HIIG Partnership of \$93,670 at December 31, 2014 and to price the Additional HIIG Acquisition completed in January 2015.

The significant unobservable inputs used in the valuation were the multiple applied and the adjusted stockholders' equity of HIIG as at December 31, 2015. Management applied a multiple of 1.0x as this was also the multiple used to price significant prior HIIG treasury transactions since July 31, 2014. The adjusted book value of HIIG as at December 31, 2015 reflected 100% of HIIG stockholders' equity obtained from the audited financial statements of HIIG for the year ended December 31, 2015 prepared in accordance with United States generally accepted accounting principles ("US GAAP"), adjusted for a reclassification of a receivable from employees relating to their purchase of HIIG Shares. The adjusted book value contained certain significant judgments and estimates made by management of HIIG including in relation to the provision for loss and loss adjustment expenses (LAE) and the valuation of goodwill and intangible assets.

Management considers other secondary valuation methodologies as a way to ensure no significant contradictory evidence exists that would suggest an adjustment to the fair value as determined by the primary valuation methodology used. In order to do this, the Company may also consider valuation techniques including the discounted cash flow method, the review of comparable arm's length transactions involving other specialty insurance companies and comparable publicly traded company valuations. For greater certainty, these secondary valuation techniques were not used to arrive at the fair value of the Company's investment in the HIIG Partnership at the end of each reporting period.

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5 Investments in Private Entities and Associates (continued)

In the year ended December 31, 2015, the Company recorded an unrealized gain on its investment in the HIIG Partnership of \$18,457. The unrealized gain reflected an upward adjustment in the fair value of the investment in the HIIG Partnership, resulting from positive operating results of HIIG of \$1,759 as well as a foreign exchange gain of \$16,698. The foreign exchange gain resulted from a strengthening of the US\$ against the C\$ during the eight months ended August 31, 2015, prior to the adoption of the US\$ as the Company's functional currency on August 31, 2015.

In the year ended December 31, 2014, the Company recorded an unrealized gain on its investment in the HIIG Partnership of \$23,261, consisting of an unrealized gain of \$9,509 recognized upon the Initial HIIG Acquisition on July 31, 2014 as the purchase of HIIG Shares from certain shareholders of HIIG was completed at an approximately 29% discounted purchase price, and an additional unrealized gain of \$8,449 recognized in the period from August 1 to December 31, 2014 resulting from an increase in the value of HIIG, as well as a foreign exchange gain of \$5,303 resulting from a strengthening of the US\$ against the C\$ during the period from July 31 to December 31, 2014.

For purposes of assessing the sensitivity of HIIG stockholders' equity on the valuation of the Company's investment in the HIIG Partnership, if HIIG stockholders' equity at December 31, 2015 was higher by \$1,000, the fair value of the Company's investment in the HIIG Partnership at December 31, 2015 would have increased by approximately \$441 (December 31, 2014 - \$368) and the unrealized gain on investments in private entities for the year ended December 31, 2015 would have increased by approximately \$441 (2014 - \$368). If HIIG stockholders' equity at December 31, 2015 was lower by \$1,000, an opposite effect would have resulted.

(iv) HIIG MSA

The Company, through its wholly-owned subsidiary, HIIG GP, entered into a management services agreement (the "HIIG MSA") with HIIG commencing upon closing on July 31, 2014, whereby HIIG GP is entitled to receive from HIIG an advisory fee of \$1,000 annually for the first three years of the agreement and \$500 annually for two years thereafter relating to advisory services provided under the HIIG MSA. The Company earned fees of \$1,000 and \$417 under the HIIG MSA in the years ended December 31, 2015 and 2014, respectively.

Investment in Arena Finance and Arena Origination

The Company owns a 100% interest in Arena Finance, a specialty finance company, and Arena Origination, a specialty finance origination company, that form part of the Arena Group. Through its ownership of all of the common shares of Arena Finance and Arena Origination, Westaim exercises control over each of these businesses.

(i) Investment in Arena Finance and Arena Origination

On August 31, 2015, the Company completed the Arena Transactions and capitalized Arena Finance in the amount of \$146,585 in the form of equity and Arena Origination in the amount of \$34,340, consisting of \$17,340 in the form of equity and \$17,000 in the form of a term loan.

The loan to Arena Origination has a seven year term, is unsecured and carries interest at a rate of 7.25% per annum, with interest due on January 1 of each year during the term. In the year ended December 31, 2015, the Company received interest of \$411, representing interest earned on the loan for the period from September 1 to December 31, 2015.

In connection with the Arena Transactions, on August 31, 2015, Arena Finance and BP LLC entered into a limited liability company agreement in respect of AFHC (the "AFHC LLC Agreement") setting forth each of Arena Finance's and BP LLC's respective rights and obligations as members of AFHC. Under the AFHC LLC Agreement, BP LLC was issued Class M units of AFHC which are convertible into Class A units, entitling BP LLC to acquire an equity interest of up to 20% (16.67% on a fully-diluted basis) in AFHC. The Class M units vest equally over 5 years from August 31, 2015 and carry pre-determined escalating conversion prices which are in excess of the price paid by the Company for its investment in AFHC (through Arena Finance). A similar agreement was entered into between Arena Origination and BP LLC with respect to AOC.

(ii) FVTPL

The investments in Arena Finance and Arena Origination are accounted for at FVTPL and are included in investments in private entities in the consolidated statements of financial position. The fair values of the Company's investments in Arena Finance and Arena Origination were determined to be \$143,082 and \$32,985, respectively, at December 31, 2015.

Management used net asset value as the primary valuation technique and determined that 100% (or 1.0x) the shareholder's equity of Arena Finance at December 31, 2015 in the amount of \$143,082 approximated the fair value of the Company's investment in Arena Finance; and 100% (or 1.0x) the shareholder's equity of Arena Origination at December 31, 2015 in the amount of \$15,985 and the fair value of the term loan of \$17,000, totaling \$32,985, approximated the fair value of the Company's investment in Arena Origination. Management determined that this valuation technique produced the best indicator of the fair value of Arena Finance and Arena Origination at December 31, 2015.

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5 Investments in Private Entities and Associates (continued)

The significant unobservable inputs used in the valuation of Arena Finance and Arena Origination at December 31, 2015 were the shareholder's equity of each of the entities at December 31, 2015 and the multiple applied. Management applied a multiple of 1.0x as the shareholder's equity of Arena Finance and Arena Origination approximated the net assets of the respective entity which were carried at fair value at December 31, 2015, as described above. The shareholder's equity of Arena Finance and Arena Origination at December 31, 2015 was obtained from the audited financial statements of Arena Finance and the unaudited financial statements of Arena Origination for the period from commencement of operations to December 31, 2015 prepared in accordance with IFRS and US GAAP, respectively. The shareholder's equity contained certain significant judgments and estimates made by management of Arena Finance and Arena Origination, including the determination of the fair value of their subsidiaries' investments as noted above.

The carrying values of cash and cash equivalents, short-term investments, accounts receivable, accounts payable and accrued liabilities of Arena Finance and Arena Origination and their subsidiaries approximate their fair values due to the short maturity of these financial instruments. The subsidiaries of Arena Finance and Arena Origination also make investments in equity securities, corporate bonds, private loans and derivative instruments. When an investment is acquired, its fair value is generally the value of the consideration paid or received. Subsequent to initial recognition, the subsidiaries of Arena Finance and Arena Origination determine the fair value of the investments using the following valuation techniques and inputs:

- Equity securities that are actively traded on a securities exchange are valued based on quoted prices from the applicable exchange. Equity securities traded on inactive markets and certain foreign equity securities are valued using significant other observable inputs, if available, and include broker quotes or evaluated price quotes received from pricing services. If the inputs are not observable or timely, the values of these securities are determined using valuation methodologies for Level 3 investments described below.
- Corporate bonds are valued using various inputs and techniques, which include third-party pricing services, dealer quotations, and recently executed transactions in securities of the issuer or comparable issuers. Adjustments to individual bonds can be applied to recognize trading differences compared to other bonds issued by the same issuer. Values for high-yield bonds are based primarily on pricing services and dealer quotations from relevant market makers. The dealer quotations received are supported by credit analysis of the issuer that takes into consideration credit quality assessments, daily trading activity, and the activity of the underlying equities, listed bonds, and sector-specific trends. If these inputs are not observable or timely, the values of corporate bonds and convertible bonds are determined using valuation methodologies for Level 3 described below.
- Private loans are valued using valuation methodologies for Level 3 investments such as transaction pricing and discounted cash flows, with the discount rate being the primary unobservable input.
- Listed derivative instruments, such as listed options, that are actively traded on a national securities exchange are valued based on quoted prices from the applicable exchange. Derivative instruments that are not listed on an exchange are valued using pricing inputs observed from actively quoted markets. If the pricing inputs used are not observable and/or the market for the applicable derivative instruments is inactive, the values of the derivative instruments are determined using valuation methodologies for Level 3 investments described below.
- Where pricing inputs are unobservable and there is little, if any, market activity for Level 3 investments, fair values are determined by management of the subsidiaries of Arena Finance and Arena Origination using valuation methodologies that consider a range of factors, including but not limited to the price at which the investment was acquired, the nature of the investment, local market conditions, trading values on public exchanges for comparable securities, current and projected operating performance and financing transactions subsequent to the acquisition of the investment. The inputs into the determination of fair value may require significant judgment by management of the subsidiaries of Arena Finance and Arena Origination. Due to the inherent uncertainty of these estimates, these values may differ materially from the values that would have been used had a ready market for these investments existed.

Management considers other secondary valuation methodologies as a way to ensure no significant contradictory evidence exists that would suggest an adjustment to the fair value as determined by the primary valuation methodology used. In order to do this, the Company may also consider valuation techniques including the review of comparable arm's length transactions involving other specialty finance companies and comparable publicly traded company valuations. For greater certainty, these secondary valuation techniques were not used to arrive at the fair values of the Company's investments in Arena Finance and Arena Origination at the end of each reporting period.

In the year ended December 31, 2015, the Company recorded an unrealized loss on its investments in Arena Finance and Arena Origination of \$3,503 and \$1,355, respectively, resulting primarily from costs incurred for operational start-up and other ongoing operating expenses of the Arena Group allocated to each company, offset in part by investment income earned in the period.

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5 Investments in Private Entities and Associates (continued)

For purposes of assessing the sensitivity of the shareholder's equity of Arena Finance and Arena Origination on the valuation of the Company's investment in these entities which are wholly-owned by the Company, if the shareholder's equity of either Arena Finance or Arena Origination at December 31, 2015 was higher by \$1,000, the fair value of the Company's investment in the respective entity at December 31, 2015 would have increased by \$1,000 and the unrealized gain on investments in private entities for the year ended December 31, 2015 would have increased by approximately \$1,000. If the shareholder's equity of either Arena Finance or Arena Origination at December 31, 2015 was lower by \$1,000, an opposite effect would have resulted.

INVESTMENTS IN ASSOCIATES

The Company's investments in associates consist of its investment in Arena Investors, including the Company's indirect investment in WAHII (through WCA), ASOF-ON GP (through WCA), and its direct investment in ASOF-OFF II GP. WAHII is the sole limited partner of Arena Investors, LP, a limited partnership established under the laws of Delaware to carry on the third-party investment management business of the Arena Group.

In connection with the completion of the Arena Transactions, agreements were entered into between the Company (through WCA) and BP LLC in respect of WAHII and ASOF-ON GP and between Westaim and BP LLC in respect of ASOF-OFF II GP (the "Associate Agreements"). The Associate Agreements set forth the members' respective rights and obligations, as well as BP LLC's right to participate in distributions of the capital and profits of the Associates. BP LLC's initial profit sharing percentage is 49%, and under the Associate Agreements, BP LLC has the right to earn-in up to 75% equity ownership percentage in the Associates and share up to 75% of the profits of the Associates based on achieving certain assets under management (AUM) and cashflow (measured by the margin of trailing twelve months earnings before income taxes, depreciation and amortization to trailing twelve month revenues) thresholds in accordance with the Associate Agreements.

The Company concluded that based on the contractual rights and obligations under the Associate Agreements, the Company exercises significant influence over the Associates, including through WCA. The Company's investments in the Associates are therefore accounted for using the equity method in accordance with IAS 28.

At December 31, 2015, the Company had invested nominal capital in ASOF-OFF II GP. The following summarized financial information, which is in compliance with IFRS, represents amounts shown in the financial statements of the Associates:

As at December 31, 2015	WAHII	ASOF-ON GP	Total
Financial information of Associates:			
Assets	\$ 4,241	\$ 4	\$ 4,245
Liabilities	(6,292)	(4)	(6,296)
Net liabilities	\$ (2,051)	\$ -	\$ (2,051)
Company's share (51%)	\$ (1,046)	\$ -	\$ (1,046)
Advances to Associates	4,037	-	4,037
Carrying amount of the Company's interest in Associates	\$ 2,991	\$ -	\$ 2,991
Year ended December 31, 2015			
Financial information of Associates:			
Fee income	\$ 3,112	\$ 4	\$ 3,116
Operating expenses	(5,163)	(4)	(5,167)
Loss and other comprehensive loss	\$ (2,051)	\$ -	\$ (2,051)
Company's share of losses of Associates (51%)	\$ 1,046	\$ -	\$ 1,046

At December 31, 2015, the carrying amount of the Company's investments in the Associates was \$2,991. In the year ended December 31, 2015, the total of the Company's 51% share of losses of the Associates of \$1,046 was reported under "Net results of investments" in the consolidated statements of profit and other comprehensive (loss) income.

The Westaim Corporation
Notes to Consolidated Financial Statements
For the years ended December 31, 2015 and 2014

(Currency amounts in thousands of United States dollars except per share data, unless otherwise indicated)

6 Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities consist of the following:

	December 31, 2015	December 31, 2014 (restated)
Liabilities related to:		
RSUs	\$ 3,809	\$ 2,516
DSUs	630	298
Arena operational start-up costs	220	-
Other accounts payable and accrued liabilities	862	819
Ending balance	\$ 5,521	\$ 3,633

7 Site Restoration Provision

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 ultimate environmental costs are uncertain as they are dependent on the future use of the land and future laws and regulations. Changes to the site restoration provision are as follows:

	Year ended December 31, 2015	Year ended December 31, 2014 (restated)
Opening balance	\$ 3,456	\$ 2,086
Changes due to:		
Estimates of future expenditures	489	67
Inflation	151	279
Passage of time and discount rates	374	1,266
Exchange adjustment	(571)	(242)
Ending balance	\$ 3,899	\$ 3,456

Estimates of future expenditures could change as a result of periodic reviews of the underlying assumptions supporting the provision, including remediation costs and regulatory requirements.

Cash flows are estimated to take place over the next 150 years, with the majority to take place later than 50 years after December 31, 2015. To calculate the site restoration provision, the estimated cash outflows were adjusted for inflation and discounted to December 31, 2015. For inflation and discounting calculations, all cash flows later than 50 years are treated as if the cash flow would occur at 100 years. Inflation is estimated at 1.72% (December 31, 2014 - 1.63%) per annum over the next 100 years. Discount rates are based on risk free rates which range from 0.5% to 2.1% (December 31, 2014 - 1.0% to 2.3%) over the next 30 years. The 30-year risk free rate is used for discounting cash flows that are estimated to occur later than 30 years after December 31, 2015.

Future reimbursements of costs resulting from indemnifications provided to the Company by previous owners of the industrial sites have not been recognized in these consolidated financial statements. Future reimbursements will be recorded when received.

8 Commitments and Contingent Liabilities

- (a) Under the Funding Agreement (see note 5), Westaim agreed to provide funding of start-up costs to the Arena Group of up to \$4,300. At December 31, 2015, Westaim had provided funding of \$1,832 pursuant to the Funding Agreement.
- (b) In connection with the sale of the operations and assets of the Company's former subsidiary NUCRYST Pharmaceuticals Corp. ("Nucryst") in 2009, Nucryst agreed to indemnify the purchaser against certain liabilities or losses as described in the asset purchase agreement to an aggregate maximum of \$11,000, subject to certain exclusions. The Company also agreed to indemnify the purchaser and the purchaser's directors, officers and employees, for an indefinite period, from certain environmental liabilities and costs relating to the premises formerly leased by Nucryst in Fort Saskatchewan, Alberta. No claims have been made under, and no amounts have been accrued related to, these indemnities.
- (c) The Company has operating leases in Toronto with remaining lease terms of up to 4 years. At December 31, 2015, the Company had a total commitment of \$1,145 for future occupancy cost payments including payments due not later than one year of \$273 and payments due later than one year but not later than four years of \$872.

The Westaim Corporation
Notes to Consolidated Financial Statements
For the years ended December 31, 2015 and 2014

(Currency amounts in thousands of United States dollars except per share data, unless otherwise indicated)

8 Commitments and Contingent Liabilities (continued)

- (d) The Company may be involved in legal matters that arise from time to time in the ordinary course of the Company's business. At this time, the Company is not aware of any legal matters of this type that are believed to be material to the Company's results of operations, liquidity or financial condition.

9 Share Capital

The Company's authorized share capital consists of an unlimited number of common shares with no par value, Class A preferred shares with no par value and Class B preferred shares with no par value. Changes to the Company's share capital are as follows:

	Year ended December 31, 2015		Year ended December 31, 2014	
	Number	Stated Capital	Number	Stated Capital (restated)
Common shares				
Opening balance	70,297,342	\$ 210,404	13,902,937	\$ 78,524
Issued	72,889,376	179,150	56,394,405	137,678
Share issuance costs	-	(9,904)	-	(6,751)
Recovery of share issuance costs	-	2,532	-	953
Ending balance	143,186,718	\$ 382,182	70,297,342	\$ 210,404

No shares of the Company are held by the Company, and there were no Class A preferred shares or Class B preferred shares outstanding at December 31, 2015 and 2014.

Equity Financing Related to HIIG

On April 23, 2014, the Company completed the sale, on an underwritten private placement basis, of 47,180,380 subscription receipts (the "2014 Subscription Receipts") of the Company at a price of C\$2.65 per 2014 Subscription Receipt (the "2014 Offering"). The Company also completed a concurrent non-brokered private placement of 3,815,005 2014 Subscription Receipts on the same terms as the 2014 Offering (the "2014 Concurrent Private Placement"). Investors in the 2014 Concurrent Private Placement included primarily members of the Company's Board of Directors and management team. Concurrent with the closing of the 2014 Offering and the 2014 Concurrent Private Placement, the Company also entered into irrevocable subscription agreements with certain funds and co-investors (collectively, the "Investors") for the subscription of 5,399,020 common shares of the Company at a price of C\$2.65 per share (the "Additional Subscription"). Each 2014 Subscription Receipt entitled the holder to receive, for no additional consideration, one common share of the Company, and in July 2014, all subscription receipts were exchanged for common shares.

Aggregate gross proceeds of the 2014 Offering, the 2014 Concurrent Private Placement and the Additional Subscription to the Company, before share issuance costs, amounted to \$137,678. The Company used \$75,712 to purchase HIIG Partnership Units to enable the HIIG Partnership (together with funds committed by other investors in the HIIG Partnership) to satisfy the cash consideration payable by the HIIG Partnership in connection with the Initial HIIG Acquisition. See note 5 for additional information on the investment in HIIG. The Company was reimbursed \$841 by HIIG and \$112 by the HIIG Partnership in share issuance costs in 2014 and the total reimbursed amount of \$953 was recorded as an increase in the Company's share capital in the year ended December 31, 2014.

The proceeds of the 2014 Offering, the 2014 Concurrent Private Placement and the Additional Subscription to the Company were \$131,880, net of share issuance costs of \$5,798.

On February 25, 2015, the Company received from HIIG a further reimbursement of \$2,532 in share issuance costs in connection with the Company's 2014 Offering. The amount was recorded as an increase in the Company's share capital in the year ended December 31, 2015.

Equity Financing Related to the Arena Transactions

In order to provide funding to Arena Finance and Arena Origination, and capitalize and fund the start-up costs of the Arena Group (see note 5), on May 28, 2015 the Company entered into an agreement (the "Underwriting Agreement") with a syndicate of underwriters (collectively, the "Underwriters"), pursuant to which the Underwriters agreed to purchase, on a private placement basis, 61,540,000 special warrants of the Company (the "Special Warrants") at a price of C\$3.25 per Special Warrant (the "2015 Offering"). The Company also granted the Underwriters an option (the "Underwriters' Option") to arrange for the purchase of up to an additional 9,231,000 Special Warrants at a price of C\$3.25 per Special Warrant.

The Westaim Corporation
Notes to Consolidated Financial Statements
For the years ended December 31, 2015 and 2014

(Currency amounts in thousands of United States dollars except per share data, unless otherwise indicated)

9 Share Capital (continued)

Each Special Warrant was deemed to be exercisable into one subscription receipt of Westaim (each, a "2015 Subscription Receipt"), without further consideration or action, and each 2015 Subscription Receipt entitled the holder to receive upon the deemed conversion thereof one common share of Westaim subject to adjustment, without further consideration or action.

On May 28, 2015, the Company completed the 2015 Offering and an aggregate of 65,296,993 Special Warrants were sold pursuant to the Underwriting Agreement. These Special Warrants sold included the partial exercise of the Underwriters' Option. An additional 6,823,152 Special Warrants were sold pursuant to a concurrent non-brokered private placement of Special Warrants on the same terms as the 2015 Offering (the "2015 Concurrent Private Placement"). The 2015 Concurrent Private Placement included subscriptions by members of the Company's Board of Directors and management team.

The gross proceeds from the sale of the Special Warrants, less an amount equal to 50% of the Underwriters' commission and certain costs and expenses of the Underwriters, were held in escrow, pending the satisfaction or waiver of certain escrow release conditions.

Concurrent with closing of the 2015 Offering and the 2015 Concurrent Private Placement, the Company entered into a subscription agreement with Daniel B. Zwirn, pursuant to which Mr. Zwirn irrevocably agreed to subscribe for 769,231 common shares of Westaim at a price of C\$3.25 per share (the "Zwirn Subscription").

On August 31, 2015, the Company satisfied the escrow release conditions under the 2015 Offering and the 2015 Concurrent Private Placement and an aggregate of 72,120,145 additional common shares of the Company were issued for aggregate gross proceeds of \$177,259 upon the deemed conversion of the 2015 Subscription Receipts issued on the deemed exercise of the Special Warrants. The Company used the proceeds of the 2015 Offering, the 2015 Concurrent Private Placement, and cash on hand to capitalize Arena Finance and Arena Origination in the amounts of \$146,585 and \$34,340, respectively. See note 5 for additional information on the Arena Transactions. The Company also completed the Zwirn Subscription and an additional 769,231 common shares of the Company were issued to Mr. Zwirn on August 31, 2015 for aggregate gross proceeds of approximately \$1,891. At August 31, 2015 and December 31, 2015, the Company had a total of 143,186,718 common shares issued and outstanding. There were no Special Warrants outstanding at December 31, 2015.

The proceeds from the 2015 Offering, the 2015 Concurrent Private Placement and the Zwirn Subscription to the Company was \$169,246, net of share issuance costs of \$9,904.

10 Share-based Compensation

At the annual and special meeting of the shareholders of the Company held on June 19, 2014 (the "2014 Meeting"), the Company's shareholders approved an amendment to the Company's amended and restated long-term equity incentive plan (the "Incentive Plan") to adopt substantially the form of long-term incentive plan of the Company in place prior to the Company's shares being listed on the TSXV, with certain exceptions. The amendments included (a) providing for grants of RSUs, stock appreciation rights and other share-based awards in addition to DSUs, (b) providing the Board of Directors with the discretion of establishing a share purchase program; and (c) removing the ability of the Company to grant stock options under the Incentive Plan. Also at the 2014 Meeting, the shareholders of the Company approved the adoption of a stand-alone incentive stock option plan (the "Option Plan") in accordance with the policies of the TSXV. At the most recent annual and special meeting of the shareholders of the Company held on May 15, 2015, the Company's shareholders confirmed and approved the Option Plan, as required by the TSXV on an annual basis.

Unless increased in accordance with the terms of the plan or as may be approved by the TSXV and the shareholders of the Company, from time to time, the maximum number of common shares which may be issued under the Incentive Plan was fixed at 7,042,150. On March 31, 2016, the Company's Board of Directors approved amendments to the Incentive Plan which would, among other things, increase the maximum number of common shares which may be issued under the Incentive Plan to 14,318,671. Such amendments are subject to approval of the shareholders of the Company at the annual and special meeting of shareholders to be held on May 12, 2016. The Option Plan is a "rolling plan" which provides that the aggregate number of common shares which may be reserved for issuance under the Option Plan is limited to not more than 10% of the aggregate number of common shares outstanding. However, each of the Incentive Plan and the Option Plan provide that under no circumstances shall there be common shares issuable under such plan, together with all other security-based compensation arrangements of the Company, which exceed 10% of the aggregate number of common shares outstanding.

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For the years ended December 31, 2015 and 2014

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10 Share-based Compensation (continued)

Stock Options - Changes to the number of stock options are as follows:

	Year ended December 31, 2015		Year ended December 31, 2014	
	Number	Weighted Average Exercise Price	Number	Weighted Average Exercise Price
Common share stock options				
Opening balance	5,000	C\$ 158.80	6,000	C\$165.25
Expired	(2,000)	C\$ 181.00	(1,000)	C\$197.50
Ending balance	3,000	C\$ 144.00	5,000	C\$158.80

All stock options outstanding are exercisable, at prices ranging from C\$61.50 to C\$309.00, and at December 31, 2015 had an average remaining contractual life of 0.8 year. There was no compensation expense relating to options in the years ended December 31, 2015 and 2014.

Restricted Share Units - RSUs vest on specific dates and are payable when vested with either cash or common shares of the Company, at the option of the holder. In certain circumstances such as a change of control of the Company or the sale of substantially all of the assets of the Company, RSUs vest immediately.

On November 14, 2014, an aggregate of 2,375,000 RSUs were granted to certain officers, employees and consultants. The vesting dates of the RSUs are as follows: 783,750 (33%) units on December 31, 2014, 522,500 units (22%) on May 31, 2015, remaining 1,068,750 units (45%) evenly over 24 months, with the first vesting on June 30, 2015. At December 31, 2015, 1,617,968 RSUs (68.1%) had vested.

Changes to the number of RSUs are as follows:

	Year ended December 31	
	2015	2014
Opening balance	2,375,000	-
Granted	-	2,375,000
Exercised	(165,437)	-
Ending balance	2,209,563	2,375,000

Compensation expense relating to RSUs was \$2,274 and \$2,570 for the years ended December 31, 2015 and 2014, respectively. During the year ended December 31, 2015, 165,437 RSUs were exercised with a cash payment of C\$2.78 per RSU and the RSU liability was correspondingly reduced by \$336. At December 31, 2015, a liability of \$3,809 (December 31, 2014 - \$2,516) had been accrued with respect to outstanding RSUs in the consolidated statements of financial position.

Deferred Share Units - DSUs are issued to non-executive directors of the Company in lieu of director fees, at their election, at the market value of the Company's common shares at the date of grant and are paid out in cash no later than the end of the calendar year following the year the participant ceases to be a director.

Changes to the number of DSUs are as follows:

	Year ended December 31	
	2015	2014
Opening balance	113,200	113,200
Granted	206,265	-
Ending balance	319,465	113,200

On February 2, 2015, 91,138 DSUs were issued at a price of C\$2.99 to settle a liability of \$235 relating to director fees accrued at December 31, 2014. In the year ended December 31, 2015, a total of 115,127 additional DSUs were issued as payment of director fees (23,998 DSUs at a price of C\$3.36, 24,446 DSUs at a price of C\$3.26, 33,484 DSUs at a price of C\$2.80 and 33,199 DSUs at a price of C\$2.73). Compensation expense relating to DSUs was \$419 and \$97 for the years ended December 31, 2015 and 2014, respectively. At December 31, 2015, a liability of \$630 (December 31, 2014 - \$298) had been accrued with respect to outstanding DSUs in the consolidated statements of financial position.

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11 Related Party Transactions

Related parties include key management personnel, close family members of key management personnel and entities which are, directly or indirectly, controlled by, jointly controlled by or significantly influenced by key management personnel or their close family members. Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Company, directly or indirectly, and include executive officers and current and former directors of the Company.

Compensation expenses related to the Company's key management personnel are as follows:

	Year ended December 31	
	2015	2014 (restated)
Salaries and benefits	\$ 1,918	\$ 2,065
Share-based compensation	2,365	2,315
	\$ 4,283	\$ 4,380

In the years ended December 31, 2015 and 2014, fees of \$141 and \$53, respectively, were paid to Hartford Consulting, Inc. (the "Consultant"), a company owned by William R. Andrus, a director of HIIG, for insurance industry related consulting services. Compensation expense relating to RSUs issued to the Consultant for the years ended December 31, 2015 and 2014 was \$171 and \$189, respectively, and the amounts were included in the consolidated statements of profit and other comprehensive (loss) income under share-based compensation expense. During the year ended December 31, 2015, the Consultant exercised 115,937 RSUs for a cash payment of C\$2.78 per RSU, or \$233. At December 31, 2015, a liability of \$76 (December 31, 2014 - \$185) had been accrued in the consolidated statements of financial position with respect to outstanding RSUs held by the Consultant.

On May 28, 2015, pursuant to the 2015 Concurrent Private Placement, 6,823,152 Special Warrants were sold at a price of C\$3.25 per Special Warrant to members of the Company's Board of Directors and management team, a shareholder of HIIG and members of the future Arena Group management team as well as to HIIG and certain HIIG subsidiaries for portfolio investment purposes, on terms equivalent to the other participants in the 2015 Concurrent Private Placement. See note 9 for additional information on the 2015 Concurrent Private Placement. On August 31, 2015, an aggregate of 6,823,152 additional common shares of the Company were issued under the 2015 Concurrent Private Placement upon the deemed conversion of the 2015 Subscription Receipts issued on the deemed exercise of the Special Warrants. The aggregate gross proceeds from the 2015 Concurrent Private Placement to the Company was \$16,770.

On August 31, 2015, the Company completed the Lantern Purchase (see note 4) and the Zwrn Subscription (see note 9), and 769,231 common shares of the Company were issued to Mr. Zwrn for aggregate gross proceeds of \$1,891.

An aggregate of 3,400,000 common shares were issued to certain directors and officers of the Company pursuant to the 2014 Concurrent Private Placement completed on July 29, 2014 at C\$2.65 per common share for aggregate gross proceeds of \$8,303, on terms equivalent to the other participants in the 2014 Concurrent Private Placement. See note 9 for additional information on the 2014 Concurrent Private Placement.

In the years ended December 31, 2015 and 2014, the Company earned fees from HIIG under the HIIG MSA of \$1,000 and \$417, respectively. See note 5 for additional information on the HIIG MSA.

On August 31, 2015, the Company provided \$17,000 in funding to Arena Origination in the form of an unsecured term loan (see note 5). In the year ended December 31, 2015, the Company received interest of \$411, representing interest earned on the loan for the period from September 1 to December 31, 2015.

In the year ended December 31, 2015, the Company received from HIIG a reimbursement of \$2,532 in share issuance costs in connection with the Company's 2014 Offering. The amount was recorded as an increase in the Company's share capital in the year ended December 31, 2015. In the year ended December 31, 2014, the Company was reimbursed \$841 by HIIG and \$112 by the HIIG Partnership in share issuance costs. The total reimbursed amount of \$953 was recorded as an increase in the Company's share capital in the year ended December 31, 2014.

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12 Income Taxes

Income taxes are recognized for deferred income taxes attributed to estimated differences between the financial statement carrying values of assets and liabilities and their respective income tax bases.

Deferred tax (liabilities)/assets recognized in profit or loss are as follows:

	Year ended December 31	
	2015	2014
Unrealized gain on investments in private entities	\$ (1,826)	\$ (2,990)
Non-capital loss carry-forwards	1,826	2,990
	\$ -	\$ -

As the realization of any related tax benefits is not probable, no deferred income tax assets have been recognized for the following:

	December 31, 2015	December 31, 2014
Non-capital loss carry-forwards	\$ 20,697	\$ 35,277
Capital loss carry-forwards	5,049	6,023
Deductible temporary differences	16,876	10,815
Corporate minimum tax credits	1,016	1,212
Investment tax credits	6,960	8,304

The unrecognized non-capital losses and investment tax credits will expire at various times to the end of 2035, as follows:

Non-capital losses by year of expiry:		Investment tax credits by year of expiry:	
2031	\$ 9,749	2016	\$ 694
2033	2,767	2017	2,342
2034	3,525	2018	642
2035	4,656	2019	694
	\$ 20,697	2020	595
		2021	464
		Beyond 2021	1,529
			\$ 6,960

The following is a reconciliation of income taxes calculated at the statutory income tax rate to the income tax expense included in the consolidated statements of profit and other comprehensive (loss) income:

	Years ended December 31	
	2015	2014 (restated)
Profit before income tax	\$ 7,640	\$ 17,740
Statutory income tax rate	26.5%	26.5%
Income taxes at statutory income tax rate	2,025	4,701
Variations due to:		
Non-taxable portion of unrealized gain on investments in private entities	(1,826)	(2,990)
Tax losses allocated from the HIIG Partnership	(25)	(13)
Non-deductible items	51	6
Difference between statutory and foreign tax rates	(320)	-
Unrecognized temporary differences	484	(11)
Recognized tax losses	(389)	(1,693)
Income tax expense	\$ -	\$ -

13 Earnings per Share

The Company had 3,000 stock options and 2,209,563 RSUs outstanding at December 31, 2015 and 5,000 stock options and 2,375,000 RSUs outstanding December 31, 2014. The stock options and RSUs were excluded in the calculation of diluted earnings per share for the years ended December 31, 2015 and 2014 as they were anti-dilutive.

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14 Capital Management

The Company's capital currently consists of common shareholders' equity. It may have different components in the future.

The Company's guiding principles for capital management are to maintain the stability and safety of the Company's capital for its stakeholders through an appropriate capital mix and a strong balance sheet.

The Company monitors the mix and adequacy of its capital on a continuous basis. The Company employs internal metrics. The capital of the Company is not subject to any restrictions. Units of the HIIG Partnership cannot be issued without the prior approval of the unitholders and, in connection with any such issuance, the holders of units have pre-emptive rights entitling them to purchase their pro rata share of any units that may be so issued.

15 Financial Risk Management

The Company is exposed to a number of risks due to its business operations. The Company's consolidated statement of financial position at December 31, 2015 consists of short-term financial assets and financial liabilities with maturities of less than one year, investments in private entities and associates and the site restoration provision. The most significant identified risks which arise from holding financial instruments include credit risk, liquidity risk, currency risk, interest rate risk and equity risk. The Company has a comprehensive risk management framework to monitor, evaluate and manage the risks assumed in conducting its business.

Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Company. The Company's credit risk arises primarily from its cash and cash equivalents. The Company manages such risk by maintaining bank accounts with a Schedule 1 bank in Canada and a major bank in the United States.

Liquidity risk

Liquidity risk is the risk that the Company may not be able to generate sufficient cash resources to settle its obligations in full as they fall due or can only do so on terms that are materially disadvantageous.

The Company has made investments in private entities and associates which do not typically have an active market. Private investment transactions can be highly structured and the Company takes measures, where possible, to create defined liquidity events and as part of its strategy, the Company has sought to create or accelerate such liquidity events. However, such liquidity events are rarely expected in the first two or three years of making an investment and may not be realized as expected.

At December 31, 2015, the Company had no debt and its financial assets, excluding investments in private entities and associates, were higher than its financial liabilities, resulting in minimal liquidity risk. At December 31, 2015, the Company's short-term financial liabilities amounted to \$1,082.

Currency risk

The Company maintains certain cash balances in C\$ and has other C\$ denominated monetary assets and liabilities. A 10% strengthening of the C\$ against the US\$ would have reduced the foreign exchange gain for the year ended December 31, 2015 by approximately \$495. A similar weakening of the C\$ would have resulted in an opposite effect.

The Company has not entered into any hedging with respect to currencies.

Interest rate risk

The Company is subject to nominal interest rate risk on its cash and cash equivalents. The Company does not believe that the results of operations or cash flows would be affected to any significant degree by a sudden change in market interest rates relative to interest rates on its cash and cash equivalents. The Company is subject to interest rate risks indirectly as a result of its investments in Arena Finance and Arena Origination as certain underlying investments made by Arena Finance and Arena Origination are sensitive to interest rate movements. The effect of this risk on the Company's results of operations and cash flows in 2015 was nominal.

Equity risk

There is no active market for the Company's investments in HIIG and the Arena Group. The Company holds these investments for strategic and not trading purposes. As such, the Company's exposure to equity risk is nominal.

SHAREHOLDER INFORMATION

BOARD OF DIRECTORS

Stephen R. Cole ^{1, 2, 3, 5, 6}

President, Seeonee Inc.
Senior Advisor to Duff & Phelps Canada Limited

J. Cameron MacDonald

President and Chief Executive Officer,
The Westaim Corporation

Ian W. Delaney ³

Executive Chairman
The Westaim Corporation

Peter H. Puccetti ^{2, 3}

Chairman, Chief Executive Officer and Chief Investment Officer,
Goodwood Inc.

John W. Gildner ^{1, 2, 3, 4}

Independent Businessman

Bruce V. Walter ^{1, 2, 3}

Chairman, Nunavut Iron Ore, Inc.
Vice Chair, Centerra Gold Inc.

Numbers indicate the individual's committee membership:

1. Member of the Audit Committee
2. Member of the Human Resources and Compensation Committee
3. Member of the Nominating and Corporate Governance Committee
4. Chair of the Audit Committee
5. Chair of the Human Resources and Compensation Committee
6. Chair of the Nominating and Corporate Governance Committee

The Westaim Corporation Annual General Meeting of Shareholders Thursday May 12th, 2016 10:00 A.M. EDT

St. Andrew's Club and Conference Centre
150 King Street West, Sun Life Financial Tower
S7 Caledonia Room, 27th Floor
Toronto, Ontario

CORPORATE INFORMATION

Ian W. Delaney
Executive Chairman

J. Cameron MacDonald
President and Chief Executive Officer

Robert T. Kittel
Chief Operating Officer

Glenn G. MacNeil
Chief Financial Officer

Joseph A. Schenk
Managing Director

STOCK INFORMATION

Traded on the TSX Venture Exchange
under the symbol **WED**

Shares issued and outstanding
at December 31, 2015 were 143,186,718

TRANSFER AGENT

Computershare Trust Company of Canada
600, 530 – 8th Avenue SW
Calgary, Alberta T2P 3S8
Tel: 1-800-564-6253
E-mail: service@computershare.com

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