

THE WESTAIM CORPORATION

ANNUAL REPORT 2016



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Contents

Letter to Shareholders	1
Management's Discussion and Analysis	3
Management's Responsibility for Financial Information	41
Independent Auditor's Report	42
Consolidated Financial Statements	43
Notes to Consolidated Financial Statements	47
Board of Directors	65
Shareholder and Corporate Information	65

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



LETTER TO SHAREHOLDERS

Dear Shareholders:

In 2016, the main focus of Westaim was to work alongside our partners at Houston International Insurance Group, Ltd. (“HIIG”) and the Arena Group (“Arena”) and to support the execution of their business plans and goals.

Fiscal 2016 was a transition year for HIIG. Early in the year, HIIG made the decision that in order to better position the company for growth and to take advantage of increased scale, it would (i) evaluate the third-party administrators (“TPAs”) that it used to manage claims, and replace certain TPAs with new, owner-operated TPAs that would perform better and have a greater focus on HIIG’s business; and (ii) move the majority of general liability claims from TPAs to a newly-created and staffed in-house HIIG claims department. These very critical moves are designed to allow HIIG to have more control over its claims management process and to allow the business to scale moving forward, and should provide significant savings through reduced loss adjustment expenses. While this transition was a monumental task, it was completed on a timely basis in the fourth quarter of 2016.

Largely as a result of this transition, HIIG experienced adverse case reserve development in 2016 that impacted financial results as ultimate loss estimates for certain lines of business were increased. By year end, substantially all claim files had been fully reviewed and reserved by new TPAs and new HIIG claims staff, and therefore we are optimistic that the adverse development experienced in fiscal 2016 will not be a recurring event as we move into fiscal 2017.

Over the past two years since our acquisition, HIIG has significantly strengthened its management team with experience and depth including new appointments to the positions of President; Chief Financial Officer; EVP, Property and Casualty Underwriting; and in-house Actuary. We believe that the current management team is the strongest HIIG has had, and it is prepared for the growth that we expect lies ahead.

Despite soft market conditions within the property and casualty insurance industry, Westaim and the management of HIIG remain excited about the future growth and earnings prospects of the business.

In 2016, Arena continued to deploy its capital, with the rate of deployment accelerating in the fourth quarter. Arena’s management team has been building a diversified portfolio of quality asset-oriented credit investments and the investments are performing at or above our expectations. The vast majority of the investments consist of senior and secured debt instruments, with short duration, and attractive yields amongst the various investment strategies that Arena employs. Arena’s goal is to create a continuous pipeline of investment opportunities highly diversified by industry, strategy and geography and to grow assets under management. Arena (including Arena Finance and Arena Origination) now has committed assets under management of over \$440 million. Westaim believes that Arena is well-positioned to continue to expand its business and generate attractive returns for Arena’s clients and for Westaim and its shareholders.

At December 31, 2016, Westaim's shareholders' equity was \$318.5 million, translating into a book value per share of \$2.21 (C\$2.97).

The Westaim team continues to actively pursue new opportunities to create long-term shareholder value. On behalf of the Board of Directors, I want to thank Westaim shareholders, employees and our partners at HIIG and Arena for their ongoing efforts, and we look forward to a rewarding 2017.

Sincerely,

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

J. Cameron MacDonald,
President and Chief Executive Officer

TABLE OF CONTENTS

1. THE COMPANY
 2. OVERVIEW OF PERFORMANCE
 3. INVESTMENTS
 4. EQUITY FINANCING
 5. ANALYSIS OF FINANCIAL RESULTS
 6. ANALYSIS OF FINANCIAL POSITION
 7. OUTLOOK
 8. LIQUIDITY AND CAPITAL RESOURCES
 9. RELATED PARTY TRANSACTIONS
 10. CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS
 11. CRITICAL ACCOUNTING POLICIES AND RECENTLY ADOPTED AND PENDING ACCOUNTING PRONOUNCEMENTS
 12. QUARTERLY FINANCIAL INFORMATION
 13. RISKS
 14. ADDITIONAL ARENA GROUP INVESTMENT SCHEDULES
 15. CAUTIONARY NOTE REGARDING FUTURE ORIENTED FINANCIAL INFORMATION
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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, 2016 and 2015 as set out on pages 43 to 64 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, 2016 and 2015 and is intended to enable the reader to assess Westaim’s results of operations for the three months and year ended December 31, 2016 and financial condition as at December 31, 2016. 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 30, 2017. Additional information relating to Westaim is available on SEDAR at www.sedar.com. Certain comparative figures have been reclassified to conform to the presentation of the current year, and 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 reports its financial results in accordance with IFRS applicable to investment entities.

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), a significant majority of the Company’s revenues and costs are sourced and incurred in US\$. 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 for periods prior to August 31, 2015 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, 2016 and 2015 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.

The Westaim Corporation

Year ended December 31, 2016

(Currency amounts in United States dollars unless otherwise indicated)

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, net asset value, discounted cash flow analysis, comparable recent arm's length transactions, 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.

Select 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, 2016 and 2015 (the "HIIG Statements") which have been prepared in accordance with United States generally accepted accounting principles ("US GAAP"). Such statements are the responsibility of the 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 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

Select 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 the financial statements of the Arena Group for the year ended December 31, 2016 and the period from commencement of operations on August 31, 2015 to December 31, 2015 which have been prepared in accordance with either IFRS or US GAAP. Such statements are the responsibility of the 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 30, 2017 for its fiscal year ended December 31, 2016 which is available on SEDAR at www.sedar.com. Please refer to the cautionary note in Section 15 of this MD&A.

The Westaim Corporation
Year ended December 31, 2016

(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. The Company's principal investments consist of Houston International Insurance Group, Ltd. (through the Westaim HIIG Limited Partnership) and the Arena Group. See discussion in Section 3, *Investments* of this MD&A for additional information on these investments.

2. OVERVIEW OF PERFORMANCE

Highlights (millions except share and per share data)	Three months ended December 31		Year ended December 31	
	2016	2015	2016	2015
Revenue	\$ 0.7	\$ 0.5	\$ 2.7	\$ 1.6
Net results of investments	(1.9)	(3.2)	(4.0)	12.7
Recovery of expenses (expenses)	0.3	(3.0)	(7.0)	(6.6)
(Loss) profit	\$ (0.9)	\$ (5.7)	\$ (8.3)	\$ 7.7
(Loss) earnings per share - basic and diluted	\$ (0.01)	\$ (0.04)	\$ (0.06)	\$ 0.08
(Loss) profit	\$ (0.9)	\$ (5.7)	\$ (8.3)	\$ 7.7
Other comprehensive loss	-	-	-	(20.6)
Comprehensive loss	\$ (0.9)	\$ (5.7)	\$ (8.3)	\$ (12.9)
At December 31:				
Shareholders' equity	\$ 318.5	\$ 326.1	\$ 318.5	\$ 326.1
Number of common shares outstanding	143,186,718	143,186,718	143,186,718	143,186,718
Book value per share - in US\$ ¹	\$ 2.21	\$ 2.27	\$ 2.21	\$ 2.27
Book value per share - in C\$ ²	\$ 2.97	\$ 3.14	\$ 2.97	\$ 3.14

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, 2016 - \$5.4 million; December 31, 2015 - \$3.8 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, 2016 - 3,082,073 units, December 31, 2015 - 2,209,563 units) were exercised.

² Book value per share at December 31, 2016 and 2015 converted from US\$ to C\$ at period end rates of 1.3427 and 1.3840, respectively.

The Westaim Corporation
Year ended December 31, 2016

(Currency amounts in United States dollars unless otherwise indicated)

2. OVERVIEW OF PERFORMANCE (continued)

Three months ended December 31, 2016 and 2015

The Company reported a loss and comprehensive loss of \$0.9 million for the three months ended December 31, 2016 (2015 - \$5.7 million).

Revenue for the three months ended December 31, 2016 of \$0.7 million (2015 - \$0.5 million) consisted of interest income of \$0.3 million (2015 - \$0.3 million) and advisory fees of \$0.4 million (2015 - \$0.2 million).

Net results of investments were a loss of \$1.9 million for the three months ended December 31, 2016 (2015 - \$3.2 million), consisting of an unrealized loss on the Company's investments in private entities of \$1.3 million (2015 - \$2.7 million) and the Company's share of losses of its Associates (as hereinafter defined) of \$0.6 million (2015 - \$0.5 million). See discussion in Section 3, *Investments* of this MD&A.

Recovery of expenses for the three months ended December 31, 2016 of \$0.3 million (2015 - expenses of \$3.0 million) consisted of share-based compensation expense of \$0.9 million (2015 - \$0.2 million), professional fees of \$0.1 million (2015 - \$0.5 million), site restoration provision recovery of \$1.5 million (2015 - expense of \$0.7 million), salaries and benefits of \$0.2 million (2015 - \$1.5 million), general and administrative costs of \$0.2 million (2015 - \$0.2 million), and a foreign exchange gain of \$0.2 million (2015 - \$0.1 million).

Year ended December 31, 2016 and 2015

The Company reported a loss and comprehensive loss of \$8.3 million for the year ended December 31, 2016 (2015 - profit of \$7.7 million and comprehensive loss of \$12.9 million).

Revenue for the year ended December 31, 2016 of \$2.7 million (2015 - \$1.6 million) consisted of interest income of \$1.3 million (2015 - \$0.6 million) and advisory fees of \$1.4 million (2015 - \$1.0 million).

Net results of investments were a loss of \$4.0 million for the year ended December 31, 2016 (2015 - gain of \$12.7 million), consisting of an unrealized loss on the Company's investments in private entities of \$1.6 million (2015 - gain of \$13.6 million), the Company's share of losses of its Associates of \$2.4 million (2015 - \$1.0 million), and a gain on other investments of \$nil (2015 - \$0.1 million). See discussion in Section 3, *Investments* of this MD&A.

Expenses for the year ended December 31, 2016 of \$7.0 million (2015 - \$6.6 million) consisted of share-based compensation expense of \$2.6 million (2015 - \$2.7 million), professional fees of \$0.9 million (2015 - \$1.6 million), site restoration provision recovery of \$0.5 million (2015 - expense of \$1.0 million), salaries and benefits of \$2.8 million (2015 - \$2.1 million), general and administrative costs of \$1.0 million (2015 - \$0.9 million), and a foreign exchange loss of \$0.2 million (2015 - gain of \$1.7 million).

The other comprehensive loss of \$20.6 million for the year ended December 31, 2015 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.

The Westaim Corporation
Year ended December 31, 2016

(Currency amounts in United States dollars unless otherwise indicated)

3. INVESTMENTS

The Company's principal investments consist of its investments in HIIG (through Westaim HIIG Limited Partnership (the "HIIG Partnership")) and the Arena Group, as follows:

	Place of establishment	Principal place of business	Ownership interest as at December 31, 2016	Ownership interest as at December 31, 2015
Investments in private entities:				
- HIIG Partnership	Ontario, Canada	Ontario, Canada	58.5% owned by Westaim	58.5% owned by Westaim
- Arena Finance	Ontario, Canada	Ontario, Canada	100% owned by Westaim	100% owned by Westaim
- Arena Origination	Delaware, U.S.	New York, U.S.	100% owned by Westaim	100% owned by Westaim
Investments in Associates:				
- WAHII	Delaware, U.S.	New York, U.S.	51% beneficially owned by Westaim, indirectly through WCA ¹	51% beneficially owned by Westaim, indirectly through WCA ¹
- ASOF-ON GP	Delaware, U.S.	New York, U.S.	51% beneficially owned by Westaim, indirectly through WCA ¹	51% beneficially owned by Westaim, indirectly through WCA ¹
- ASOF-OFF II GP	Delaware, U.S.	New York, U.S.	51% beneficially owned by Westaim ¹	51% beneficially owned by Westaim ¹

¹ Legal equity ownership is 100%, and 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 30, 2017 for its fiscal year ended December 31, 2016 which is available on SEDAR at www.sedar.com.

Houston International Insurance Group, Ltd.

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

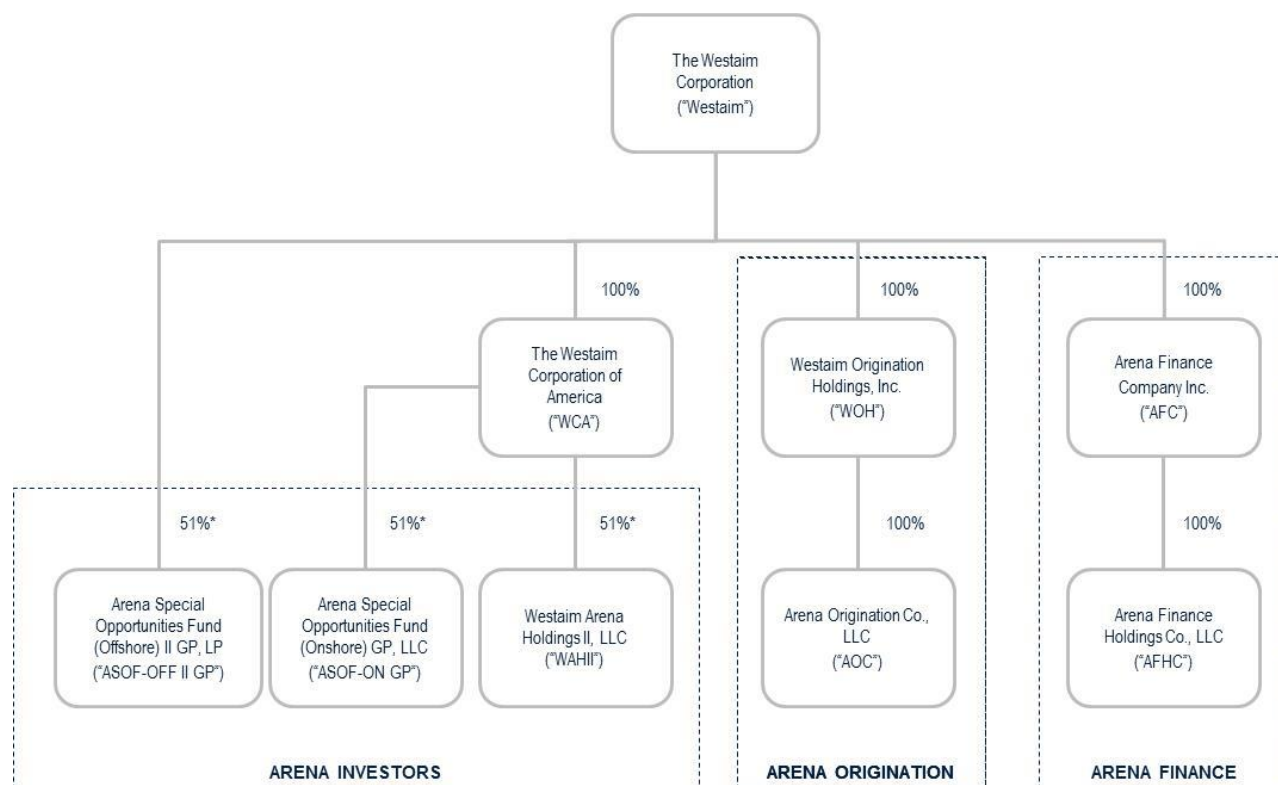
On August 31, 2015, the Company established the following three businesses that collectively make up the Arena Group:

- **Arena Investors** – WAHII, ASOF-ON GP and ASOF-OFF II GP (collectively, "Arena Investors") were established to collectively operate as an investment manager offering clients access to fundamentals-based, asset-oriented credit investments. The Company's investment in 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 Company's investment in 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 Company's investment in 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".

3. INVESTMENTS (continued)

The following chart illustrates a simplified organizational structure of the Arena Group:



* Legal equity ownership is 100%, and beneficial ownership denotes profit percentage subject to change over time pursuant to the earn-in rights granted to BP LLC described under "Investment in the Arena Group - Arena Investors".

For a detailed discussion of the business model of the Arena Group, see the Company's Annual Information Form dated March 30, 2017 for its fiscal year ended December 31, 2016 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").

In determining the valuation of investments in private entities at December 31, 2016 and 2015, 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, 2016 and 2015.

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.

The Westaim Corporation
Year ended December 31, 2016

(Currency amounts in United States dollars unless otherwise indicated)

3. INVESTMENTS (continued)

Changes 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 (loss) profit and other comprehensive loss.

Changes in the Company's investments in private entities are summarized as follows:

	Three months ended December 31, 2016			Three months ended December 31, 2015		
	Opening balance	Unrealized (loss) gain	Ending balance	Opening balance	Unrealized gain (loss)	Ending balance
Investments in private entities:						
- HIIG Partnership	\$ 147.6	\$ (2.3)	\$ 145.3	\$ 145.8	\$ 0.2	\$ 146.0
- Arena Finance	141.7	1.1	142.8	145.3	(2.2)	143.1
- Arena Origination	32.5	(0.1)	32.4	33.7	(0.7)	33.0
	<u>\$ 321.8</u>	<u>\$ (1.3)</u>	<u>\$ 320.5</u>	<u>\$ 324.8</u>	<u>\$ (2.7)</u>	<u>\$ 322.1</u>

	Year ended December 31, 2016			Year ended December 31, 2015				
	Opening balance	Unrealized loss	Ending balance	Opening balance	Additions - Equity	Additions - Debt	Unrealized gain (loss)	Ending balance
Investments in private entities:								
- HIIG Partnership	\$ 146.0	\$ (0.7)	\$ 145.3	\$ 93.7	\$ 50.6	\$ -	\$ 1.7	\$ 146.0
- Arena Finance	143.1	(0.3)	142.8	-	146.6	-	(3.5)	143.1
- Arena Origination	33.0	(0.6)	32.4	-	17.3	17.0	(1.3)	33.0
	<u>\$ 322.1</u>	<u>\$ (1.6)</u>	<u>\$ 320.5</u>	<u>\$ 93.7</u>	<u>\$ 214.5</u>	<u>\$ 17.0</u>	<u>\$ (3.1)</u>	<u>\$ 322.1</u>

Changes in the Company's investments in Associates are summarized as follows:

	Three months ended December 31		Year ended December 31	
	2016	2015	2016	2015
Investments in Associates				
Opening balance	\$ 1.9	\$ 1.3	\$ 3.0	\$ -
Additions - Equity	-	-	0.3	-
Additions - Advances	-	2.2	0.4	4.0
Share of loss	(0.6)	(0.5)	(2.4)	(1.0)
Ending balance	<u>\$ 1.3</u>	<u>\$ 3.0</u>	<u>\$ 1.3</u>	<u>\$ 3.0</u>

A. INVESTMENT IN HIIG

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 additional common shares of HIIG ("HIIG Shares") (the "Additional HIIG Acquisition") in order to fund, in part, the purchase by HIIG of all the assets of the underwriting business operating as "Elite Underwriting Services". In connection with this offering, the Company acquired additional Class A Units of the HIIG Partnership for approximately \$50.6 million.

At December 31, 2016, the HIIG Partnership owned approximately 74.6% of the HIIG Shares and the Company owned, directly and indirectly through HIIG Holdings, approximately 58.5% of the HIIG Partnership, representing an approximate 43.7% indirect ownership interest in HIIG.

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.

3. INVESTMENTS (continued)

(i) 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 \$145.3 million at December 31, 2016 and \$146.0 million December 31, 2015.

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, 2016. The fair value of the HIIG Partnership at December 31, 2016 was derived from a valuation of the HIIG Shares owned by the HIIG Partnership and other net assets of the HIIG Partnership at December 31, 2016. The carrying values of the HIIG Partnership's other net assets, consisting of monetary assets including 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, 2016. Management determined that this valuation technique produced the best indicator of the fair value of the HIIG Shares as at December 31, 2016 as it was also used in a number of HIIG share transactions with arm's length third parties since August 1, 2014. This same basis of valuation was used to determine the fair value of the Company's investment in the HIIG Partnership of \$146.0 million 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 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, 2016, the Company recorded unrealized losses of \$2.3 million and \$0.7 million, respectively, on its investment in the HIIG Partnership. In the three months and year ended December 31, 2015, the Company recorded unrealized gains of \$0.2 million and \$18.4 million, respectively, on its investment in the HIIG Partnership. The unrealized gains in the three months and year ended December 31, 2015 included unrealized foreign exchange gains of \$nil and \$16.7 million, respectively, resulting from a strengthening of the US\$ against the C\$, prior to the adoption of the US\$ as the Company's functional currency on August 31, 2015.

(ii) Select Financial Information of HIIG for the years ended December 31, 2016 and 2015

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 expenses by net premiums earned) provide a measure of HIIG's underwriting profitability, net income provides a measure of HIIG's overall profitability, and stockholders' equity is a measure that is generally used by investors to determine the value of insurance companies.

In the second quarter of 2016, the management of HIIG modified the reporting segments of HIIG to better align the business HIIG writes as well as with the presentation of other specialty property and casualty insurers in the United States. Comparative figures have been reclassified to conform to the presentation of the current period. The new reporting segments are as follows:

- Commercial - premiums from standard property and casualty lines underwritten by HIIG generally on an admitted basis for which rate filings are generally required. This segment includes insurance related to Texas workers' compensation, construction, security firms and pest control operators.
- Specialty - premiums underwritten by HIIG generally on non-admitted or surplus lines basis for which rate filings are generally not required. This segment includes HIIG's energy division, professional lines (home health care providers, community banks, E&O and D&O for title companies and insurance brokers), transactional property, hospitality, and commercial auto business (small risks primarily in Louisiana).
- MGU Partners - premiums from contracted managing general underwriters predominantly in specialty insurance lines. This segment includes primarily managing general underwriters ("MGUs") serving artisan contractors, lawyers E&O insurance, and auto dealerships.
- Accident and Health - premiums from medical stop loss business underwritten by HIIG.
- Non-continuing lines - represent lines of business no longer underwritten by HIIG.

The Westaim Corporation
Year ended December 31, 2016

(Currency amounts in United States dollars unless otherwise indicated)

3. INVESTMENTS (continued)

Set out in the table below is certain select 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, 2016 and 2015 which have been prepared in accordance with US GAAP. Such statements are the responsibility of the 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 except for percentage)	Three months ended December 31		Year ended December 31	
	2016	2015	2016	2015
<u>Income Statement</u>				
Gross written premium	\$ 127.2	\$ 121.0	\$ 534.2	\$ 508.7
Net premiums written	\$ 67.6	\$ 77.9	\$ 286.5	\$ 332.3
Net premiums earned	\$ 70.8	\$ 85.3	\$ 310.4	\$ 326.1
Net (loss) income	\$ (4.2)	\$ 2.8	\$ (7.3)	\$ 11.4
<u>Select Information</u>				
Gross written premium:				
Commercial	\$ 19.2	\$ 14.6	\$ 83.2	\$ 80.4
Specialty	54.2	54.1	230.2	271.6
MGU Partners	32.7	35.0	134.8	115.5
Accident and Health	21.0	17.5	86.0	41.6
Non-continuing lines	0.1	(0.2)	-	(0.4)
	<u>\$ 127.2</u>	<u>\$ 121.0</u>	<u>\$ 534.2</u>	<u>\$ 508.7</u>
Net premiums written:				
Commercial	\$ 10.5	\$ 8.5	\$ 45.0	\$ 55.5
Specialty	24.5	27.0	102.7	152.1
MGU Partners	22.1	28.6	92.6	90.1
Accident and Health	10.4	14.0	47.5	35.1
Non-continuing lines	0.1	(0.2)	(1.3)	(0.5)
	<u>\$ 67.6</u>	<u>\$ 77.9</u>	<u>\$ 286.5</u>	<u>\$ 332.3</u>
Net premiums earned:				
Commercial	\$ 11.3	\$ 12.4	\$ 48.0	\$ 57.4
Specialty	25.4	38.0	115.9	180.1
MGU Partners	23.6	21.2	100.3	53.8
Accident and Health	10.4	14.0	47.5	35.1
Non-continuing lines	0.1	(0.3)	(1.3)	(0.3)
	<u>\$ 70.8</u>	<u>\$ 85.3</u>	<u>\$ 310.4</u>	<u>\$ 326.1</u>
Net Loss and LAE Ratio:				
Commercial	288%	85%	125%	62%
Specialty	97%	55%	78%	65%
MGU Partners	73%	40%	64%	44%
Accident and Health	99%	80%	86%	71%
Non-continuing lines	n.m. ¹	n.m. ¹	n.m. ¹	n.m. ¹
	<u>125%</u>	<u>66%</u>	<u>84%</u>	<u>68%</u>
<u>Balance Sheet Information</u>				
	<u>December 31, 2016</u>	<u>December 31, 2015</u>		
Investments, cash and cash equivalents	\$ 633.8	\$ 700.4		
Stockholders' equity	\$ 324.7	\$ 324.5		

¹ Not meaningful, but included in the aggregate ratios.

3. INVESTMENTS (continued)

Gross written premium was \$127.2 million for the three months ended December 31, 2016 versus \$121.0 million for the three months ended December 31, 2015, an increase of 5%, and \$534.2 million for the year ended December 31, 2016 versus \$508.7 million for the year ended December 31, 2015, an increase of 5%. The increase in gross written premium in the three months ended December 31, 2016 compared to the same period in the prior year was driven by the Accident and Health ("A&H") segment and the Commercial segment, partially offset by a decrease in gross written premium within the MGU Partners segment. The increase in gross written premium in the year ended December 31, 2016 compared to the prior year resulted primarily from the restructuring of a program within the MGU Partners segment and the contribution from the A&H segment, partially offset by a decline in the Specialty segment as a result of softer overall insurance market conditions.

Net premiums written was \$67.6 million for the three months ended December 31, 2016 versus \$77.9 million for the three months ended December 31, 2015, a decrease of 13%, and \$286.5 million for the year ended December 31, 2016 versus \$332.3 million for the year ended December 31, 2015, a decrease of 14%. In the three months ended December 31, 2016, the net premiums written increase within the Commercial segment was more than offset by decreases in the other segments, due to decreases in gross written premium in the MGU Partners segment and an increased use of reinsurance overall. In the year ended December 31, 2016, the increase in net premiums written within the A&H segment and the restructured program within the MGU Partners segment was more than offset by decreases in the Commercial and Specialty segments primarily due to an increased use of reinsurance. While there is a cost to the increased use of reinsurance, HIIG's reinsurance strategy is designed to allow HIIG to better control its net growth in a soft market environment, and reduce its exposure to catastrophic events and severity losses. This strategy is also expected to allow for future expansion of net premiums written by HIIG when more favourable market conditions return.

Net premiums earned was \$70.8 million for the three months ended December 31, 2016 versus \$85.3 million for the three months ended December 31, 2015, a decrease of 17%, and \$310.4 million for the year ended December 31, 2016 versus \$326.1 million for the year ended December 31, 2015, a decrease of 5%. The decrease in net premiums earned in the three months ended December 31, 2016 compared to the same period in the prior year was attributed mostly to a decline in the Specialty segment as discussed above. The decrease in net premiums earned in the year ended December 31, 2016 compared to the prior year was attributed to the decline in the Commercial and Specialty segments which was offset by an increase in earned premiums from the restructuring of a program in the MGU Partners segment and the A&H segment. The decrease in net premiums earned in both periods in 2016 compared to 2015 also resulted from an increased use of reinsurance by HIIG.

The overall net loss and LAE ratio was 125% for the three months ended December 31, 2016 compared to 66% for the same period in the prior year, and 84% for the year ended December 31, 2016 compared to 68% for the prior year. The overall net loss and LAE ratio increased due to the reserve strengthening relating to prior years totaling \$33.3 million in the three months ended December 31, 2016 and \$58.2 million in the year ended December 31, 2016. Net loss and LAE reserves were increased as a result of a review of claim files following the transition to new third party administrators (TPAs) and to a new in-house claims unit created primarily to handle general liability claims and the resulting review of open claim files and subsequent actuarial review. Excluding the prior period reserve strengthening, HIIG's net loss and LAE ratio would have been 77% for the three months ended December 31, 2016 and 65% for the year ended December 31, 2016.

HIIG recorded a net loss of \$4.2 million for the three months ended December 31, 2016 compared to net income of \$2.8 million for the three months ended December 31, 2015. Net loss was \$7.3 million for the year ended December 31, 2016 compared to net income of \$11.4 million for the year ended December 31, 2015. The operating results for the periods in 2016 were impacted primarily by reserve strengthening for prior years across all lines of \$21.6 million after-tax (\$33.3 million pre-tax) recognized in the three months ended December 31, 2016 (as discussed above) and \$37.8 million after-tax (\$58.2 million pre-tax) recognized in the year ended December 31, 2016. The impact of the reserve strengthening relating to prior years in the three months and year ended December 31, 2016 was in part favourably offset by a \$27.4 million income tax benefit recorded in the fourth quarter, resulting from a reduction of the valuation allowance against HIIG's deferred income tax assets.

HIIG stockholders' equity increased to \$324.7 million at December 31, 2016 from \$324.5 million at December 31, 2015. The increase of \$0.2 million resulted from a favourable change in the unrealized gains on HIIG's investment portfolio for the year (net of income taxes) of \$6.2 million and the issuance of shares under the employee stock purchase program of \$1.3 million, partially offset by the net loss for the year of \$7.3 million.

3. INVESTMENTS (continued)

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. 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 assets. Fundamentals-based, asset-oriented lenders and investors manage their risk and exposure by carefully assessing the value of the assets securing the loan or investment, 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 strategies 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, 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.

Real Estate Private Credit and Real Estate 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 office buildings, retail centers, hotels, land, single family homes, multi-family apartments, condominium towers, hospitality providers, health care service providers, and corporate campuses, leases and lease residuals.

Commercial & 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 Investments

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, manufactured housing-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.

Other Securities

Hedged and unhedged investments in public securities (including public real estate), preferred stock, common stock, municipal bonds, senior public corporate debt, corporate bonds including bonds in liquidation or out-of-court exchange offers and trade claims of distressed companies in anticipation of a recapitalization, private investment in public equity, 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 are described in further detail below.

3. INVESTMENTS (continued)

Funding of the Arena Group

The Company has provided 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 Arena Investors, LLC (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, 2016, Westaim had fulfilled its obligation under the Funding Agreement and provided in aggregate \$1.9 million (\$0.1 million in 2016 and \$1.8 million in 2015) in funding to the Arena Group.

Transaction Costs and Operating Advances

Westaim has also provided additional funding totaling \$4.4 million to Arena Investors consisting of \$1.2 million for transaction costs incurred in connection with the Arena Transactions and \$3.2 million for ongoing operating costs and general working capital. This funding of \$4.4 million is expected to be repaid to Westaim in priority to any profit distribution or cash flow participation by the owners or profit participants of Arena Investors and was recorded as part of the investments in associates in the consolidated statement of financial position at December 31, 2016.

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 the 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/or fees earned on the credit investments that it acquires. The operating results of Arena Finance also include 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).

The Westaim Corporation
Year ended December 31, 2016

(Currency amounts in United States dollars unless otherwise indicated)

3. INVESTMENTS (continued)

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 \$142.8 million and \$143.1 million at December 31, 2016 and 2015, respectively.

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 \$142.8 million at December 31, 2016. 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, 2016. The Company determined that the shareholder's equity of Arena Finance at December 31, 2016 in the amount of \$142.8 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, 2016. This same basis of valuation was used to determine the fair value of the Company's investment in Arena Finance of \$143.1 million 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 Finance at the end of each reporting period.

The Company recorded an unrealized gain and an unrealized loss on its investment in Arena Finance of \$1.1 million and \$0.3 million in the three months and year ended December 31, 2016, respectively, and unrealized losses of \$2.2 million and \$3.5 million in the three months and year ended December 31, 2015, respectively.

Select Financial Information of Arena Finance

The Company considers certain financial results of Arena Finance, its subsidiary AFHC, and AFHC's subsidiaries 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. Select financial information related to Arena Finance, AFHC and AFHC's subsidiaries set out below is unaudited and has been derived from the financial statements of Arena Finance and the consolidated financial statements of AFHC for the year ended December 31, 2016 and the period from commencement of operations on August 31, 2015 to December 31, 2015, which have been prepared in accordance with IFRS or US GAAP. Such statements are the responsibility of the management of Arena Finance and AFHC. 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.

A summary of the net assets of AFHC and AFHC's subsidiaries is as follows:

(unaudited)		
(millions except for percentage)		
December 31, 2016	Fair value	Percentage of net assets at fair value
Cash and cash equivalents	\$ 30.5	21.3%
Due from brokers, net	11.7	8.2%
Investments:		
Loans	93.8	65.5%
Bonds	1.4	1.0%
Equity securities	1.4	1.0%
Bank debt	7.3	5.1%
Private investments in public equity	1.3	0.9%
	<u>105.2</u>	<u>73.5%</u>
Other net liabilities	(4.4)	(3.0)%
Net assets of AFHC and AFHC's subsidiaries	\$ 143.0	100.0%

The Westaim Corporation
Year ended December 31, 2016
(Currency amounts in United States dollars unless otherwise indicated)

3. INVESTMENTS (continued)

A summary of the net assets of AFHC and AFHC's subsidiaries is as follows (continued):

(unaudited) (millions except for percentage)	Fair value	Percentage of net assets at fair value
December 31, 2015		
Cash and cash equivalents	\$ 88.6	61.8%
Due from brokers, net	13.3	9.3%
Investments:		
Loans	20.3	14.1%
Bonds	0.8	0.5%
Equity securities	21.3	14.9%
	<u>42.4</u>	<u>29.5%</u>
Other net liabilities	(0.9)	(0.6)%
Net assets of AFHC and AFHC's subsidiaries	\$ 143.4	100.0%

Arena Finance continues to actively deploy its capital and has been investing its cash and cash equivalents in investments in accordance with its Investment Policy.

Due from brokers consists of cash balances as well as net amounts due from brokers for unsettled securities transactions. Bonds and equity securities are net of short positions.

For additional information on the investments of AFHC and AFHC's subsidiaries, see Section 14, *Additional Arena Group Investment Schedules* of this MD&A.

A summary of the operating results of Arena Finance, AFHC and AFHC's subsidiaries is as follows:

(unaudited) (millions)	Three months ended December 31		Year ended December 31	
	2016	2015	2016	2015 ¹
Operating results of AFHC and AFHC's subsidiaries:				
Investment income, net	\$ 1.9	\$ 0.1	\$ 5.2	\$ 0.1
Gain on investments	1.2	-	2.5	-
Operating expenses:				
Administrative and service fees	(1.4)	(1.8)	(6.6)	(2.4)
Other operating expenses	(0.5)	(0.1)	(1.5)	(0.2)
	<u>1.2</u>	<u>(1.8)</u>	<u>(0.4)</u>	<u>(2.5)</u>
Operating results of Arena Finance:				
Operating expenses	(0.1)	-	(0.3)	(0.6)
Deferred income tax (expense) recovery	-	(0.4)	0.4	(0.4)
	<u>(0.1)</u>	<u>(0.4)</u>	<u>0.1</u>	<u>(1.0)</u>
Operating results of Arena Finance, AFHC and AFHC's subsidiaries	\$ 1.1	\$ (2.2)	\$ (0.3)	\$ (3.5)

¹ Arena Finance and its subsidiaries commenced operations on August 31, 2015.

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 is as follows:

(unaudited) (millions)	Year ended	
	2016	2015
Carrying value of Arena Finance:		
Opening balance	\$ 143.1	\$ -
Share capital issued and paid	-	146.6
Unrealized loss	(0.3)	(3.5)
Ending balance	<u>\$ 142.8</u>	<u>\$ 143.1</u>

3. INVESTMENTS (continued)

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 private credit and real estate assets, commercial & industrial assets, structured finance investments, consumer assets, 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 the 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 AOC, consists of interest income, dividend income and/or investment-related fees earned on the credit investments that it originates. The operating results of Arena Origination also include gain (loss) on its investments.

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 \$32.4 million and \$33.0 million at December 31, 2016 and 2015, respectively.

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 \$32.4 million at December 31, 2016. 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 \$15.4 million at December 31, 2016 and the fair value of the term loan of \$17.0 million, totaling \$32.4 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, 2016. This same basis of valuation was used to determine the fair value of the Company's investment in Arena Origination of \$33.0 million 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 unrealized losses on its investment in Arena Origination of \$0.1 million and \$0.6 million in the three months and year ended December 31, 2016, respectively, and \$0.7 million and \$1.3 million in the three months and year ended December 31, 2015, respectively.

3. INVESTMENTS (continued)

Select 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. Select financial information related to Arena Origination and AOC set out below is unaudited and has been derived from the financial statements of Arena Origination and AOC for the year ended December 31, 2016 and the period from commencement of operations on August 31, 2015 to December 31, 2015, which have been prepared in accordance with IFRS or 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.

A summary of the net assets of AOC is as follows:

(unaudited)		
(millions except for percentage)		
December 31, 2016	Fair value	Percentage of net assets at fair value
Cash and cash equivalents	\$ 8.1	23.5%
Due from brokers, net	7.5	21.8%
Investments:		
Loans	18.2	52.8%
Bonds	0.4	1.0%
Equity securities	0.3	1.0%
	18.9	54.8%
Other net liabilities	(0.1)	(0.1)%
Net assets of AOC	\$ 34.4	100.0%

(unaudited)		
(millions except for percentage)		
December 31, 2015	Fair value	Percentage of net assets at fair value
Cash and cash equivalents	\$ 7.0	20.9%
Due from brokers, net	9.9	29.5%
Escrow deposits	3.0	9.0%
Investments:		
Loans	8.7	26.0%
Bonds	0.2	0.6%
Equity securities	5.1	15.2%
	14.0	41.8%
Other net liabilities	(0.4)	(1.2)%
Net assets of AOC	\$ 33.5	100.0%

Arena Origination has been investing its cash and cash equivalents in investments in accordance with its Investment Policy and selling its investments after 90 to 120 days following origination in accordance with its strategy.

Due from brokers consists of cash balances as well as net amounts due from brokers for unsettled securities transactions. Bonds and equity securities are net of short positions.

For additional information on the investments of AOC, see Section 14, *Additional Arena Group Investment Schedules* of this MD&A.

The Westaim Corporation
Year ended December 31, 2016

(Currency amounts in United States dollars unless otherwise indicated)

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		Year ended December 31	
	2016	2015	2016	2015 ¹
Operating results of AOC:				
Investment income, net	\$ 0.7	\$ 0.1	\$ 2.6	\$ 0.1
Gain on investments	0.2	-	0.4	-
Operating expenses:				
Administrative and service fees	-	(0.5)	(0.4)	(0.6)
Other operating expenses	(0.5)	-	(1.7)	(0.1)
	<u>0.4</u>	<u>(0.4)</u>	<u>0.9</u>	<u>(0.6)</u>
Operating results of Arena Origination:				
Operating expenses:				
Interest expense ²	(0.3)	(0.3)	(1.2)	(0.4)
Start-up costs	-	-	-	(0.3)
Other operating expenses	(0.2)	-	(0.3)	-
	<u>(0.5)</u>	<u>(0.3)</u>	<u>(1.5)</u>	<u>(0.7)</u>
Operating results of Arena Origination and AOC	\$ (0.1)	\$ (0.7)	\$ (0.6)	\$ (1.3)

¹ Arena Origination and its subsidiary commenced operations on August 31, 2015.

² On \$17.0 million term loan owed to Westaim which carries interest at a rate of 7.25% per annum.

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)	Year ended	
	2016	2015
Carrying value of Arena Origination:		
Opening balance	\$ 33.0	\$ -
Share capital issued and paid	-	34.3
Unrealized loss	(0.6)	(1.3)
Ending balance	<u>\$ 32.4</u>	<u>\$ 33.0</u>

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, LP 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, LP 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 generally 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.

Arena Investors has established a U.S. onshore fund, Arena Special Opportunities Fund, LP ("ASOF LP") and an offshore fund, Arena Special Opportunities Fund (Cayman), LP, as investment funds 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.

As of December 31, 2016, Arena Investors had committed AUM of approximately \$205 million.

The Westaim Corporation
Year ended December 31, 2016

(Currency amounts in United States dollars unless otherwise indicated)

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 interest, 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. On June 30, 2016, the Company made an additional equity investment of \$0.3 million in Arena Investors. The carrying amount of the Company's investments in the Associates was \$1.3 million and \$3.0 million at December 31, 2016 and 2015, respectively. The total of the Company's 51% share of losses of the Associates of \$0.6 million and \$2.4 million in the three months and year ended December 31, 2016, respectively, and \$0.5 million and \$1.0 million in the three months and year ended December 31, 2015, respectively, was reported under "Net results of investments" in the consolidated statements of (loss) profit and other comprehensive loss.

Select 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. Select financial information related to Arena Investors set out below is unaudited and has been derived from the financial statements of WAHII, ASOF-ON GP and ASOF-OFF II GP for the year ended December 31, 2016 and the period from commencement of operations on August 31, 2015 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 of the Company concluded that any reconciling items to IFRS are not material.

Select financial information of Arena Investors is as follows:

Statement of Financial Position ¹

(unaudited) (millions)	December 31, 2016	December 31, 2015
Cash and cash equivalents	\$ 0.6	\$ 1.2
Restricted cash	2.9	1.5
Advances from Westaim	(4.4)	(4.0)
Loan from AFHC	(2.0)	-
Other net liabilities	(3.5)	(0.7)
Net liabilities	\$ (6.4)	\$ (2.0)
Company's share	\$ (3.1)	\$ (1.0)
Advances to Arena Investors	4.4	4.0
Carrying amount of the Company's interest in Associates	\$ 1.3	\$ 3.0

¹ Includes the accounts of WAHII, ASOF-ON GP and ASOF-OFF II GP prepared in accordance with US GAAP with no material reconciling differences to IFRS.

The restricted cash of \$2.9 million at December 31, 2016 and \$1.5 million at December 31, 2015 consisted of \$0.2 million used as a security deposit for Arena Investors' New York office lease and deposits received in advance. The advances from Westaim of \$4.4 million at December 31, 2016 were used by Arena Investors for working capital purposes.

The Westaim Corporation
Year ended December 31, 2016
(Currency amounts in United States dollars unless otherwise indicated)

3. INVESTMENTS (continued)

Select financial information of Arena Investors is as follows (continued):

Statement of Loss and Other Comprehensive Loss ¹

(unaudited) (millions)	Three months ended December 31		Year ended December 31	
	2016	2015	2016	2015 ²
Management and performance fees	\$ 0.9	\$ 0.1	\$ 1.8	\$ 0.1
Administrative and service fees	1.4	2.3	7.0	3.0
Operating expenses	(3.5)	(3.4)	(13.5)	(5.1)
Loss and other comprehensive loss	\$ (1.2)	\$ (1.0)	\$ (4.7)	\$ (2.0)
Company's share of losses of Associates (51%)	\$ (0.6)	\$ (0.5)	\$ (2.4)	\$ (1.0)

¹ Includes the accounts of WAHII, ASOF-ON GP and ASOF-OFF II GP prepared in accordance with US GAAP with no material reconciling differences to IFRS.

² Arena Investors commenced operations on August 31, 2015.

The management and performance fees were generated from the various segregated client accounts and managed funds of Arena Investors. The administrative and service fees were charged to AFHC and AOC.

Operating expenses of \$3.5 million for the three months ended December 31, 2016 included \$2.5 million in salaries and benefits, \$0.4 million in professional fees, and \$0.6 million in general administrative, depreciation and other expenses. Operating expenses of \$13.5 million for the year ended December 31, 2016 included \$10.4 million in salaries and benefits, \$1.1 million in professional fees, and \$2.0 million in general administrative, depreciation and other expenses.

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, and \$0.6 million in general administrative expenses and depreciation expense and \$0.3 million in transaction costs. Operating expenses of \$5.1 million in the period from commencement of operations on August 31, 2015 to December 31, 2015 included \$2.6 million in salaries and benefits, \$0.4 million in professional fees, and \$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, on August 31, 2015 the Company acquired limited partnership interests in Lantern Endowment Partners, L.P. ("Lantern") from an entity affiliated with Daniel B. Zwirn, the Chief Executive Officer of the Arena Group, for \$1.8 million (the "Lantern Purchase"). On October 1, 2015, the assets of Lantern were transferred to ASOF LP, a U.S. onshore fund managed by Arena Investors, and the Company's investment in Lantern was correspondingly exchanged into an investment in ASOF LP.

The Company's investment in ASOF LP, with a fair value of \$1.9 million at December 31, 2016 and 2015, was included in other assets in the consolidated statements of financial position. The Company's unrealized gain on its investment in ASOF LP in the years ended December 31, 2016 and 2015 was nominal.

4. EQUITY 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 sold, on a private placement basis, 65,296,993 special warrants of the Company (the "Special Warrants") at a price of C\$3.25 per Special Warrant (the "2015 Offering"). 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. An additional 6,823,152 Special Warrants were also 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.

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").

The Westaim Corporation
Year ended December 31, 2016

(Currency amounts in United States dollars unless otherwise indicated)

4. EQUITY FINANCING (continued)

On August 31, 2015, 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 December 31, 2016 and 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 were \$169.3 million, net of share issuance costs of \$9.9 million.

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	
	2016	2015	2016	2015
Revenue	\$ 0.7	\$ 0.5	\$ 2.7	\$ 1.6
Net results of investments	(1.9)	(3.2)	(4.0)	12.7
Expenses				
Salaries and benefits	0.2	1.5	2.8	2.1
General, administrative and other	0.2	0.2	1.0	0.9
Professional fees	0.1	0.5	0.9	1.6
Site restoration provision - (recovery) expense	(1.5)	0.7	(0.5)	1.0
Share-based compensation	0.9	0.2	2.6	2.7
Foreign exchange (gain) loss	(0.2)	(0.1)	0.2	(1.7)
	\$ (0.3)	\$ 3.0	\$ 7.0	\$ 6.6
(Loss) profit	\$ (0.9)	\$ (5.7)	\$ (8.3)	\$ 7.7
Other comprehensive loss	-	-	-	(20.6)
Comprehensive loss	\$ (0.9)	\$ (5.7)	\$ (8.3)	\$ (12.9)

5.1 Revenue

Revenue for the three months ended December 31, 2016 of \$0.7 million (2015 - \$0.5 million) consisted of interest income of \$0.3 million (2015 - \$0.3 million) and advisory fees of \$0.4 million (2015 - \$0.2 million). In the three months ended December 31, 2016, the Company earned interest on the loan made by the Company to Arena Origination of \$0.3 million (2015 - \$0.3 million). In the same period, the Company earned advisory fees from HIIG of \$0.3 million (2015 - \$0.2 million) and from the Arena Group of \$0.1 million (2015 - \$nil).

Revenue for the year ended December 31, 2016 of \$2.7 million (2015 - \$1.6 million) consisted of interest income of \$1.3 million (2015 - \$0.6 million) and advisory fees of \$1.4 million (2015 - \$1.0 million). In the year ended December 31, 2016, the Company earned interest on the loan made by the Company to Arena Origination of \$1.2 million (2015 - \$0.4 million). In the same period, the Company earned advisory fees from HIIG of \$1.0 million (2015 - \$1.0 million) and from the Arena Group of \$0.4 million (2015 - \$nil).

5.2 Net Results of Investments

Net results of investments were a loss of \$1.9 million for the three months ended December 31, 2016 (2015 - \$3.2 million), consisting of an unrealized loss on the Company's investments in private entities of \$1.3 million (2015 - \$2.7 million) and the Company's share of losses of its Associates of \$0.6 million (2015 - \$0.5 million).

Net results of investments were a loss of \$4.0 million for the year ended December 31, 2016 (2015 - gain of \$12.7 million), consisting of an unrealized loss on the Company's investments in private entities of \$1.6 million (2015 - gain of \$13.6 million), the Company's share of losses of its Associates of \$2.4 million (2015 - \$1.0 million), and a gain on other investments of \$nil (2015 - \$0.1 million).

See discussion in Section 3, *Investments* of this MD&A.

The Westaim Corporation

Year ended December 31, 2016

(Currency amounts in United States dollars unless otherwise indicated)

5. ANALYSIS OF FINANCIAL RESULTS (continued)

Investments in Private Entities

In the three months and year ended December 31, 2016, the Company recorded unrealized losses of \$2.3 million and \$0.7 million, respectively, on its investment in the HIIG Partnership. In the three months and year ended December 31, 2015, the Company recorded unrealized gains of \$0.2 million and \$18.4 million, respectively, on its investment in the HIIG Partnership. The unrealized gains in the three months and year ended December 31, 2015 included unrealized foreign exchange gains of \$nil and \$16.7 million, respectively, resulting from a strengthening of the US\$ against the C\$, prior to the adoption of the US\$ as the Company's functional currency on August 31, 2015.

The Company recorded an unrealized gain of \$1.1 million and an unrealized loss of \$0.1 million on its investments in Arena Finance and Arena Origination, respectively, in the three months ended December 31, 2016 (2015 - unrealized losses of \$2.2 million and \$0.7 million, respectively), and unrealized losses of \$0.3 million and \$0.6 million on its investments in Arena Finance and Arena Origination, respectively, in the year ended December 31, 2016 (2015 - \$3.5 million and \$1.3 million, respectively).

Investments in Associates

The Company's investments in the Associates are accounted for using the equity method. In the three months ended December 31, 2016, the Associates earned management and performance fees of \$0.9 million and administrative and service fees of \$1.4 million and incurred operating expenses of \$3.5 million, resulting in a loss of \$1.2 million. In the year ended December 31, 2016, the Associates earned management and performance fees of 1.8 million and administrative and service fees of \$7.0 million and incurred operating expenses of \$13.5 million, resulting in a loss of \$4.7 million.

In the three months ended December 31, 2015, the Associates earned management fees of \$0.1 million and administrative and service fees of \$2.3 million and incurred operating expenses of \$3.4 million, resulting in a loss of \$1.0 million. In the year ended December 31, 2015, the Associates earned management fees of \$0.1 million and administrative and service fees of \$3.0 million and incurred operating expenses of \$5.1 million, resulting in a loss of \$2.0 million.

The total of the Company's 51% share of losses of the Associates amounted to \$0.6 million and \$2.4 million in the three months and year ended December 31, 2016, respectively, and \$0.5 million and \$1.0 million in the three months and year ended December 31, 2015, respectively,

5.3 Expenses

Salaries and benefits were \$1.3 million lower in the fourth quarter of 2016 than the fourth quarter of 2015. The decrease was due to the Company accruing staff bonus on a quarterly basis in 2016 instead of on an annual basis in the fourth quarter of 2015. Salaries and benefits were \$0.7 million higher in the year ended December 31, 2016 than the year ended December 31, 2015, resulting from additional staff hired and increase in salaries.

Professional fees were \$0.4 million higher in the fourth quarter of 2015 than the fourth quarter of 2016 and \$0.7 million higher in the year ended December 31, 2015 than the year ended December 31, 2016 primarily due to fees incurred with respect to the Arena Transactions.

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. Variations in the Company's site restoration provision expense from period to period are generally attributed to changes in the discount and inflation rates used to arrive at the site restoration provision. The site restoration provision recovery in the year ended December 31, 2016 also included a reimbursement in the third quarter of 2016 of \$0.4 million in site restoration expenditures pursuant to indemnifications provided to the Company by previous owners of the industrial sites.

On April 1, 2016, 2,752,940 options and 925,198 RSUs were granted to certain officers and employees of the Company. See Section 8, *Liquidity and Capital Resources* of this MD&A for additional information on the Company's share-based compensation plans. Changes in share-based compensation expense from period to period result primarily from vesting of RSUs as well as movement in the Company's share price which affects the per unit valuation of outstanding RSUs and DSUs. Share-based compensation expense in the three months and year ended December 31, 2016 also included compensation expense for stock options of \$0.2 million and \$0.7 million, respectively.

5.4 Other Comprehensive Loss

The other comprehensive loss of \$20.6 million for the year ended December 31, 2015 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.

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, 2016	December 31, 2015
Assets		
Cash and cash equivalents	\$ 3.0	\$ 7.8
Other assets	4.4	2.6
Investments in private entities	320.5	322.1
Investments in associates	1.3	3.0
	\$ 329.2	\$ 335.5
Liabilities		
Accounts payable and accrued liabilities	\$ 7.3	\$ 5.5
Site restoration provision	3.4	3.9
	10.7	9.4
Shareholders' equity	318.5	326.1
Total liabilities and shareholders' equity	\$ 329.2	\$ 335.5

6.1 Cash and Cash Equivalents

At December 31, 2016, the Company had cash and cash equivalents of \$3.0 million compared to \$7.8 million at December 31, 2015.

6.2 Other Assets

Other assets at December 31, 2016 included the Company's portfolio investment in ASOP LP with a fair value of \$1.9 million (December 31, 2015 - \$1.9 million). Other assets at December 31, 2016 also included \$0.1 million of capital assets (December 31, 2015 - \$0.1 million). Depreciation expense for the capital assets was nominal for the three months and years ended December 31, 2016 and 2015.

6.3 Investments in Private Entities

The Company's investments in private entities consist of its investments in HIIG (through the HIIG Partnership), Arena Finance and Arena Origination, which are accounted for at FVTPL. The fair values of the HIIG Partnership, Arena Finance and Arena Origination at December 31, 2016 were determined to be \$145.3 million, \$142.8 million and \$32.4 million, respectively (December 31, 2015 - \$146.0 million, \$143.1 million and \$33.0 million, respectively). See discussion in Section 3, *Investments* of this MD&A.

6.4 Investments in Associates

The Company's investments in associates consist of the Company's indirect investment in Arena Investors. These investments are accounted for using the equity method. The carrying value of the Company's investments in the Associates at December 31, 2016 was \$1.3 million (December 31, 2015 - \$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 \$7.3 million at December 31, 2016 and \$5.5 million at December 31, 2015. Accounts payable and accrued liabilities at December 31, 2016 included liabilities related to accrued employee bonuses of \$0.8 million (December 31, 2015 - \$0.5 million), RSUs of \$5.4 million (December 31, 2015 - \$3.8 million) and DSUs of \$0.8 million (December 31, 2015 - \$0.6 million). 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 \$3.4 million at December 31, 2016 and \$3.9 million at December 31, 2015 relates to costs associated with soil and groundwater reclamation and remediation costs. The decrease in the provision from December 31, 2015 to December 31, 2016 of \$0.5 million was due to a payment in the third quarter of 2016 of \$0.4 million related to expenditures incurred pursuant to an indemnification as well as \$0.2 million resulting from a change in the discount and inflation rates used to arrive at the site restoration provision at December 31, 2016, offset in part by a foreign exchange adjustment of \$0.1 million. See discussion in Section 5.3, *Expenses* of this MD&A for additional information on the reimbursement to the Company of these expenditures.

The Westaim Corporation
Year ended December 31, 2016

(Currency amounts in United States dollars unless otherwise indicated)

6. ANALYSIS OF FINANCIAL POSITION (continued)

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. Reimbursements are recorded when received.

6.7 Shareholders' Equity

The details of shareholders' equity are as follows:

(millions)	December 31, 2016	December 31, 2015
Common shares	\$ 382.2	\$ 382.2
Contributed surplus	12.2	11.5
Accumulated other comprehensive loss	(2.3)	(2.3)
Deficit	(73.6)	(65.3)
Shareholders' equity	\$ 318.5	\$ 326.1

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 Financing* of this MD&A. The Company had 143,186,718 common shares outstanding at December 31, 2016 and 2015.

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 a 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.

Contributed Surplus

The increase in contributed surplus of \$0.7 million resulted from compensation expense relating to stock options in the year ended December 31, 2016.

Accumulated Other Comprehensive Loss

Accumulated other comprehensive loss of \$2.3 million at December 31, 2016 and 2015 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 increase in deficit of \$8.3 million from December 31, 2015 to December 31, 2016 is due to the loss for the year ended December 31, 2016.

7. OUTLOOK

In 2016, Arena continued to deploy its capital, with the rate of deployment accelerating in the fourth quarter. The focus of Arena's management team in 2017 is to expand Arena's diversified portfolio of quality senior ranking credit investments, increase its pipeline of investment opportunities, and grow AUM, including attracting new investors. Arena's investments are performing at or above expectations and its headcount has grown to 38 full time employees as at December 31, 2016.

HIIG's financial results in 2016 were hampered by the strengthening of its prior period claims reserves in a number of business segments. While the impact of the reserve strengthening was partially offset by an income tax benefit, HIIG incurred a loss in both the fourth quarter and full year 2016. HIIG undertook a number of initiatives in 2016 to enhance its operations and Westaim believes HIIG ended the year as a stronger organization. With the initiatives undertaken by HIIG, and an improved economy and rising interest rates in the United States, HIIG's financial performance is expected to improve in 2017, despite continuing soft market conditions in the insurance industry.

The Company continues to seek additional investment opportunities to create shareholder value through partnering with other 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.

On August 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 three months ended March 31, 2015, the Company received a reimbursement of \$2.5 million in share issuance costs in connection with the equity financings completed in 2014.

At December 31, 2016 and 2015, the Company had 143,186,718 common shares outstanding, with a stated capital of \$382.2 million.

There were no Class A or Class B preferred shares outstanding at December 31, 2016 and 2015.

Dividends

No dividends were paid in the years ended December 31, 2016 and 2015.

Share-based Compensation Plans

The Company's long-term equity incentive plan (the "Incentive Plan") provides for grants of RSUs, DSUs, stock appreciation rights and other share-based awards. The Company also has a stand-alone incentive stock option plan (the "Option Plan").

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 from 7,042,150 to 14,318,671. Such amendments were approved by the shareholders of the Company at the annual and special meeting of shareholders 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.

At December 31, 2016, the Company had 2,754,940 stock options outstanding (December 31, 2015 - 3,000 stock options outstanding). On April 1, 2016, 2,752,940 options were granted to certain officers and employees of the Company. These options have a term of seven years, vest in three equal instalments on April 1, 2017, April 1, 2018 and April 1, 2019, and have an exercise price of C\$3.25. In the three months and year ended December 31, 2016, compensation expense relating to options was \$0.2 million and \$0.7 million, respectively, with an offsetting increase to contributed surplus.

At December 31, 2016, the Company had 398,731 DSUs outstanding (December 31, 2015 - 319,465 DSUs outstanding). DSUs are issued to certain 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. In the year ended December 31, 2016, 67,695 DSUs were exercised for a cash payment of C\$3.33 per DSU, and the DSU liability was correspondingly reduced by \$0.2 million.

The Westaim Corporation
Year ended December 31, 2016

(Currency amounts in United States dollars unless otherwise indicated)

8. LIQUIDITY AND CAPITAL RESOURCES (continued)

The Company also had 3,082,073 RSUs outstanding at December 31, 2016 (December 31, 2015 - 2,209,563 RSUs outstanding). An aggregate of 2,375,000 RSUs were granted to certain officers, employees and consultants on November 14, 2014, and at December 31, 2016, 2,152,343 (90.6%) of these RSUs had vested, of which 218,125 units had been exercised and 1,934,218 units were outstanding. The remaining 222,657 RSUs vest evenly over 5 months after December 31, 2016.

On April 1, 2016, 925,198 additional RSUs were granted to certain officers and employees of the Company. These RSUs vest in three equal instalments on April 1, 2017, April 1, 2018 and December 31, 2018 and, once vested, may be settled, at the election of the holder, in common shares of the Company or cash based on the prevailing market price of the common shares on the settlement date.

In the year ended December 31, 2016, 52,688 RSUs were exercised for a cash payment of C\$2.55 per RSU and the RSU liability was correspondingly reduced by \$0.1 million.

At December 31, 2016, accounts payable and accrued liabilities included amounts related to outstanding DSUs of \$0.8 million (December 31, 2015 - \$0.6 million) and outstanding RSUs of \$5.4 million (December 31, 2015 - \$3.8 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 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, 2016 (millions)	One year or less	No specific date	Total
Financial assets:			
Cash and cash equivalents	\$ 3.0	\$ -	\$ 3.0
Other assets *	2.4	1.9	4.3
Investments in private entities	-	320.5	320.5
Investments in associates	-	1.3	1.3
Total financial assets	5.4	323.7	329.1
Financial obligations:			
Accounts payable and accrued liabilities	1.1	6.2	7.3
Site restoration provision	-	3.4	3.4
Total financial obligations	1.1	9.6	10.7
Financial assets net of financial obligations	\$ 4.3	\$ 314.1	\$ 318.4

* excluding capital assets

December 31, 2015 (millions)	One year or less	No specific date	Total
Financial assets:			
Cash and cash equivalents	\$ 7.8	\$ -	\$ 7.8
Other assets *	0.6	1.9	2.5
Investments in private entities	-	322.1	322.1
Investments in associates	-	3.0	3.0
Total financial assets	8.4	327.0	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	\$ 7.3	\$ 318.7	\$ 326.0

* 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.

The Westaim Corporation
Year ended December 31, 2016

(Currency amounts in United States dollars unless otherwise indicated)

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	
	2016	2015	2016	2015
Salaries and benefits	\$ 0.2	\$ 1.4	\$ 2.5	\$ 1.9
Share-based compensation	0.9	0.2	2.5	2.4
	\$ 1.1	\$ 1.6	\$ 5.0	\$ 4.3

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 were nominal in the three months ended December 31, 2016 and 2015 and \$0.1 million in each of the years ended December 31, 2016 and 2015. Compensation expense relating to RSUs issued to the Consultant was nominal in the three months and year ended December 31, 2016, and nominal and \$0.2 million in the three months and year ended December 31, 2015, respectively, and the amounts were included in the consolidated statements of (loss) profit and other comprehensive loss under share-based compensation expense. During the year ended December 31, 2015, 115,937 RSUs were exercised for a cash payment of C\$2.78 per RSU, of \$0.2 million. At December 31, 2016, a liability of \$0.1 million (December 31, 2015 - \$0.1 million) had been accrued in the consolidated statements of financial position with respect to outstanding RSUs held by the Consultant.

On September 28, 2016, AFHC granted a \$10.0 million revolving loan facility to the Associates to fund the working capital needs of Arena Investors. The loan facility has a term of 36 months and bears interest at a rate of 5.25% per annum. At December 31, 2016, WAHII had drawn down the loan facility by \$2.0 million. Interest on the outstanding loan from September 28, 2016 to December 31, 2016 was nominal. The Company has provided a limited recourse guaranty to AFHC pledging as security for the loan facility its ownership interests in the Associates.

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 Financing* 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 Financing* of this MD&A), and 769,231 common shares of the Company were issued to Mr. Zwirn at C\$3.25 per share for aggregate gross proceeds of \$1.9 million.

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). The Company earned and received interest on the loan of \$0.3 million and \$1.2 million in the three months and year ended December 31, 2016, respectively, and \$0.3 million and \$0.4 million in the three months and year ended December 31, 2015, respectively.

The Company earned advisory fees from HIIG of \$0.3 million and \$1.0 million in the three months and year ended December 31, 2016, respectively, and \$0.2 million and \$1.0 million in the three months and year ended December 31, 2015, respectively.

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.

The Westaim Corporation
Year ended December 31, 2016

(Currency amounts in United States dollars unless otherwise indicated)

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.

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, 2016. 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, 2016. The significant unobservable inputs used in the valuation of the HIIG Partnership, Arena Finance and Arena Origination at December 31, 2016 were the equity of each of the entities at December 31, 2016 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, 2016. 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, 2016 and 2015. 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, 2016 and 2015.

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, 2016 and 2015.

12. QUARTERLY FINANCIAL INFORMATION

	Q4 2016	Q3 2016	Q2 2016	Q1 2016	Q4 2015	Q3 2015	Q2 2015	Q1 2015
(millions)							(restated ¹)	
Revenue	\$ 0.7	\$ 0.6	\$ 0.7	\$ 0.7	\$ 0.5	\$ 0.4	\$ 0.3	\$ 0.3
Net results of investments - (loss) gain	(1.9)	(2.3)	(2.8)	3.0	(3.2)	6.1	(2.1)	11.9
Recovery of expenses (expenses)	0.3	(2.0)	(3.0)	(2.3)	(3.0)	0.5	(1.7)	(2.3)
(Loss) profit	(0.9)	(3.7)	(5.1)	1.4	(5.7)	7.0	(3.5)	9.9
Other comprehensive (loss) income	-	-	-	-	-	(9.0)	2.9	(14.3)
Comprehensive (loss) income	\$ (0.9)	\$ (3.7)	\$ (5.1)	\$ 1.4	\$ (5.7)	\$ (2.0)	\$ (0.6)	\$ (4.4)

¹ Amounts have been restated due to a change in presentation currency from the Canadian dollar to the United States dollar

Revenue consisted of investment income and advisory fee income.

Net results of investments in Q4, 2016 included an unrealized loss on investments in private entities of \$1.3 million and share of losses of Associates of \$0.6 million. Net results of investments in Q3, 2016 included an unrealized loss on investments in private entities of \$1.5 million and share of losses of Associates of \$0.8 million. Net results of investments in Q2, 2016 included an unrealized loss on investments in private entities of \$2.2 million and share of losses of Associates of \$0.6 million. Net results of investments in Q1, 2016 included an unrealized gain on investments in private entities of \$3.4 million and share of losses of Associates of \$0.4 million. 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, 2016 comprised salaries and general and administrative costs of \$0.4 million, site restoration provision recovery of \$1.5 million, share-based compensation expense of \$0.9 million, professional fees of \$0.1 million and a foreign exchange gain of \$0.2 million. Expenses in Q3, 2016 comprised salaries and general and administrative costs of \$1.1 million, site restoration provision recovery of \$0.2 million which was net of a reimbursement of \$0.4 million, share-based compensation expense of \$1.0 million and professional fees of \$0.1 million. Expenses in Q2, 2016 comprised salaries and general and administrative costs of \$1.2 million, site restoration provision expense of \$0.9 million, share-based compensation expense of \$0.5 million, professional fees of \$0.3 million and a foreign exchange loss of \$0.1 million. Expenses in Q1, 2016 comprised salaries and general and administrative costs of \$1.1 million, site restoration provision expense of \$0.3 million, professional fees of \$0.4 million, share-based compensation expense of \$0.2 million, and a foreign exchange loss of \$0.3 million.

The Westaim Corporation
Year ended December 31, 2016

(Currency amounts in United States dollars unless otherwise indicated)

12. QUARTERLY FINANCIAL INFORMATION (continued)

Expenses in Q4, 2015 comprised salaries and 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 share-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 share-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.

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. 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 30, 2017 for its fiscal year ended December 31, 2016 which is available on SEDAR at www.sedar.com.

The Westaim Corporation
Year ended December 31, 2016
(Currency amounts in United States dollars unless otherwise indicated)

14. ADDITIONAL ARENA GROUP INVESTMENT SCHEDULES

ARENA FINANCE

The investments of AFHC and AFHC's subsidiaries shown by investment strategy are as follows:

Investment by Strategy				December 31, 2016		
(unaudited)						
(millions except for number of positions and percentage)	Number of positions	Cost	Fair value	Percentage of investments at fair value	% Debt investments	% Equity investments
Corporate Private Credit	17	\$ 41.3	\$ 41.0	39.0%	39.0%	-
Real Estate Private Credit and Real Estate Assets	16	14.3	14.0	13.2%	13.2%	-
Structured Finance ¹	17	38.8	38.8	36.9%	36.9%	-
Other Securities	41	11.1	11.4	10.9%	8.3%	2.6%
	91	\$ 105.5	\$ 105.2	100.0%	97.4%	2.6%

¹ The investments in Structured Finance are inclusive of investments in the following investment strategies of the Arena Group: Commercial & Industrial Assets, Structured Finance Investments and Consumer Assets.

Investment by Strategy				December 31, 2015		
(unaudited)						
(millions except for number of positions and percentage)	Number of positions	Cost	Fair value	Percentage of investments at fair value	% Debt investments	% Equity investments
Corporate Private Credit	6	\$ 16.0	\$ 16.0	37.8%	37.8%	-
Structured Finance ¹	1	4.3	4.3	10.1%	10.1%	-
Other Securities	37	22.2	22.1	52.1%	1.9%	50.2%
	44	\$ 42.5	\$ 42.4	100.0%	49.8%	50.2%

¹ The investments in Structured Finance are inclusive of investments in the following investment strategies of the Arena Group: Commercial & Industrial Assets, Structured Finance Investments and Consumer Assets.

Investments in Corporate Private Credit, Real Estate Private Credit and Real Estate Assets, and Structured Finance relate to loans issued to privately held entities. Investments in Other Securities are net of short positions and comprise publicly traded corporate bonds, equity securities, bank debt, private investments in public entity and derivatives.

The Westaim Corporation
Year ended December 31, 2016

(Currency amounts in United States dollars unless otherwise indicated)

14. ADDITIONAL ARENA GROUP INVESTMENT SCHEDULES (continued)

ARENA FINANCE

The investments of AFHC and AFHC's subsidiaries shown by industry are as follows:

Investments by Industry (unaudited)	December 31, 2016			December 31, 2015		
	Cost	Fair value	Percentage of investments at fair value	Cost	Fair value	Percentage of investments at fair value
(millions except for percentage)						
Loans						
Corporate Private Credit						
Business Services	\$ 11.8	\$ 11.8	11.3%	\$ 6.3	\$ 6.3	14.8%
Consumer Products	3.6	3.6	3.4%	3.4	3.4	8.1%
Financial Services	4.5	4.5	4.2%	-	-	-
Healthcare Services	9.5	9.5	9.1%	6.3	6.3	14.9%
Industrial	2.3	2.3	2.2%	-	-	-
Manufacturing	2.9	2.9	2.7%	-	-	-
Oil and Gas	3.0	3.0	2.8%	-	-	-
Retail	3.7	3.4	3.3%	-	-	-
	<u>41.3</u>	<u>41.0</u>	<u>39.0%</u>	<u>16.0</u>	<u>16.0</u>	<u>37.8%</u>
Real Estate Private Credit and Real Estate Assets						
Commercial	2.0	2.0	1.9%	-	-	-
Hospitality	1.9	1.8	1.7%	-	-	-
Industrial	0.4	0.4	0.4%	-	-	-
Land						
- Commercial Development	0.4	0.3	0.3%	-	-	-
Land						
- Multi-Family Development	2.4	2.4	2.2%	-	-	-
Land						
- Single-Family Luxury Development	2.8	2.8	2.7%	-	-	-
Mixed Use	0.3	0.3	0.3%	-	-	-
Multi Family	0.4	0.4	0.3%	-	-	-
Residential	3.4	3.4	3.2%	-	-	-
Retail	0.3	0.2	0.2%	-	-	-
	<u>14.3</u>	<u>14.0</u>	<u>13.2%</u>	<u>-</u>	<u>-</u>	<u>-</u>
Structured Finance						
Commercial & Industrial	2.0	2.0	1.9%	-	-	-
Consumer	16.2	16.4	15.6%	4.3	4.3	10.1%
Lease/Equipment	4.6	4.6	4.4%	-	-	-
Real Estate-related	4.0	4.0	3.8%	-	-	-
Other assets	12.0	11.8	11.2%	-	-	-
	<u>38.8</u>	<u>38.8</u>	<u>36.9%</u>	<u>4.3</u>	<u>4.3</u>	<u>10.1%</u>
Total Loans	94.4	93.8	89.1%	20.3	20.3	47.9%
Other Securities ⁽¹⁾						
Consumer Products	1.4	1.4	1.4%	6.2	6.2	14.6%
Financial Services	0.5	0.5	0.5%	6.9	7.0	16.5%
Healthcare Services	0.3	0.4	0.3%	2.5	2.6	6.1%
Industrial	(0.1)	(0.3)	(0.3)%	-	-	-
Oil and Gas	9.0	9.4	9.0%	2.2	1.9	4.5%
Telecommunications	-	-	-	1.2	1.2	2.8%
Information Technology	-	-	-	3.2	3.2	7.6%
	<u>11.1</u>	<u>11.4</u>	<u>10.9%</u>	<u>22.2</u>	<u>22.1</u>	<u>52.1%</u>
	<u>\$ 105.5</u>	<u>\$ 105.2</u>	<u>100.0%</u>	<u>\$ 42.5</u>	<u>\$ 42.4</u>	<u>100.0%</u>

¹ Net of short positions

The Westaim Corporation
Year ended December 31, 2016
(Currency amounts in United States dollars unless otherwise indicated)

14. ADDITIONAL ARENA GROUP INVESTMENT SCHEDULES (continued)

ARENA FINANCE

The investments of AFHC and AFHC's subsidiaries shown by geographic breakdown are as follows:

Investments by Geographic Breakdown (unaudited)	December 31, 2016			December 31, 2015		
	Cost	Fair value	Percentage of investments at fair value	Cost	Fair value	Percentage of investments at fair value
(millions except for percentage)						
Loans						
United States	\$ 87.9	\$ 87.9	83.5%	\$ 20.3	\$ 20.3	47.9%
Canada	0.3	-	-	-	-	-
Europe	6.2	5.9	5.6%	-	-	-
	94.4	93.8	89.1%	20.3	20.3	47.9%
Other Securities ⁽¹⁾						
United States	8.2	7.6	7.3%	19.2	19.1	45.1%
Europe	1.5	2.5	2.4%	-	-	-
Other	1.4	1.3	1.2%	3.0	3.0	7.0%
	11.1	11.4	10.9%	22.2	22.1	52.1%
	\$ 105.5	\$ 105.2	100.0%	\$ 42.5	\$ 42.4	100.0%

¹ Net of short positions

The Westaim Corporation
Year ended December 31, 2016
(Currency amounts in United States dollars unless otherwise indicated)

14. ADDITIONAL ARENA GROUP INVESTMENT SCHEDULES (continued)

ARENA FINANCE

Details of the loan positions of AFHC and AFHC's subsidiaries are as follows:

Details of Loan Positions (unaudited) (millions except for percentage)							December 31, 2016	
Ref. no.	Investments by industry	Principal ⁽¹⁾	Investments at cost	Investments at fair value	Geographic location	Collateral	Total coupon (including PIK) ⁽²⁾	LTV ⁽³⁾
Corporate Private Credit								
CPC-1361TL	Healthcare Services	\$ 4.2	\$ 4.2	\$ 4.2	United States	First Lien	12.00%	51.0%
CPC-1571	Business Services	3.3	4.2	4.1	Europe	First Lien	30.00%	34.0%
CPC-1266TL	Business Services	3.3	3.3	3.3	United States	First Lien	8.00%	23.5%
CPC-1267TL	Business Services	3.2	3.2	3.2	United States	First Lien	8.25%	38.0%
CPC-1101	Manufacturing	2.9	2.9	2.9	United States	Second Lien	15.00%	71.0%
CPC-1450	Oil and Gas	2.9	2.8	2.8	United States	First Lien	10.69%	52.0%
CPC-1270	Consumer Products	2.5	2.5	2.5	United States	First Lien	8.75%	35.0%
CPC-1297TL	Financial Services	2.5	2.5	2.5	United States	First Lien	9.25%	49.0%
CPC-1665	Industrial	2.3	2.3	2.3	United States	Second Lien	13.50%	63.0%
CPC-ARENARC1	Financial Services	10.0 ⁽⁴⁾	2.0	2.0	United States	First Lien	5.25%	n/a ⁽⁴⁾
CPC-1268TL	Healthcare Services	1.7	1.7	1.7	United States	First Lien	8.50%	48.3%
CPC-1199TL	Retail	1.7	1.7	1.6	United States	First Lien	10.00%	60.0%
CPC-1630	Healthcare Services	1.4	1.4	1.4	United States	First Lien ⁽⁵⁾	11.54%	53.0%
CPC-1199TL2	Retail	1.2	1.2	1.2	United States	First Lien	10.00%	60.0%
CPC-1781	Business Services	1.1	1.1	1.2	United States	Second Lien	11.00%	14.0%
CPC-1265TL	Consumer Products	1.0	1.0	1.0	United States	First Lien	8.00%	28.0%
CPC-1268TL2	Healthcare Services	0.9	0.9	0.9	United States	First Lien	9.00%	48.3%
CPC-1268TL3	Healthcare Services	0.8	0.8	0.8	United States	First Lien	9.00%	48.3%
CPC-1199	Retail	0.6	0.6	0.6	United States	First Lien	10.00%	60.0%
CPC-1268TL4	Healthcare Services	0.5	0.5	0.5	United States	First Lien	9.00%	48.3%
CPC-1010	Oil and Gas	0.2	0.2	0.2	United States	First Lien	14.00%	43.0%
CPC-1268RC	Healthcare Services	0.2	0.1	0.1	United States	First Lien	9.00%	48.3%
CPC-1009RC	Retail	0.5	0.2	-	Canada	First Lien	6.20%	100.0%
CPC-1267RC	Business Services	0.2	-	-	United States	First Lien	8.25%	38.0%
CPC-1266RC	Business Services	0.5	-	-	United States	First Lien	8.00%	23.5%
CPC-1265RC	Consumer Products	0.4	-	-	United States	First Lien	8.00%	28.0%
CPC-1009A	Retail	-	-	-	Canada	First Lien	10.45%	100.0%
CPC-1009B	Retail	-	-	-	Canada	First Lien	12.45%	100.0%
Subtotal / Weighted average %		50.0	41.3	41.0			12.07%	45.7%
Real Estate Private Credit and Real Estate Assets								
REPC-1068S4	Residential	3.1	3.1	3.1	United States	First Mortgage	10.27%	47.0%
REPC-1082	Land - Single-Family							
	Luxury Development	2.8	2.8	2.8	United States	First Mortgage	12.00%	57.0%
REPC-1068	Commercial	2.1	2.1	2.0	United States	First Mortgage	5.12% ⁽⁶⁾	48.0%
REPC-1207	Hospitality	2.1	2.0	1.8	Europe	First Mortgage	7.00%	44.8%
REPC-1068S3	Land							
	- Multi-Family Development	1.5	1.5	1.5	United States	First Mortgage ⁽⁵⁾	10.27%	70.0%
REPC-1437	Land							
	- Multi-Family Development	0.9	0.9	0.9	United States	First Mortgage	11.27%	66.0%
REPC-1029	Multi-Family	0.3	0.3	0.3	United States	First Mortgage	9.00%	37.0%
REPC-1033	Mixed Use	0.2	0.2	0.2	United States	First Mortgage	9.75%	58.0%
REPC-1017	Land							
	- Commercial Development	0.2	0.2	0.2	United States	First Mortgage	15.00%	66.0%
REPC-1025	Industrial	0.2	0.2	0.2	United States	Real Property	n/a ⁽⁷⁾	n/a ⁽⁷⁾
REPC-1046	Industrial	0.2	0.2	0.2	United States	First Mortgage	15.00%	55.0%
REPC-1036	Retail	0.2	0.2	0.2	United States	First Mortgage	2.75%	38.0%
REPC-1013	Residential	0.1	0.1	0.1	United States	First Mortgage	16.50%	10.0%
REPC-1047	Land							
	- Commercial Development	0.1	0.1	0.1	United States	First Mortgage	15.00%	50.0%
REPC-1031	Multi-Family	0.1	0.1	0.1	United States	First Mortgage	6.75%	65.0%
REPC-1041	Mixed Use	0.1	0.1	0.1	United States	First Mortgage	13.00%	27.0%
REPC-1042	Residential	0.1	0.1	0.1	United States	First Mortgage	15.00%	32.0%
REPC-1015	Land							
	- Commercial Development	0.2	0.1	0.1	United States	Real Property	n/a ⁽⁷⁾	n/a ⁽⁷⁾
Subtotal / Weighted average %		14.5	14.3	14.00			9.61%	52.4%

The Westaim Corporation
Year ended December 31, 2016
(Currency amounts in United States dollars unless otherwise indicated)

14. ADDITIONAL ARENA GROUP INVESTMENT SCHEDULES (continued)

ARENA FINANCE

Details of the loan positions of AFHC and AFHC's subsidiaries are as follows (continued):

Details of Loan Positions (continued)							December 31, 2016	
(unaudited)								
(millions except for percentage)								
Ref. no.	Investments by industry	Principal ⁽¹⁾	Investments at cost	Investments at fair value	Geographic location	Collateral	Total coupon (including PIK) ⁽²⁾	LTV ⁽³⁾
Structured Finance								
SF-1467	Consumer	6.7	6.7	6.7	United States	First Lien	15.00%	75.0%
SF-1416	Other assets	9.6	4.8	4.8	United States	First Lien	18.00%	70.0%
SF-1793	Lease/Equipment	4.6	4.6	4.6	United States	Hard Asset	n/a ⁽⁸⁾	n/a ⁽⁸⁾
SF-1051	Real Estate-related	4.4	4.0	4.0	United States	First Lien	12.00%	54.0%
SF-1052F	Consumer	3.7	3.7	3.7	United States	First Lien	12.00%	60.0%
SF-1788/1933	Consumer	3.1	3.1	3.2	United States	First Lien	n/a ⁽⁹⁾	53.0%
SF-1282S2	Other assets	2.4	2.0	2.0	United States	First Lien	12.00%	85.0%
SF-1520	Commercial & Industrial	2.0	2.0	2.0	United States	First Lien	n/a ⁽¹⁰⁾	41.0%
SF-1282S3	Other assets	2.4	1.8	1.8	United States	First Lien	12.00%	85.0%
SF-1052S	Consumer	1.5	1.5	1.5	United States	First Lien	25.00%	60.0%
SF-1282	Other assets	2.4	1.4	1.4	United States	First Lien	12.00%	85.0%
SF-1934	Consumer	0.9	0.9	1.0	United States	First Lien	n/a ⁽⁹⁾	53.0%
SF-1007	Other assets	0.8	0.5	0.5	United States	First Lien	13.00%	100.0%
SF-1035	Other assets	0.4	0.4	0.4	United States	First Lien	10.52%	100.0%
SF-1788REO	Consumer	0.3	0.3	0.3	United States	First Lien	n/a ⁽⁹⁾	53.0%
SF-1018	Other assets	0.2	0.2	0.2	United States	First Lien	8.27%	100.0%
SF-1038	Other assets	0.2	0.2	0.2	United States	First Lien	n/a ⁽¹¹⁾	5.0%
SF-1002	Other assets	0.4	0.3	0.2	United States	First Lien	11.00%	100.0%
SF-1027	Other assets	0.1	0.1	0.1	United States	First Lien	n/a ⁽¹¹⁾	28.1%
SF-1020	Consumer	0.1	0.1	0.1	United States	Unsecured	n/a ⁽¹²⁾	100.0%
SF-1026	Other assets	0.1	0.1	0.1	United States	First Lien	n/a ⁽¹¹⁾	26.2%
SF-1037	Other assets	0.1	0.1	-	United States	First Lien	12.00%	100.0%
Subtotal / Weighted average %		46.4	38.8	38.8			14.45%	66.7%
Total / Weighted average %		\$ 110.9	\$ 94.4	\$ 93.8			12.46%	55.0%

¹ Principal represents the total funding commitment of a loan which, if applicable, is inclusive of any unfunded portion of the commitment at the end of the reporting period. Where a loan is issued at a discount, the cost amount includes the accreted discount as of the end of the reporting period. A loan may also be acquired at a cost lower than the par value of the principal outstanding.

² Some investments bear interest at a rate that may be determined by reference to London Interbank Offered Rate ("LIBOR") or Prime which reset daily, monthly, quarterly, or semi-annually and may be subject to a floor. For each, the Company has provided the current contractual interest rate in effect at December 31, 2016. Interest rates listed are inclusive of PIK, where applicable. PIK is interest paid in kind through an increase in the principal amount of the loan. The internal rate of return for many investments is generally greater than or equal to the total coupon (additional yield resulting from original issue discounts and/or some form of profit sharing, e.g. warrants). In the event that the internal rate of return on the investment is less than the stated rate, the lower rate is noted.

³ Loan to value ("LTV") represents the value of the outstanding loan as a percentage of the estimated fair value of the underlying collateral as of December 31, 2016.

⁴ Instrument relates to a revolving loan facility granted to Arena Investors (see Section 9, *Related Party Transactions* of this MD&A for additional information on the loan facility).

⁵ Denotes subordinate position within the structure.

⁶ Coupon represents a weighted average rate for three non-performing loans acquired from a regional commercial bank.

⁷ Coupon and LTV not applicable to real property.

⁸ Investment represents an aircraft purchased for repositioning. Coupon and LTV not applicable to hard assets.

⁹ Interest not accrued on loans purchased as non-performing.

¹⁰ Interest not accrued on investment in litigation claim proceeds.

¹¹ Investment in litigation claim proceeds with no stated coupon rate.

¹² Investment with no stated coupon rate.

The Westaim Corporation
Year ended December 31, 2016
(Currency amounts in United States dollars unless otherwise indicated)

14. ADDITIONAL ARENA GROUP INVESTMENT SCHEDULES (continued)

ARENA FINANCE

Details of the loan positions of AFHC and AFHC's subsidiaries are as follows (continued):

Details of Loan Positions							December 31, 2015	
(unaudited)								
(millions except for percentage)								
Ref. no.	Investments by industry	Principal ⁽¹⁾	Investments at cost	Investments at fair value	Geographic location	Collateral	Total coupon (including PIK) ⁽²⁾	LTV ⁽³⁾
Corporate Private Credit								
CPC-1100	Healthcare Services	\$ 4.5	\$ 4.5	\$ 4.5	United States	First Lien	9.75%	44.0%
CPC-1266	Business Services	3.5	3.3	3.3	United States	First Lien	8.00%	19.0%
CPC-1267	Business Services	3.0	3.0	3.0	United States	First Lien	8.25%	52.0%
CPC-1270	Consumer Products	2.5	2.5	2.5	United States	First Lien	8.75%	54.0%
CPC-1268	Healthcare Services	1.8	1.8	1.8	United States	First Lien	8.50%	58.0%
CPC-1265	Consumer Products	0.9	0.9	0.9	United States	First Lien	8.00%	24.0%
Subtotal / Weighted average %		16.2	16.0	16.0			8.70%	42.1%
Structured Finance								
SF-1052	Consumer	4.3	4.3	4.3	United States	First Lien	15.99%	83.0%
Subtotal / Weighted average %		4.3	4.3	4.3			15.99%	83.0%
Total / Weighted average %		\$ 20.5	\$ 20.3	\$ 20.3			10.22%	50.6%

¹ Principal represents the total funding commitment of a loan which, if applicable, is inclusive of any unfunded portion of the commitment at the end of the reporting period. Where a loan is issued at a discount, the cost amount includes the accreted discount as of the end of the reporting period. A loan may also be acquired at a cost lower than the par value of the principal outstanding.

² Some investments bear interest at a rate that may be determined by reference to London Interbank Offered Rate ("LIBOR") or Prime which reset daily, monthly, quarterly, or semi-annually and may be subject to a floor. For each, the Company has provided the current contractual interest rate in effect at December 31, 2015. Interest rates listed are inclusive of PIK, where applicable. PIK is interest paid in kind through an increase in the principal amount of the loan. The internal rate of return for many investments is generally greater than or equal to the total coupon (additional yield resulting from original issue discounts and/or some form of profit sharing, e.g. warrants). In the event that the internal rate of return on the investment is less than the stated rate, the lower rate is noted.

³ Loan to value ("LTV") represents the value of the outstanding loan as a percentage of the estimated fair value of the underlying collateral as of December 31, 2015.

The Westaim Corporation
Year ended December 31, 2016
(Currency amounts in United States dollars unless otherwise indicated)

14. ADDITIONAL ARENA GROUP INVESTMENT SCHEDULES (continued)

ARENA ORIGINATION

The investments of AOC shown by investment strategy are as follows:

Investment by Strategy						December 31, 2016	
(unaudited)							
(millions except for number of positions and percentage)	Number of positions	Cost	Fair value	Percentage of investments at fair value	% Debt investments	% Equity investments	
Investments by strategy:							
Corporate Private Credit	2	\$ 3.5	\$ 3.5	18.5%	18.5%	-	
Real Estate Private Credit and Real Estate Assets	2	6.6	6.7	35.5%	35.5%	-	
Structured Finance ¹	5	8.0	8.0	42.4%	42.4%	-	
Other Securities	16	0.7	0.7	3.6%	1.8%	1.8%	
	25	\$ 18.8	\$ 18.9	100.0%	98.2%	1.8%	

¹ The investments in Structured Finance are inclusive of investments in the following investment strategies of the Arena Group: Commercial & Industrial Assets, Structured Finance Investments and Consumer Assets.

Investment by Strategy						December 31, 2015	
(unaudited)							
(millions except for number of positions and percentage)	Number of positions	Cost	Fair value	Percentage of investments at fair value	% Debt investments	% Equity investments	
Investments by strategy:							
Corporate Private Credit	1	\$ 6.0	\$ 6.0	42.8%	42.8%	-	
Real Estate Private Credit and Real Estate Assets	1	2.7	2.7	19.6%	19.6%	-	
Other Securities	39	5.3	5.3	37.6%	1.2%	36.4%	
	41	\$ 14.0	\$ 14.0	100.0%	63.6%	36.4%	

Investments in Corporate Private Credit, Real Estate Private Credit and Real Estate Assets, and Structured Finance relate to loans issued to privately held entities. Investments in Other Securities are net of short positions and comprise publicly traded corporate bonds, equity securities, bank debt, private investments in public entity and derivatives.

The Westaim Corporation
Year ended December 31, 2016
(Currency amounts in United States dollars unless otherwise indicated)

14. ADDITIONAL ARENA GROUP INVESTMENT SCHEDULES (continued)

ARENA ORIGINATION

The investments of AOC shown by industry are as follows:

Investments by Industry (unaudited)	December 31, 2016			December 31, 2015			
	(millions except for percentage)	Cost	Fair value	Percentage of investments at fair value	Cost	Fair value	Percentage of investments at fair value
Loans							
Corporate Private Credit							
Oil and Gas	\$ 3.5	\$ 3.5	18.5%	\$ -	\$ -	-	-
Manufacturing	-	-	-	6.0	6.0	42.8%	42.8%
	3.5	3.5	18.5%	6.0	6.0	42.8%	42.8%
Real Estate Private Credit and Real Estate Assets							
Land							
- Commercial Development	4.4	4.5	23.6%	2.7	2.7	19.6%	19.6%
Land							
- Multi-Family Development	2.2	2.2	11.9%	-	-	-	-
	6.6	6.7	35.5%	2.7	2.7	19.6%	19.6%
Structured Finance							
Consumer	6.2	6.2	32.8%	-	-	-	-
Other assets	1.8	1.8	9.6%	-	-	-	-
	8.0	8.0	42.4%	-	-	-	-
Total Loans	18.1	18.2	96.4%	8.7	8.7	62.4%	62.4%
Other Securities ⁽¹⁾							
Consumer Products	-	-	-	1.4	1.4	10.3%	10.3%
Financial Services	0.1	0.1	0.5%	1.6	1.6	11.7%	11.7%
Healthcare Services	0.1	0.1	0.5%	0.6	0.6	4.2%	4.2%
Information Technology	-	-	-	0.8	0.8	5.3%	5.3%
Oil and Gas	0.5	0.5	2.6%	0.6	0.6	4.1%	4.1%
Telecommunications	-	-	-	0.3	0.3	2.0%	2.0%
	0.7	0.7	3.6%	5.3	5.3	37.6%	37.6%
	\$ 18.8	\$ 18.9	100.0%	\$ 14.0	\$ 14.0	100.0%	100.0%

¹ Net of short positions

The investments of AOC shown by geographic breakdown are as follows:

Investments by Geographic Breakdown (unaudited)	December 31, 2016			December 31, 2015			
	(millions except for percentage)	Cost	Fair value	Percentage of investments at fair value	Cost	Fair value	Percentage of investments at fair value
Loans							
United States	\$ 18.1	\$ 18.2	96.4%	\$ 8.7	\$ 8.7	62.4%	62.4%
Other Securities ⁽¹⁾							
United States	0.3	0.1	0.5%	4.6	4.6	32.7%	32.7%
Europe	0.1	0.3	1.5%	-	-	-	-
Other	0.3	0.3	1.6%	0.7	0.7	4.9%	4.9%
	0.7	0.7	3.6%	5.3	5.3	37.6%	37.6%
	\$ 18.8	\$ 18.9	100.0%	\$ 14.0	\$ 14.0	100.0%	100.0%

¹ Net of short positions

The Westaim Corporation
Year ended December 31, 2016
(Currency amounts in United States dollars unless otherwise indicated)

14. ADDITIONAL ARENA GROUP INVESTMENT SCHEDULES (continued)

ARENA ORIGINATION

Details of the loan positions of AOC are as follows:

Details of Loan Positions								December 31, 2016	
(unaudited)									
(millions except for percentage)									
Ref. no.	Investments by industry	Principal ⁽¹⁾	Investments at cost	Investments at fair value	Geographic location	Collateral	Total coupon (including PIK) ⁽²⁾	LTV ⁽³⁾	
Corporate Private Credit									
CPC-2051	Oil and Gas	\$ 2.5	\$ 2.5	\$ 2.5	United States	Second Lien	14.25%	57.0%	
CPC-1803	Oil and Gas	5.9	1.0	1.0	United States	First Lien	11.00%	31.0%	
Subtotal / Weighted average %		8.4	3.5	3.5			13.31%	49.5%	
Real Estate Private Credit and Real Estate Assets									
REPC-1942	Land - Commercial Development	4.4	4.4	4.5	United States	Real Property	n/a ⁽⁴⁾	n/a ⁽⁴⁾	
REPC-1766	Land - Multi-Family Development	2.2	2.2	2.2	United States	First Mortgage	15.27%	61.8%	
Subtotal / Weighted average %		6.6	6.6	6.7			15.27%	61.8%	
Structured Finance									
SF-1245	Consumer	5.2	5.1	5.1	United States	Second Lien	13.00%	29.0%	
SF-1839	Consumer	1.1	1.1	1.1	United States	First Lien	18.00%	76.0%	
SF-1800	Other assets	1.0	1.0	1.0	United States	First Lien	14.00%	80.0%	
SF-1519	Other assets	1.5	0.7	0.7	United States	Second Lien	15.00%	23.0%	
SF-1294	Other assets	0.1	0.1	0.1	United States	First Lien	n/a ⁽⁵⁾	12.0%	
SF-1669	Other assets	-	-	-	United States	First Lien	n/a ⁽⁵⁾	12.0%	
SF-1381	Other assets	-	-	-	United States	First Lien	n/a ⁽⁵⁾	12.0%	
Subtotal / Weighted average %		8.9	8.0	8.0			14.02%	40.9%	
Total / Weighted average %		\$ 23.9	\$ 18.1	\$ 18.2			14.05%	47.0%	

¹ Principal represents the total funding commitment of a loan which, if applicable, is inclusive of any unfunded portion of the commitment at the end of the reporting period. Where a loan is issued at a discount, the cost amount includes the accreted discount as of the end of the reporting period. A loan may also be acquired at a cost lower than the par value of the principal outstanding.

² Some investments bear interest at a rate that may be determined by reference to London Interbank Offered Rate ("LIBOR") or Prime which reset daily, monthly, quarterly, or semi-annually and may be subject to a floor. For each, the Company has provided the current contractual interest rate in effect at December 31, 2016. Interest rates listed are inclusive of PIK, where applicable. PIK is interest paid in kind through an increase in the principal amount of the loan. The internal rate of return for many investments is generally greater than or equal to the total coupon (additional yield resulting from original issue discounts and/or some form of profit sharing, e.g. warrants). In the event that the internal rate of return on the investment is less than the stated rate, the lower rate is noted.

³ Loan to value ("LTV") represents the value of the outstanding loan as a percentage of the estimated fair value of the underlying collateral as of December 31, 2016.

⁴ Coupon and LTV not applicable to real property.

⁵ Investment in litigation claim proceeds with no stated coupon rate.

Details of Loan Positions								December 31, 2015	
(unaudited)									
(millions except for percentage)									
Ref. no.	Investments by industry	Principal ⁽¹⁾	Investments at cost	Investments at fair value	Geographic location	Collateral	Total coupon (including PIK) ⁽²⁾	LTV ⁽³⁾	
Corporate Private Credit									
CPC-1101	Manufacturing	\$ 6.0	\$ 6.0	\$ 6.0	United States	Second Lien	12.60%	55.0%	
Real Estate Private Credit and Real Estate Assets									
REPC-1003	Land - Commercial Development	2.7	2.7	2.7	United States	First Mortgage	12.50%	67.0%	
Total / Weighted average %		\$ 8.7	\$ 8.7	\$ 8.7			12.57%	58.8%	

¹ Principal represents the total funding commitment of a loan which, if applicable, is inclusive of any unfunded portion of the commitment at the end of the reporting period. Where a loan is issued at a discount, the cost amount includes the accreted discount as of the end of the reporting period. A loan may also be acquired at a cost lower than the par value of the principal outstanding.

² Some investments bear interest at a rate that may be determined by reference to London Interbank Offered Rate ("LIBOR") or Prime which reset daily, monthly, quarterly, or semi-annually and may be subject to a floor. For each, the Company has provided the current contractual interest rate in effect at December 31, 2015. Interest rates listed are inclusive of PIK, where applicable. PIK is interest paid in kind through an increase in the principal amount of the loan. The internal rate of return for many investments is generally greater than or equal to the total coupon (additional yield resulting from original issue discounts and/or some form of profit sharing, e.g. warrants). In the event that the internal rate of return on the investment is less than the stated rate, the lower rate is noted.

³ Loan to value ("LTV") represents the value of the outstanding loan as a percentage of the estimated fair value of the underlying collateral as of December 31, 2015.

15. 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 30, 2017

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, 2016 and December 31, 2015, and the consolidated statements of (loss) profit and other comprehensive loss, 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, 2016 and December 31, 2015, 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 30, 2017

Toronto, Canada

The Westaim Corporation
Consolidated Statements of Financial Position

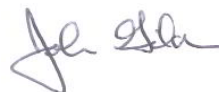
(thousands of United States dollars)	December 31 2016	December 31 2015
ASSETS		
Cash and cash equivalents	\$ 3,027	\$ 7,798
Other assets (note 4)	4,423	2,586
Investments in private entities (note 5)	320,464	322,133
Investments in associates (note 5)	1,254	2,991
	\$ 329,168	\$ 335,508
LIABILITIES		
Accounts payable and accrued liabilities (note 6)	\$ 7,224	\$ 5,521
Site restoration provision (note 7)	3,439	3,899
	10,663	9,420
Commitments and contingent liabilities (note 8)		
SHAREHOLDERS' EQUITY		
Share capital (note 9)	382,182	382,182
Contributed surplus (note 10)	12,210	11,498
Accumulated other comprehensive loss (note 2m)	(2,227)	(2,227)
Deficit	(73,660)	(65,365)
	318,505	326,088
	\$ 329,168	\$ 335,508

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 (Loss) Profit and Other Comprehensive Loss

(thousands of United States dollars except share and per share data)	Year Ended December 31	
	2016	2015
Revenue		
Investment income	\$ 1,256	\$ 606
Fee income (note 11)	1,440	1,000
	<u>2,696</u>	<u>1,606</u>
Net results of investments		
Unrealized (loss) gain on investments in private entities (note 5):		
Unrealized loss on investments before foreign exchange	(1,669)	(3,099)
Unrealized foreign exchange gain on investments	-	16,698
Share of loss of associates (note 5)	(2,376)	(1,046)
Gain on other investments	47	89
	<u>(3,998)</u>	<u>12,642</u>
Expenses		
Salaries and benefits	2,799	2,165
General, administrative and other	979	920
Professional fees	957	1,591
Site restoration provision - (recovery) expense (note 7)	(547)	1,014
Share-based compensation (note 10)	2,622	2,693
Foreign exchange loss (gain)	183	(1,775)
	<u>6,993</u>	<u>6,608</u>
(Loss) profit	\$ (8,295)	\$ 7,640
(Loss) earnings per share - basic and diluted (note 13)	\$ (0.06)	\$ 0.08
Weighted average number of common shares outstanding (in thousands)		
Basic and diluted	143,187	94,660
(Loss) profit	\$ (8,295)	\$ 7,640
Other comprehensive loss		
Exchange differences on change in presentation currency	-	(20,558)
Comprehensive loss	\$ (8,295)	\$ (12,918)

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, 2016					
(thousands of United States dollars)	Share Capital	Contributed Surplus	Accumulated Other Comprehensive Loss	Deficit	Total Equity
Balance at January 1, 2016	\$ 382,182	\$ 11,498	\$ (2,227)	\$ (65,365)	\$ 326,088
Stock option plan expense (note 10)	-	712	-	-	712
Loss	-	-	-	(8,295)	(8,295)
Balance at December 31, 2016	\$ 382,182	\$ 12,210	\$ (2,227)	\$ (73,660)	\$ 318,505

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

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

The Westaim Corporation
Consolidated Cash Flow Statements

(thousands of United States dollars)	Year Ended December 31	
	2016	2015
Operating activities		
(Loss) profit	\$ (8,295)	\$ 7,640
Unrealized loss (gain) on investments in private entities	1,669	(13,599)
Share of loss of associates	2,376	1,046
Unrealized gain on other investments	(47)	(5)
Share-based compensation expense	2,622	2,693
Share-based compensation payments	(273)	(336)
Site restoration provision - (recovery) expense	(547)	1,014
Site restoration payments	(15)	-
Lease expense	(44)	(87)
Depreciation and amortization	48	39
Unrealized foreign exchange loss (gain)	211	(359)
Net change in other non-cash balances		
Other assets	(1,769)	(235)
Accounts payable and accrued liabilities	1	455
Cash used in operating activities	(4,063)	(1,734)
Investing activities		
Purchase of capital assets	(69)	(14)
Purchase of investments in private entities	-	(231,562)
Change in investments in associates	(639)	(4,037)
Purchase of other investments	-	(1,870)
Cash used in investing activities	(708)	(237,483)
Financing activities		
Issuance of share capital, net of issuance costs	-	171,778
Cash provided from financing activities	-	171,778
Effect of exchange rate fluctuations on cash held	-	(4,854)
Net decrease in cash and cash equivalents	(4,771)	(72,293)
Cash and cash equivalents, beginning of year	7,798	80,091
Cash and cash equivalents, end of year	\$ 3,027	\$ 7,798
Cash and cash equivalents is composed of:		
Cash	\$ 3,027	\$ 7,798

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, 2016 and 2015

(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 30, 2017.

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 principal investments consist of Houston International Insurance Group, Ltd. (through Westaim HIIG Limited Partnership) and the Arena Group (as described in note 5). 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").

All currency amounts are expressed in thousands of United States dollars ("US\$") except per share data, unless otherwise indicated.

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 (loss) profit and other comprehensive loss.

(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. Following the completion of the Arena Transactions (as described in note 5), a significant majority of the Company's revenues and costs are earned and incurred in US\$. As a result, 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, 2016 and 2015

(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 for periods prior to August 31, 2015 has been restated in US\$ in accordance with IAS 21, 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 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 (loss) profit and other comprehensive loss.

(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 included in other assets and 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.

(i) Investments

The Company's investments in private entities are classified as FVTPL and are carried at fair value. At initial recognition, investments in private entities are measured at cost, which is representative of fair value, and subsequently, at each reporting date, recorded at fair value with gains and losses arising from changes in fair values being recorded in the consolidated statements of (loss) profit and other comprehensive loss for the period in which they arise. Transaction costs on the investments are expensed as incurred.

The Westaim Corporation
Notes to Consolidated Financial Statements
For the years ended December 31, 2016 and 2015

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

2 Summary of Significant Accounting Policies (continued)

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 may include initial acquisition cost, net asset value, discounted cash flow analysis, comparable recent arm's length transactions, comparable publicly traded company metrics, 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 for each reporting period describing the valuation processes and procedures undertaken by management. The applicable valuation memoranda are 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 (loss) profit and other comprehensive loss. 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.

(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.

Future recoveries 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. Recoveries of site restoration costs are recorded when received.

The Westaim Corporation
Notes to Consolidated Financial Statements
For the years ended December 31, 2016 and 2015

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

2 Summary of Significant Accounting Policies (continued)

(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 included in contributed surplus.

(m) Accumulated other comprehensive loss

Comprehensive income (loss) consists of profit (loss) and other comprehensive income (loss). Accumulated other comprehensive loss of \$2,227 at December 31, 2016 and 2015 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.

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 or recovery is recognized over the vesting period. When a change in value occurs, it is recognized in share-based compensation and foreign exchange gain or loss 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.

On May 28, 2014, the IASB and the Financial Accounting Standards Board (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" ("IFRS 15") is available for early application with mandatory adoption required for fiscal years commencing on or after January 1, 2018 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.

The Westaim Corporation
Notes to Consolidated Financial Statements
For the years ended December 31, 2016 and 2015

(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 January 13, 2016, the IASB issued IFRS 16 "Leases" ("IFRS 16") which will replace IAS 17 "Leases". IFRS 16 will bring most leases on-balance sheet for lessees under a single model, eliminating the distinction between operating and financing leases. Lessor accounting however remains largely unchanged and the distinction between operating and finance leases is retained. The new standard is effective for periods beginning on or after January 1, 2019 with early adoption permitted if IFRS 15 has also been applied. The Company is currently assessing the impact of this new standard on its consolidated financial statements.

On June 20, 2016, the IASB issued amendments to IFRS 2 "Share-based Payment" ("IFRS 2"), clarifying the accounting for cash-settled share-based payment transactions that include a performance condition, the classification of share-based payment transactions with net settlement features for withholding tax obligations, and the accounting for modifications of share-based payment transactions from cash-settled to equity-settled. The amendments are effective for annual periods beginning on or after January 1, 2018. The Company is currently assessing the impact of these amendments on its consolidated financial statements.

4 Other Assets

Other assets consist of the following:

	December 31, 2016	December 31, 2015
Capital assets	\$ 136	\$ 115
Investment in Arena Special Opportunities Fund, LP (a)	1,922	1,875
Receivables from related parties (b)	2,200	411
Accounts receivable and other	165	185
	\$ 4,423	\$ 2,586

(a) In connection with the Arena Transactions, on August 31, 2015 the Company acquired limited partnership interests in Lantern Endowment Partners, L.P. ("Lantern") from an entity affiliated with Daniel B. Zwirn, the Chief Executive Officer of the Arena Group, for \$1,786 (the "Lantern Purchase"). On October 1, 2015, the assets of Lantern were transferred to Arena Special Opportunities Fund, LP ("ASOF LP"), a fund managed by Arena Investors, at fair value and the Company's investment in Lantern was correspondingly exchanged into an investment in ASOF LP. For a description of Arena Investors, see note 5. The Company's portfolio investment in ASOF LP is classified at Level 3 of the fair value hierarchy and measured at FVTPL. At December 31, 2016 and 2015, the fair value of the Company's interest in ASOF LP was determined by Arena Investors to be \$1,922 and \$1,875, respectively. In the years ended December 31, 2016 and 2015, the Company reported gains of \$47 and \$89, respectively, with respect to these investments in the consolidated statements of (loss) profit and other comprehensive loss.

(b) Receivables from related parties totaled \$2,200 at December 31, 2016 and \$411 at December 31, 2015 and include certain expenses paid by the Company on behalf of the Arena Group from time to time which are subject to reimbursement.

5 Investments in Private Entities and Associates

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

	Place of establishment	Principal place of business	Ownership interest as at December 31, 2016	Ownership interest as at December 31, 2015
Investments in private entities:				
- HIIG Partnership	Ontario, Canada	Ontario, Canada	58.5% owned by Westaim ¹	58.5% owned by Westaim
- Arena Finance	Ontario, Canada	Ontario, Canada	100% owned by Westaim	100% owned by Westaim
- Arena Origination	Delaware, U.S.	New York, U.S.	100% owned by Westaim	100% owned by Westaim
Investments in Associates:				
- WAHII	Delaware, U.S.	New York, U.S.	51% beneficially owned by Westaim, indirectly through WCA ²	51% beneficially owned by Westaim, indirectly through WCA ²
- ASOF-ON GP	Delaware, U.S.	New York, U.S.	51% beneficially owned by Westaim, indirectly through WCA ²	51% beneficially owned by Westaim, indirectly through WCA ²
- ASOF-OFF II GP	Delaware, U.S.	New York, U.S.	51% beneficially owned by Westaim ²	51% beneficially owned by Westaim ²

¹ On December 31, 2016, the Company transferred part of its ownership interest in the HIIG Partnership to Westaim HIIG Holdings Inc. ("HIIG Holdings"), a newly incorporated wholly-owned subsidiary, at fair value. No book gain or loss was recorded upon the transfer. Following the transfer, the Company continues to own, directly and indirectly through HIIG Holdings, 58.5% of the HIIG Partnership.

² Legal equity ownership is 100%, and 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 Westaim Corporation
Notes to Consolidated Financial Statements
For the years ended December 31, 2016 and 2015

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

5 Investments in Private Entities and Associates (continued)

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:

	Place of establishment	Principal place of business	Ownership interest as at December 31, 2016	Ownership interest as at December 31, 2015
HIIG Partnership:				
- Houston International Insurance Group, Ltd. ("HIIG")	Delaware, U.S.	Texas, U.S.	74.6% owned by HIIG Partnership	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	100% owned by Arena Finance
- Arena Finance National, LLC	Delaware, U.S.	New York, U.S.	100% owned by AFHC	100% owned by AFHC
- Arena Finance Global, LLC	Delaware, U.S.	New York, U.S.	100% owned by AFHC	100% owned by AFHC
- Arena Finance Markets GP, LLC	Delaware, U.S.	New York, U.S.	100% owned by AFHC	n/a
- Arena Finance Markets, LP	Delaware, U.S.	New York, U.S.	100% owned by AFHC	n/a
Arena Origination:				
- Arena Origination Co., LLC ("AOC")	Delaware, U.S.	New York, U.S.	100% owned by Arena Origination	100% owned by Arena Origination

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 established the following three businesses:

- Arena Investors – WAHII, ASOF-ON GP and ASOF-OFF II GP (collectively, "Arena Investors") were established to collectively operate as an investment manager offering clients access to fundamentals-based, asset-oriented credit investments. The Company's investment in 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 Company's investment in 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 Company's investment in Arena Origination is measured at FVTPL in the Company's consolidated financial statements. See "Investments in Private Entities" below.

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 the "Arena Group".

The Westaim Corporation
Notes to Consolidated Financial Statements
For the years ended December 31, 2016 and 2015

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

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 (loss) profit and other comprehensive loss.

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, 2016	Fair value	Level 1	Level 2	Level 3
Investments in private entities:				
- HIIG Partnership	\$ 145,227	-	-	\$ 145,227
- Arena Finance	142,800	-	-	142,800
- Arena Origination	32,437	-	-	32,437
	<u>\$ 320,464</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 320,464</u>

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>

There were no transfers among Levels 1, 2 and 3 during the years ended December 31, 2016 and 2015.

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

Year ended December 31, 2016	Opening balance	Unrealized loss	Ending balance
Investments in private entities:			
- HIIG Partnership	\$ 146,066	\$ (839)	\$ 145,227
- Arena Finance	143,082	(282)	142,800
- Arena Origination	32,985	(548)	32,437
	<u>\$ 322,133</u>	<u>\$ (1,669)</u>	<u>\$ 320,464</u>

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>

In the year ended December 31, 2016, the Company recorded an unrealized loss of \$1,669 on its investments in private entities. In the year ended December 31, 2015, the Company recorded an unrealized loss of \$3,099 and an unrealized foreign exchange gain of \$16,698 on its investments in private entities.

The Westaim Corporation
Notes to Consolidated Financial Statements
For the years ended December 31, 2016 and 2015

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

5 Investments in Private Entities and Associates (continued)

Investment in Houston International Insurance Group, Ltd.

The Company indirectly owns a significant interest in HIIG, through the HIIG Partnership, an Ontario limited partnership managed by HIIG GP, a wholly-owned subsidiary of Westaim. 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, 2016, the Company owned, directly and indirectly, approximately 58.5% of the HIIG Partnership Units, representing an approximate 43.7% indirect ownership interest in HIIG.

Westaim controls the HIIG Partnership through its ownership of approximately 58.5% of the Class A Units of the HIIG Partnership and through its control of HIIG GP, the general partner of the HIIG Partnership; and the HIIG Partnership exercises control over HIIG and its insurance subsidiaries through its ownership of approximately 74.6% of the issued and outstanding common shares of HIIG ("HIIG Shares") at December 31, 2016. 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.

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 \$145,227 at December 31, 2016 and \$146,066 at December 31, 2015.

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, 2016. The fair value of the HIIG Partnership at December 31, 2016 was derived from a valuation of the HIIG Shares owned by the HIIG Partnership and other net assets of the HIIG Partnership at December 31, 2016. The carrying values of the HIIG Partnership's other net assets, consisting of monetary assets including 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, 2016. Management determined that this valuation technique produced the best indicator of the fair value of the HIIG Shares as at December 31, 2016 as it was also used in a number of HIIG share transactions with arm's length third parties since August 1, 2014. This same basis of valuation was used to determine the fair value of the Company's investment in the HIIG Partnership of \$146,066 at December 31, 2015.

The significant unobservable inputs used in the valuation were the multiple applied and the adjusted stockholders' equity of HIIG as at December 31, 2016. Management applied a multiple of 1.0x as this was also the multiple used to price significant prior HIIG treasury transactions since the Company made its investment in HIIG (through the HIIG Partnership). The adjusted book value of HIIG as at December 31, 2016 reflected 100% of HIIG stockholders' equity obtained from the audited financial statements of HIIG for the year ended December 31, 2016 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 the provision for loss and loss adjustment expenses (LAE), the valuation of goodwill and intangible assets, and the valuation allowance recorded against deferred income tax 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.

The Company recorded an unrealized loss of \$839 and an unrealized gain of \$18,457 on its investment in the HIIG Partnership in the years ended December 31, 2016 and 2015, respectively. The unrealized gain in the year ended December 31, 2015 included an unrealized foreign exchange gain of \$16,698, resulting from a strengthening of the US\$ against the C\$ prior to the adoption of the US\$ as the Company's functional currency on August 31, 2015.

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, 2016 was higher by \$1,000, the fair value of the Company's investment in the HIIG Partnership at December 31, 2016 would have increased by approximately \$437 (December 31, 2015 - \$441) and the unrealized loss on investments in private entities for the year ended December 31, 2016 would have decreased by approximately \$437 (2015 - \$441). If HIIG stockholders' equity at December 31, 2016 was lower by \$1,000, an opposite effect would have resulted.

The Westaim Corporation
Notes to Consolidated Financial Statements
For the years ended December 31, 2016 and 2015

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

5 Investments in Private Entities and Associates (continued)

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.

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 to August 31, 2022, 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 connection with the Arena Transactions, on August 31, 2015, Arena Finance and Bernard Partners, LLC ("BP LLC"), a limited liability company controlled by certain members of the Arena Group management team, entered into a limited liability company agreement in respect of AFHC (the "AFHC LLC Agreement") under which 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. No Class M units were converted into Class A units in the year ended December 31, 2016.

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 \$142,800 and \$32,437, respectively, at December 31, 2016 and \$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) of the shareholder's equity of Arena Finance at December 31, 2016 in the amount of \$142,800 approximated the fair value of the Company's investment in Arena Finance; and 100% (or 1.0x) of the shareholder's equity of Arena Origination at December 31, 2016 in the amount of \$15,437 and the fair value of the term loan of \$17,000, totaling \$32,437, 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, 2016. This same basis of valuation was used to determine the fair value of the Company's investments in Arena Finance and Arena Origination of \$143,082 and \$32,985, respectively, at December 31, 2015.

The significant unobservable inputs used in the valuation of Arena Finance and Arena Origination at December 31, 2016 were the shareholder's equity of each of the entities at December 31, 2016 and the multiple applied. Management applied a multiple of 1.0x as the shareholder's equity of Arena Finance and Arena Origination reflected the net assets of the respective entity which were carried at fair value at December 31, 2016, as described below. 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 below.

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 other private investments, warrants and derivative instruments. When an investment is acquired or originated, 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.

The Westaim Corporation
Notes to Consolidated Financial Statements
For the years ended December 31, 2016 and 2015

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

5 Investments in Private Entities and Associates (continued)

- 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 and other private investments are valued using valuation methodologies for Level 3 investments. When valuing private loans, factors evaluated include the impact of changes in market yields, credit quality of the borrowers and estimated collateral values. If there is sufficient credit coverage, a yield analysis is performed by projecting cash flows for the instrument and discounting the cash flows to present value using a market-based, risk adjusted rate. On each valuation date, an analysis of market yields is also performed to determine if any adjustments to the fair values are necessary. Techniques used to value collateral, real estate, and other hard assets include discounted cash flows, with the discount rate being the primary unobservable input, recent transaction pricing and third party appraisals. Private investments held through joint ventures are valued net of each respective joint venture waterfall and other joint venture assets and liabilities.
- Warrants that are actively traded on a securities exchange are valued based on quoted prices. Warrants that are traded over-the-counter or are privately issued are valued based on observable market inputs, if available. If these inputs are not observable or timely, the values of warrants are determined using valuation methodologies for Level 3 described below.
- 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.

The Company recorded unrealized losses of \$282 and \$3,503 on its investment in Arena Finance in the years ended December 31, 2016 and 2015, respectively, and \$548 and \$1,355 on its investment in Arena Origination in the years ended December 31, 2016 and 2015, respectively. The operating results of Arena Origination included interest expense paid to the Company on the term loan of \$1,233 and \$411 in the years ended December 31, 2016 and 2015, respectively.

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, 2016 was higher by \$1,000, the fair value of the Company's investment in the respective entity at December 31, 2016 would have increased by \$1,000 and the unrealized loss on investments in private entities for the year ended December 31, 2016 would have decreased by approximately \$1,000. If the shareholder's equity of either Arena Finance or Arena Origination at December 31, 2016 was lower by \$1,000, an opposite effect would have resulted.

The Westaim Corporation
Notes to Consolidated Financial Statements
For the years ended December 31, 2016 and 2015

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

5 Investments in Private Entities and Associates (continued)

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"). 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 interest, 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. The Company's investments in the Associates are therefore accounted for using the equity method in accordance with IAS 28.

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, 2016	WAHII	Other associates	Total
Financial information of Associates:			
Assets	\$ 7,209	\$ 165	\$ 7,374
Liabilities	(13,652)	(171)	(13,823)
Net liabilities	\$ (6,443)	\$ (6)	\$ (6,449)
Company's share	\$ (3,158)	\$ (3)	\$ (3,161)
Advances to Associates	4,415	-	4,415
Carrying amount of the Company's interest in Associates	\$ 1,257	\$ (3)	\$ 1,254

As at December 31, 2015	WAHII	Other associates	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	\$ (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, 2016			Year ended December 31, 2015		
	WAHII	Other associates	Total	WAHII	Other associates	Total
Financial information of Associates:						
Fee income	\$ 8,696	\$ -	\$ 8,696	\$ 3,112	\$ 4	\$ 3,116
Unrealized gain on investments	-	160	160	-	-	-
Transaction costs	-	-	-	(1,158)	-	(1,158)
Operating expenses	(13,348)	(168)	(13,516)	(4,005)	(4)	(4,009)
(Loss) income and other comprehensive (loss) income	\$ (4,652)	\$ (8)	\$ (4,660)	\$ (2,051)	\$ -	\$ (2,051)
Company's share of (loss) profit of Associates (51%)	\$ (2,372)	\$ (4)	\$ (2,376)	\$ (1,046)	\$ -	\$ (1,046)

The Westaim Corporation
Notes to Consolidated Financial Statements
For the years ended December 31, 2016 and 2015

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

5 Investments in Private Entities and Associates (continued)

On June 30, 2016, the Company made an additional equity investment of \$260 in Arena Investors. The carrying amount of the Company's investments in the Associates was \$1,254 at December 31, 2016 and \$2,991 at December 31, 2015. The total of the Company's 51% share of losses of the Associates was \$2,376 and \$1,046 in the years ended December 31, 2016 and 2015, respectively, and was reported under "Net results of investments" in the consolidated statements of (loss) profit and other comprehensive loss.

6 Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities consist of the following:

	December 31, 2016	December 31, 2015
Liabilities related to:		
RSUs	\$ 5,353	\$ 3,809
DSUs	832	630
Other accounts payable and accrued liabilities	1,039	1,082
Ending balance	\$ 7,224	\$ 5,521

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	
	2016	2015
Opening balance	\$ 3,899	\$ 3,456
Changes due to:		
Expenditures	(401)	-
Estimates of future expenditures	18	489
Inflation	89	151
Passage of time and discount rates	(268)	374
Exchange adjustment	102	(571)
Ending balance	\$ 3,439	\$ 3,899

In the year ended December 31, 2016, the Company made a payment of \$401 for site restoration expenditures relating to the indemnifications. Of these expenditures, the Company was reimbursed \$385 pursuant to indemnifications provided to the Company by previous owners of the industrial sites. The payment was recorded as a reduction of the site restoration provision and the reimbursement was included as a recovery in the consolidated statements of (loss) profit and other comprehensive loss.

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, 2016. To calculate the site restoration provision, the estimated cash outflows were adjusted for inflation and discounted to December 31, 2016. 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 1.76% (December 31, 2015 - 1.72%) per annum over the next 100 years. Discount rates are based on risk free rates which range from 0.6% to 2.3% (December 31, 2015 - 0.5% to 2.1%) 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, 2016.

8 Commitments and Contingent Liabilities

- (a) In connection with a \$10 million revolving loan facility granted by AFHC to the Associates on September 28, 2016 to fund the working capital needs of Arena Investors, the Company has provided a limited recourse guaranty to AFHC pledging as security for the loan facility its ownership interests in the Associates.
- (b) The Company has operating leases in Toronto with remaining lease terms of up to 4 years. At December 31, 2016, the Company had a total commitment of \$899 for future occupancy cost payments including payments due not later than one year of \$308 and payments due later than one year but not later than four years of \$591.

The Westaim Corporation
Notes to Consolidated Financial Statements
For the years ended December 31, 2016 and 2015

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

8 Commitments and Contingent Liabilities (continued)

- (c) 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, 2016		Year ended December 31, 2015	
	Number	Stated Capital	Number	Stated Capital
Common shares				
Opening balance	143,186,718	\$ 382,182	70,297,342	\$ 210,404
Issued	-	-	72,889,376	179,150
Share issuance costs	-	-	-	(9,904)
Recovery of share issuance costs	-	-	-	2,532
Ending balance	143,186,718	\$ 382,182	143,186,718	\$ 382,182

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, 2016 and 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 sold, on a private placement basis, 65,296,993 special warrants of the Company (the "Special Warrants") at a price of C\$3.25 per Special Warrant (the "2015 Offering"). 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. An additional 6,823,152 Special Warrants were also 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.

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 issued an aggregate of 72,120,145 additional common shares of the Company for aggregate gross proceeds of \$177,259 upon the deemed conversion of the 2015 Subscription Receipts issued on the deemed exercise of all 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 December 31, 2016 and 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 \$169,246, net of share issuance costs of \$9,904.

Share Issuance Costs

On February 25, 2015, the Company received from HIIG a reimbursement of \$2,532 in share issuance costs in connection with the Company's common share private placement in 2014, the proceeds from which were used, in part, to make the Company's initial investment in HIIG (through the HIIG Partnership). The amount was recorded as an increase in the Company's share capital in the year ended December 31, 2015.

The Westaim Corporation
Notes to Consolidated Financial Statements
For the years ended December 31, 2016 and 2015

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

10 Share-based Compensation

The Company's long-term equity incentive plan (the "Incentive Plan") provides for grants of RSUs, DSUs, stock appreciation rights and other share-based awards. The Company also has a stand-alone incentive stock option plan (the "Option Plan").

At the annual and special meeting of shareholders of the Company held on May 12, 2016, the shareholders approved amendments to the Incentive Plan which, among other things, increased the maximum number of common shares which may be issued under the Incentive Plan from 7,042,150 to 14,318,671. 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.

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

	Year ended December 31, 2016		Year ended December 31, 2015	
	Number	Weighted Average Exercise Price	Number	Weighted Average Exercise Price
Common share stock options				
Opening balance	3,000	C\$ 144.00	5,000	C\$ 158.80
Granted	2,752,940	C\$ 3.25	-	C\$ -
Expired	(1,000)	C\$ 309.00	(2,000)	C\$ 181.00
Ending balance	2,754,940	C\$ 3.29	3,000	C\$ 144.00
Options exercisable at end of year	2,000	C\$ 61.50	3,000	C\$ 144.00

Information on stock options outstanding and exercisable at December 31, 2016 is as follows:

As at December 31, 2016	Number of stock options outstanding	Weighted Average Remaining Contractual Life (years)	Weighted Average Exercise Price	Number of stock options exercisable	Exercisable Weighted Average Exercise Price
Exercise prices					
C\$ 3.25	2,752,940	6.25	C\$ 3.25	-	C\$ -
C\$ 61.50	2,000	0.13	C\$ 61.50	2,000	C\$ 61.50
	2,754,940	6.24	C\$ 3.29	2,000	C\$ 61.50

On April 1, 2016, 2,752,940 options were granted to certain officers and employees of the Company. The options have a term of seven years, vest in three equal instalments on April 1, 2017, April 1, 2018 and April 1, 2019, and have an exercise price of C\$3.25.

In the year ended December 31, 2016, compensation expense relating to options was \$712, with an offsetting increase to contributed surplus. The fair value of the options granted by the Company on April 1, 2016 is estimated using the Black-Scholes option pricing model assuming no dividends are paid on common shares, a risk-free interest rate of 0.61%, an average life of 4.0 years and a volatility of 46.49%. The amounts computed according to the Black-Scholes pricing model may not be indicative of the actual values realized upon the exercise of these options by the holders.

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.

Changes to the number of RSUs are as follows:

	Year ended December 31	
	2016	2015
Opening balance	2,209,563	2,375,000
Granted	925,198	-
Exercised	(52,688)	(165,437)
Ending balance	3,082,073	2,209,563

On November 14, 2014, an aggregate of 2,375,000 RSUs were granted to certain officers, employees and consultants. At December 31, 2016, 2,152,343 of these RSUs (90.6%) had vested, of which 218,125 units (9.2%) had been exercised and 1,934,218 units (81.4%) were outstanding. The remaining 222,657 RSUs (9.4%) vest evenly over 5 months after December 31, 2016.

The Westaim Corporation
Notes to Consolidated Financial Statements
For the years ended December 31, 2016 and 2015

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

10 Share-based Compensation (continued)

On April 1, 2016, an additional 925,198 RSUs were granted to certain officers and employees of the Company. These RSUs vest in three equal instalments on April 1, 2017, April 1, 2018 and December 31, 2018. At December 31, 2016, none of these RSUs had vested.

In the years ended December 31, 2016 and 2015, 52,688 RSUs and 165,437 RSUs were exercised for cash payments of C\$2.55 per RSU and C\$2.78 per RSU, respectively, and the RSU liability was correspondingly reduced by \$105 and \$336, respectively.

Compensation expense relating to RSUs was \$1,555 and \$2,274 for the years ended December 31, 2016 and 2015, respectively. At December 31, 2016, a liability of \$5,353 (December 31, 2015 - \$3,809) had been accrued with respect to outstanding RSUs in the consolidated statements of financial position.

Deferred Share Units - DSUs are issued to certain 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	
	2016	2015
Opening balance	319,465	113,200
Granted	146,961	206,265
Exercised	(67,695)	-
Ending balance	398,731	319,465

In the year ended December 31, 2016, 146,961 DSUs were issued as payment of director fees (41,519 at a price of C\$2.80, 44,447 at a price of C\$2.70, 31,132 at a price of C\$2.59 and 29,863 at a price of C\$2.70). 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, an additional 115,127 DSUs were issued as payment of director fees (33,199 DSUs at a price of C\$2.73, 33,484 DSUs at a price of C\$2.80, 24,446 at a price of C\$3.26 and 23,998 at a price of C\$3.36).

In the year ended December 31, 2016, 67,695 DSUs were exercised for a cash payment of C\$3.33 per DSU, and the DSU liability was correspondingly reduced by \$168.

Compensation expense relating to DSUs was \$355 and \$419 for the years ended December 31, 2016 and 2015, respectively. At December 31, 2016, a liability of \$832 (December 31, 2015 - \$630) had been accrued with respect to outstanding DSUs in the consolidated statements of financial position.

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	
	2016	2015
Salaries and benefits	\$ 2,441	\$ 1,918
Share-based compensation	2,537	2,365
	\$ 4,978	\$ 4,283

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 were \$136 and \$141 in the years ended December 31, 2016 and 2015, respectively. Compensation expense relating to RSUs issued to the Consultant was \$42 and \$171 for the years ended December 31, 2016 and 2015, respectively, and the amounts were included in the consolidated statements of (loss) profit and other comprehensive loss 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, 2016, a liability of \$120 (December 31, 2015 - \$76) had been accrued in the consolidated statements of financial position with respect to outstanding RSUs held by the Consultant.

The Westaim Corporation
Notes to Consolidated Financial Statements
For the years ended December 31, 2016 and 2015

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

11 Related Party Transactions (continued)

On September 28, 2016, AFHC granted a \$10 million revolving loan facility to the Associates to fund the working capital needs of Arena Investors. The loan facility has a term of 36 months and bears interest at a rate of 5.25% per annum. At December 31, 2016, WAHII had drawn down the loan facility by \$2,000. Interest on the outstanding loan from September 28, 2016 to December 31, 2016 was \$26. The Company has provided a limited recourse guaranty to AFHC pledging as security for the loan facility its ownership interests in the Associates.

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 all 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 Zwirn Subscription (see note 9), and 769,231 common shares of the Company were issued to Mr. Zwirn at C\$3.25 per share for aggregate gross proceeds of \$1,891.

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). The Company earned and received interest on the loan of \$1,233 and \$411 in the years ended December 31, 2016 and 2015, respectively.

The Company earned advisory fees from HIIG of \$1,000 in each of the years ended December 31, 2016 and 2015.

In the year ended December 31, 2015, the Company received from HIIG a reimbursement of \$2,532 in share issuance costs (see note 9). The amount was recorded as an increase in the Company's share capital in the year ended December 31, 2015.

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	
	2016	2015
Unrealized loss (gain) on investments in private entities	\$ 211	\$ (1,826)
Non-capital loss carry-forwards	(211)	1,826
	\$ -	\$ -

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

	December 31, 2016	December 31, 2015
Non-capital loss carry-forwards	\$ 40,734	\$ 20,697
Capital loss carry-forwards	5,204	5,049
Deductible temporary differences	16,747	16,876
Corporate minimum tax credits	337	1,016
Investment tax credits	6,248	6,960

The Westaim Corporation
Notes to Consolidated Financial Statements
For the years ended December 31, 2016 and 2015

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

12 Income Taxes (continued)

The unrecognized non-capital losses and investment tax credits will expire at various times to the end of 2036, as follows:

Non-capital losses by year of expiry:		Investment tax credits by year of expiry:	
2027	\$ 3,138	2017	\$ 2,203
2028	6,739	2018	661
2029	76	2019	716
2030	188	2020	613
2031	15,616	2021	479
2033	2,852	Beyond 2021	1,576
2034	3,634		\$ 6,248
2035	3,178		
2036	5,313		
	<u>\$ 40,734</u>		

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 (loss) profit and other comprehensive loss:

	Year ended December 31	
	2016	2015
(Loss) profit before income tax	\$ (8,295)	\$ 7,640
Statutory income tax rate	26.5%	26.5%
Income taxes at statutory income tax rate	(2,198)	2,025
Variations due to:		
Non-allowable (non-taxable) portion of unrealized loss (gain) on investments in private entities	211	(1,826)
Tax losses allocated from the HIIG Partnership	(16)	(25)
Non-deductible items	189	51
Difference between statutory and foreign tax rates	(640)	(320)
Unrecognized temporary differences	(1,359)	484
Unrecognized (recognized) tax losses	3,813	(389)
Income tax expense	\$ -	\$ -

13 Earnings per Share

The Company had 2,754,940 stock options and 3,082,073 RSUs outstanding at December 31, 2016 and 3,000 stock options and 2,209,563 RSUs outstanding at December 31, 2015. The stock options and RSUs were excluded in the calculation of diluted earnings per share for the years ended December 31, 2016 and 2015 as they were not dilutive.

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.

The Westaim Corporation
Notes to Consolidated Financial Statements
For the years ended December 31, 2016 and 2015

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

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, 2016 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 Schedule 1 banks 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, 2016, 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, 2016, the Company's short-term financial liabilities amounted to \$1,039.

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 increased the foreign exchange loss for the year ended December 31, 2016 by approximately \$716. 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 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 HIIG (through the HIIG Partnership), Arena Finance and Arena Origination as certain underlying investments made by these entities are sensitive to interest rate movements.

Equity risk

There is no active market for the Company's investments in HIIG (through the HIIG Partnership) 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}

Lead Director, The Westaim Corporation
President, Seeonee Inc.
Senior Advisor to Duff & Phelps Canada Limited

Ian W. Delaney ³

Executive Chairman, The Westaim Corporation

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

Independent Businessman

J. Cameron MacDonald

President and Chief Executive Officer, The Westaim Corporation

Peter H. Puccetti ^{2, 3}

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

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 and Special Meeting of Shareholders

Thursday May 18th, 2017 10:00 A.M. EDT

St. Andrew's Club and Conference Centre
150 King Street West, Sun Life Financial Tower
S3/S4 Inverness Room, 27th Floor
Toronto, Ontario M5H 1J9

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, 2016 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

OFFICES

The Westaim Corporation, Corporate Office
70 York Street, Suite 1700
Toronto, Ontario M5J 1S9

The Westaim Corporation of America
405 Lexington Avenue, 59th Floor
New York, New York 10174

CONTACT INFORMATION

Tel: (416) 969-3333
Fax: (416) 969-3334
E-mail: info@westaim.com
www.westaim.com



THE WESTAIM CORPORATION

70 York Street, Suite 1700
Toronto, Ontario, Canada
M5J 1S9

www.westaim.com
info@westaim.com