

THE WESTAIM CORPORATION

ANNUAL REPORT 2018



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

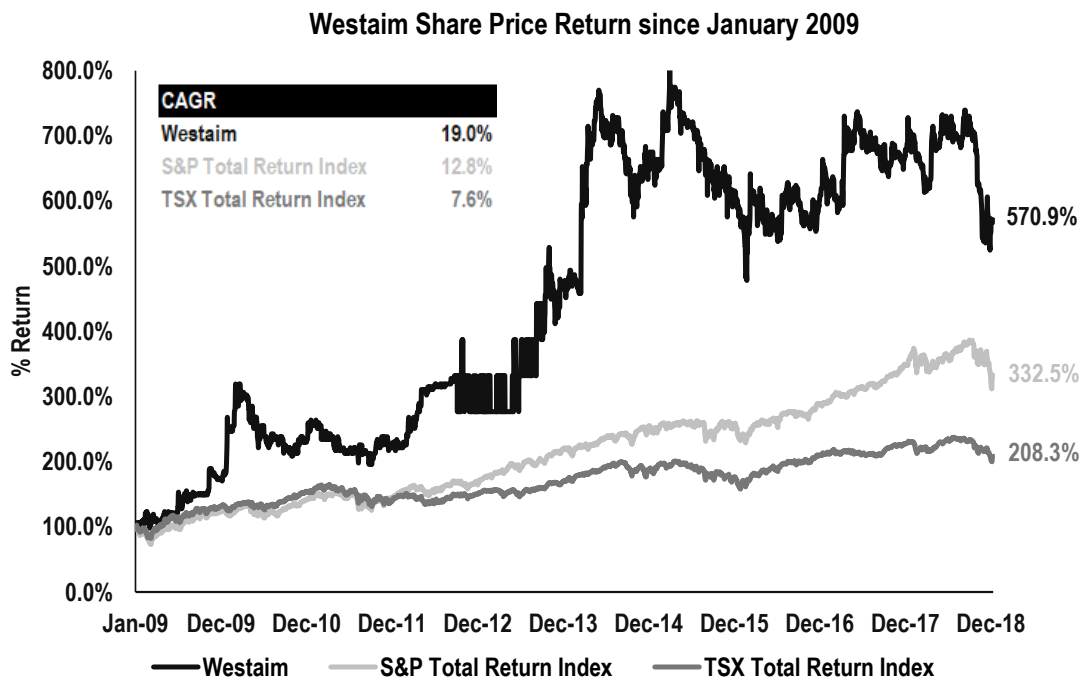


LETTER TO SHAREHOLDERS

Dear Fellow Shareholder:

At Westaim, our focus has been, and continues to be, to seek out unique, high quality investment opportunities that allow us to partner with businesses and aligned management teams that are positioned to compound wealth and provide above average returns over the long term. Unlike private equity whose investment time horizon is generally limited and short, the permanency of Westaim's equity capital through the public markets allows us to take a longer term approach, something we find is very attractive to high quality management teams we meet. We believe this perspective on partnering and building profitable, sustainable businesses allows our management teams to make the right long term decisions which, at times, may come with short-term upfront costs. Westaim relies greatly on our management teams to manage their businesses day-to-day, while we remain very engaged in working alongside our partners to provide strategic advice, capital allocation expertise and financial discipline to help them grow and enhance the long term value of their businesses.

As December 31, 2018 effectively marks the 10-year anniversary of your current management team's involvement with Westaim, I thought I would take the opportunity to look back on what has been accomplished during this period. Below is a chart of Westaim's share price during the 10-year period from January 1, 2009 through December 31, 2018:



Though not at all by design, this 10-year period can effectively be split into two five-year segments. During the period from 2009 – 2013, Westaim's focus was on the acquisition, building and eventual sale of JEVCO Insurance Company ("JEVCO"). Westaim closed the acquisition of JEVCO on March 29, 2010 for a total purchase price of approximately C\$260 million. After a period of reorganization and continued growth and the receipt of an unsolicited offer, Westaim sold JEVCO on September 4, 2012 for approximately C\$530 million, resulting in a significant return for Westaim's shareholders. Subsequent to the sale, the Board made the decision to return substantially all of the proceeds (approximately C\$521

million) to Westaim’s shareholders through a special distribution. This returned Westaim to effectively a shell company, with approximately \$30 million of cash as we entered 2014 in search of new unique opportunities.

The next chapter in the Westaim story began (i) in July 2014, when we acquired, through a limited partnership controlled by Westaim, a controlling interest in Houston International Insurance Group, Ltd. (“HIIG”) in conjunction with Stephen Way and (ii) in August 2015, when we funded the start-up of the Arena Group (“Arena”), an alternative asset management firm focused on credit in partnership with industry veteran Dan Zwirn. As a result of significant efforts by both management teams, Arena and HIIG achieved record profitability in 2018, with both businesses in their best strategic position since our respective partnerships commenced. A detailed overview of each business is provided below.

As a measure of Westaim’s performance, internally we have historically looked at the growth in fully diluted book value per share (“FDBVPS”) as a reasonable measure. Naturally the start-up of Arena and the significant initial investments that we have made to put this business in a position to scale has impacted the short term growth of our FDBVPS, especially in the initial start-up phase from Q3 2015 – Q4 2016 (when Arena as a group turned profitable for the first time). The following chart shows FDBVPS and Westaim’s share price quarterly since Q2 2014:

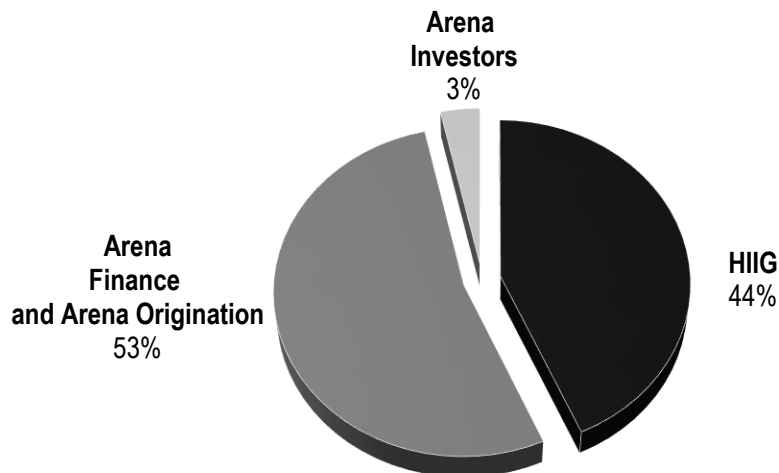
	FDBVPS (US\$)	FDBVPS (C\$)	Share Price (US\$)	Share Price (C\$)
2014 - Q2	\$2.00	\$2.13	\$3.00	\$3.20
2014 - Q3 ⁽¹⁾	2.36	2.64	2.68	3.00
2014 - Q4	2.34	2.71	2.63	3.05
2015 - Q1	2.33	2.95	2.65	3.36
2015 - Q2	2.33	2.91	2.61	3.26
2015 - Q3 ⁽²⁾	2.31	3.09	2.09	2.80
2015 - Q4	2.27	3.14	1.97	2.73
2016 - Q1	2.28	2.96	2.08	2.70
2016 - Q2	2.24	2.91	1.99	2.59
2016 - Q3	2.22	2.91	2.06	2.70
2016 - Q4 ⁽³⁾	2.21	2.97	2.09	2.80
2017 - Q1	2.23	2.97	2.01	2.68
2017 - Q2	2.24	2.91	2.45	3.17
2017 - Q3	2.27	2.83	2.39	2.98
2017 - Q4 ⁽⁴⁾	2.33	2.92	2.48	3.11
2018 - Q1	2.35	3.03	2.20	2.83
2018 - Q2	2.37	3.12	2.45	3.22
2018 - Q3	2.40	3.10	2.48	3.21
2018 - Q4	2.42	3.30	1.89	2.58
H2 2014	17.2%	27.4%	-12.3%	-4.7%
FY 2015	-3.0%	15.7%	-25.0%	-10.5%
FY 2016	-2.6%	-5.5%	5.7%	2.6%
FY 2017	5.4%	-1.5%	18.9%	11.1%
FY 2018	3.9%	13.0%	-23.8%	-17.0%
CAGR Since Q2 2014	4.4%	10.2%	-9.7%	-4.7%

Notes:

- (1) Closed equity capital raise to complete the HIIG acquisition at C\$2.65 per share.
- (2) Closed equity capital raise to fund Arena at C\$3.25 per share.
- (3) Arena turns earnings positive; HIIG completes restructuring of its claims department.
- (4) Valuation of HIIG increased from 1.0x Adjusted Book Value (“ABV”) to 1.1x ABV at December 31, 2017.

Regarding the above table, I make the following two observations. Firstly, unlike the period from 2009 – 2013, Westaim’s share price has not kept up despite the growth in Westaim’s FDBVPS during the period starting in Q3 2014 when we closed the acquisition of HIIG. Secondly, the investments made to start-up Arena had a significant, planned, short term negative impact on our FDBVPS growth during this period. As Arena Investors, the third-party asset management arm of Arena, moves toward profitability in Q4 2018 and into 2019, we expect that Westaim’s FDBVPS growth will begin to accelerate moving forward.

At December 31, 2018, the approximate breakdown of our Investments measured at book value was as follows:



(1) As stated in Westaim’s Consolidated Statements of Financial Position. Arena Finance and Arena Origination - \$198.7 million; HIIG - \$162.1 million; Arena Investors - \$10.6 million.

Arena Investors has evolved from a start-up to an industry acclaimed investment management firm with approximately \$1 billion of committed assets under management (“AUM”) producing attractive returns for its growing client base and Westaim’s proprietary invested capital in just over three years’ time. Arena has highly skilled professionals, differentiated origination capability, and proprietary IT systems that we believe provide the firm with a clear competitive edge. Despite this, Arena Investors represents only 3% of Westaim’s Investments measured at book value. We believe that the value of our investment in Arena Investors has the potential to produce significant value for Westaim’s shareholders over the long term.

HIIG

July 31, 2019 will mark the fifth anniversary of our partnership with HIIG, a specialty property and casualty insurer led by Stephen Way, whose success over a 50-year career has been grounded in the fundamental philosophy of disciplined underwriting, mitigation of risk, capital preservation and controlled growth. Westaim’s investment in HIIG in 2014 – 2015 positioned our capital alongside Stephen, HIIG’s largest individual shareholder, whose reputation in the insurance industry was solidified by the founding and leadership of his former company, Houston Casualty Corporation. Our HIIG partnership was further strengthened by co-investors Everest Re Group, Ltd. and Catlin Group Ltd. (now AXA XL). Westaim is the largest and controlling shareholder of HIIG (through a limited partnership which we control), with a 43.9% look-through ownership interest as at December 31, 2018.

Like 2017, 2018 proved to be a very challenging year for the insurance industry. In spite of that, HIIG produced solid operating results. Once again, HIIG's use of quota share, excess of loss and facultative reinsurance enabled the company to largely avoid the material catastrophe ("CAT") events of 2018. The positive effects of disciplined underwriting, risk mitigation, capital preservation, building quality infrastructure and controlled growth started to become evident in 2018, as HIIG produced an underwriting profit for the first time since 2015. For the year ended December 31, 2018, HIIG's gross written premium increased to \$696.9 million (+21.1% over 2017) and net written premiums increased to \$300.5 million (+16.6% over 2017).

With a 2018 combined ratio of 99.5% and pre-tax investment income of \$20.7 million, HIIG reported net income after taxes of \$20.9 million in 2018, a 25.7% improvement over net income of \$16.6 million in 2017 (adjusted to exclude a \$22.1 million US Tax Reform charge). For 2018, return on average equity was 6.4%, while growth in adjusted book value per share was 3.2%. Book value growth lagged return on equity due to the market decline of public equities and bonds held within HIIG's investment portfolio (the unrealized amount of which flows through accumulated other comprehensive income on the balance sheet rather than through net income). As at December 31, 2018, HIIG's shareholders' equity was \$329.9 million. Given the significant progress over the past few years improving claims management, entering new business lines and repricing old business, as well as a more positive market environment, we would expect continued operating improvements in 2019.

As a reminder, Westaim closed its initial investment of \$75.7 million in HIIG on July 31, 2014 and made a follow on investment of \$50.6 million on January 14, 2015, for a total investment cost for HIIG of \$126.3 million. Our original investment in HIIG was completed at a valuation of 0.87x HIIG's adjusted December 31, 2013 book value and the subsequent investment was completed at 1.0x HIIG's December 31, 2014 adjusted book value. Westaim was able to secure a favourable purchase price in part because the former private equity owner was seeking liquidity due to the life cycle of its fund and, more importantly, because HIIG was working through the challenging process of closing approximately 16,000 claims assumed from discontinued business lines it inherited in a 2010 merger. We fully expected that there would be some volatility in HIIG's results, primarily in claim reserves. However, the impact of HIIG's prior period adverse development coupled with soft industry market conditions (since the beginning of Westaim's ownership until pricing and other policy term improvements began in earnest in 2018) has affected HIIG's ability to grow its book value.

Despite this challenging environment, HIIG's management team has achieved significant progress over the past five years, including:

- **Improved claims practices:** From 2010 to July 2014, HIIG terminated many underperforming Managing General Underwriters ("MGUs") inherited from the merger that the company completed in 2010. Subsequent to an evaluation of their claims operation, in 2016 HIIG management reorganized the claims division to bring more claims management in-house rather than outsourced to Third Party Administrators. As a result, HIIG was able to improve claims handling and better control loss and loss adjustment expense costs moving forward, the benefits of which we are now starting to see.
- **Extensive use of reinsurance allowing HIIG to largely avoid losses from catastrophes:** The property and casualty insurance industry encountered major catastrophic activity in 2017 and 2018, including hurricanes Irma, Maria and Harvey, earthquakes in Mexico City and wild fires in California. Due to prudent underwriting and extensive use of reinsurance, HIIG was able to navigate this challenging period and unlike many of its insurance and reinsurance competitors, did not experience any significant net CAT losses.

- **Improved investment income:** In early 2016, the Investment Committee of HIIG (led by Westaim) made the decision to reduce its exposure to high grade corporate bonds and make an allocation to Arena. Arena's asset-backed credit portfolio offered higher yields and shorter duration than the existing high grade fixed income portfolio at attractive credit statistics. HIIG was able to maintain the same book yield for the portfolio, while reducing the duration and increasing its cash balance, positioning the portfolio well to take advantage of opportunities that arise in the market.
- **Reorganized and strengthened an experienced senior management team:** The senior management of HIIG has been strengthened and expanded since Westaim's acquisition. A few notable HIIG hirings include Peter Smith as President, Mark Haushill as Chief Financial Officer, Sean Duffy as Chief Claims Officer, and Joel Vaag as Chief Actuary.

In addition to the significant internal changes, HIIG has made selective opportunistic acquisitions, primarily of MGUs to expand and diversify its lines of business. Of note was the January 15, 2015 acquisition of Elite Underwriting Services, which marked HIIG's entry into the Accident & Health business, an area where the company believes significant growth exists now that HIIG has a high quality platform in the space that is positioned to scale.

Given an attractive purchase price and despite the headwinds outlined above, the performance of Westaim's investment in HIIG based on its acquisition cost through December 31, 2018 is as follows:

As at December 31, 2018	At 1.1x ⁽¹⁾
Gain (US\$)	28.3%
IRR (US\$)	6.1%
Gain (C\$)	54.7%
IRR (C\$)	10.9%

⁽¹⁾ Based on 1.1x HIIG's adjusted book value at December 31, 2018.

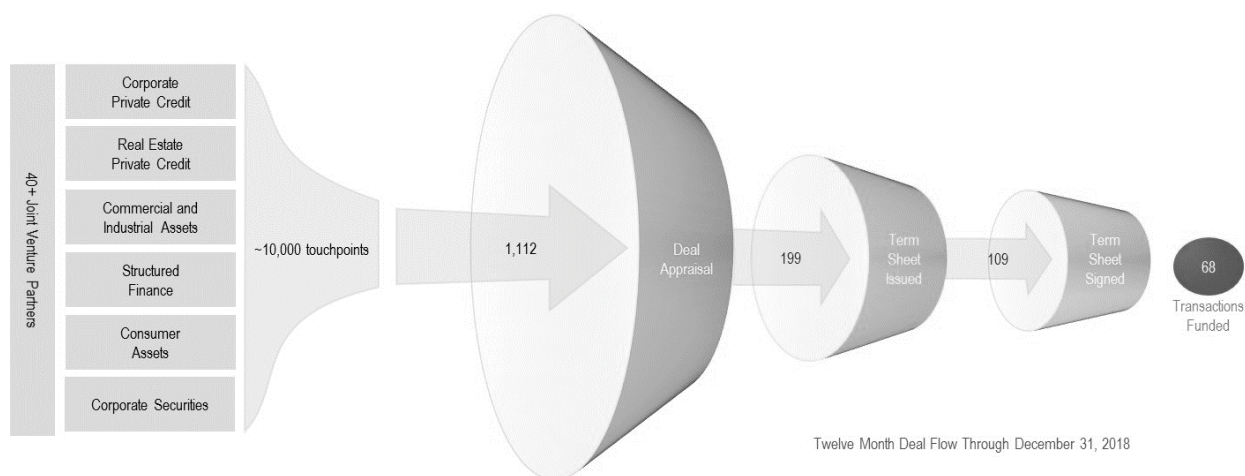
We believe that HIIG is in the best position it has ever been in from an operating perspective, and the number of areas where the company experienced adverse development in the past has narrowed and are under much better control. Today, HIIG is experiencing a more favourable pricing environment for its business lines, which we believe better positions the company to utilize its capital and retain more risk and premium, and we expect its results to reflect these advantages in 2019 and onwards.

On top of this improvement, Westaim has been and will continue to work closely with HIIG management on strategic opportunities to accelerate the improvement of its return on equity, grow the business to acquire necessary economies of scale, improve shareholder returns and therefore enhance shareholder value. These efforts continue to receive a very high level of focus as we enter 2019.

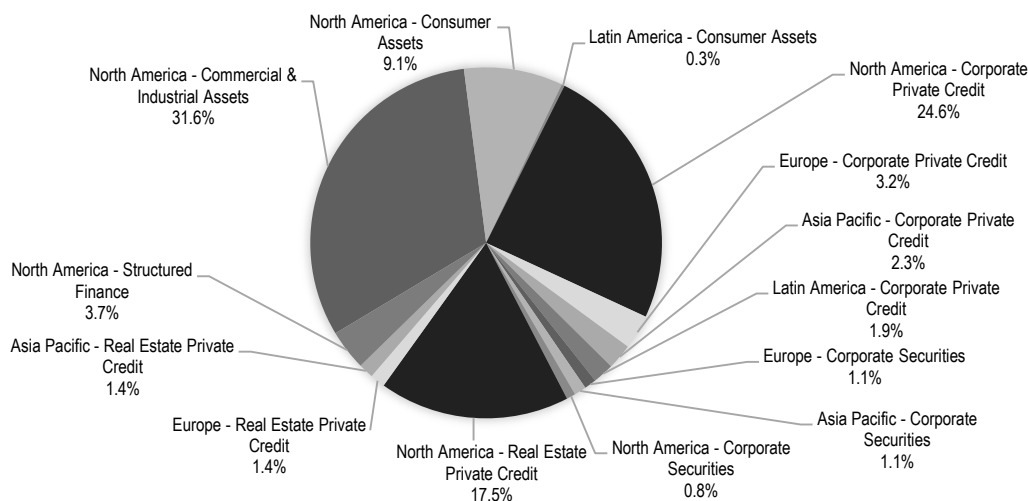
Arena

Arena continues to build an enviable business and, consistent with prior years, produced solid results in 2018. Arena is an experienced team of 47 employees located largely in New York City (Chrysler Building), with smaller offices in San Francisco and London, UK. Should your travels find you in any of these locations, please call ahead to visit the office and meet the team.

Originating and executing an uncorrelated portfolio of asset-backed credit requires a deep and highly skilled bench, all with distinct tenured competence, and an underwriting discipline that produces attractive risk adjusted returns. Sourcing and originating investment opportunities, versus participating in the syndicated market, is the true “alpha” of this investment approach, and after three and a half years of observing this inbound flow, we continue to be amazed at the depth and diversity of Arena’s deal pipeline. To facilitate significant numbers of bespoke credit investments, and implement diversity by industry, strategy and geography, Arena’s proprietary IT systems developed over the past 13 years (at a significant capital investment) are a critical component. Arena’s systems administer the wide array of credits and “standardize” them for evaluation, ongoing monitoring, control and audit. We believe Arena has built a significant competitive advantage – the in-house expertise, hyper-aligned joint venture relationships and a proprietary IT system all of which come together to provide Arena’s investors with an investment skill set and process that is unique and would be very difficult (and expensive) to replicate. In 2018, Arena’s investment teams reviewed ~10,000 potential investments, eventually funding 68:



Diversification – by industry, strategy and geography is core to Arena’s strategy:



(1) Represents long market value of investments as a percentage of the Arena NAV as of December 31, 2018 less Cash/Other representing 27.5% of NAV. Cash/Other represents the excess net asset value of Arena, which includes cash, cash equivalents and other assets (a portion of which may not be readily monetized), less liabilities.

The following is a summary of the performance of Arena's exited positions from inception through December 31, 2018:

	# Positions	% 1 st Lien ⁽²⁾	Closing LTV	Coupon	Underwritten IRR ⁽³⁾	Realized IRR	Average Loan Term ⁽⁴⁾
Corporate Private Credit	19	84.5%	42%	12.3%	15.0%	22.0%	1.3 yrs
Real Estate Private Credit	11	100.0%	64%	11.1%	15.1%	27.3%	1.4 yrs
Commercial & Industrial Assets	6	100.0%	62%	14.9%	18.4%	26.7%	0.4 yrs
Structured Finance	3	100.0%	9%	18.8%	18.7%	19.2%	1.3 yrs
Consumer Assets	2	95.8%	73%	14.9%	16.1%	17.4%	1.2 yrs
Weighted Average/Total	41	90.5%	51%	12.2%	15.5%	23.0%	1.2 yrs

- (1) Portfolio characteristics summarize privately negotiated illiquid investments currently or previously held by Arena as part of its Special Opportunities Strategy offering. In addition, Arena has invested in liquid investments, including convertible structured investments summarized as "Corporate Securities" and other illiquid investments in its Income Strategy, which are not listed herein.
- (2) Includes positions where a portion of the first lien has been sold to a lending institution for yield enhancement.
- (3) Investment-level gross underwritten IRR represents the internal rate of return prior to or at the time of making the initial investment as reflected in and supported by loan agreements, including, but not limited to, note purchase agreements and origination agreements. The underwritten IRR is one of many metrics considered by Arena prior to investment and is not typically updated after the initial funding date. The underwritten IRR may be presented as a single percentage or a range. Such gross IRRs are estimated and do not take into account any entity level management fees, incentive allocation and/or any other associated fees, all of which may significantly reduce the net return received attributable to any investment. These underwritten IRRs are not a proxy for investment performance for any strategy or fund. The underwritten IRRs disclosed herein are being presented for the purpose of providing insight into the investment objectives of Arena, detailing anticipated risk and reward characteristics in order to facilitate comparisons with other investments and for establishing a benchmark for future evaluation of Arena's strategy. The IRRs included herein are not intended, and must not be regarded, as a representation, warranty or prediction that any Arena vehicles will achieve any particular return with respect to any particular investment opportunity or for a particular time period, or that Arena and its investors will not incur losses. In evaluating these IRRs, it should be noted that (a) there can be no assurance that Arena will be able to source and consummate investments of the type it is seeking to make and (b) the assumptions underlying the IRRs may prove not to be accurate or not materialize.
- (4) Average loan term refers to the weighted average time between the funding date and exit date in years.

Despite the turbulent markets of 2018 (especially in Q4), Arena's core strategy investments performed as expected, producing positive performance in each month, and achieving net returns (depending on the account) of between approximately 8% and 12%, without leverage. Over the past few years, Arena has been managing funds for insurers, including a small portion of HIIG's investment portfolio, providing short duration (approximately 1.2 years), attractive returns that have made a meaningful contribution to HIIG's investment portfolio results and overall return on equity. In addition, as noted each quarter in our public filings, the return on Westaim's capital (approximately \$200 million as of December 31, 2018), which is held within Arena Finance and Arena Origination, continues to be solid, achieving overall gross returns (before interest, expenses and income taxes) of approximately 11.5% in 2018 and 11.4% in 2017¹. Returns net of allocated and direct expenses, but before income taxes, were approximately 7.7% for 2018 versus 7.3% in 2017¹, as the allocation of ongoing operating costs of Arena's business to Arena Finance and Arena Origination is reducing (due to growth in Arena

¹ Gross Returns include the aggregate of Investment Income, net and Gains (Losses) on investment ("Gross Income") divided by the aggregate of Average Carrying Value for Arena Finance/Arena Origination and average Loans Payable to Westaim outstanding for the period. Net Returns are Gross Income less Interest expense, Administrative and service fees, Other operating expenses and certain other administrative expenses of Arena Finance/Arena Origination divided by Average Carrying Value for Arena Finance/Arena Origination for the period.

Investors' AUM), and operating leverage begins to take hold. We expect this operating leverage to accelerate moving forward. Finally, a key operating milestone for Arena Investors was achieved in Q4 2018 when it achieved net income before tax of \$1.1 million (loss of \$2.2 million for the year ended December 31, 2018). We expect Arena Investors to continue on this trajectory (though not every quarter) as we move into 2019.

With solid accomplishments in 2017 and 2018, we are proud that Arena's performance was publicly recognized twice by industry peers. In October 2018, Arena Special Opportunities Fund, LP ("ASOF") won the HFM Award (Newcomer category). More recently, on February 4, 2019, ASOF was the recipient of the Alt Credit Award (Direct Lending Category) and made the shortlist for the performance award in the Credit Specialist, Asset Backed, and Multi-Strategy Credit categories.

As we enter 2019, we believe Arena Investors' AUM will continue to grow. In May 2018, Arena welcomed Parag Shah as Managing Director of Marketing and Client Services. Parag held the same position at Bridgewater Associates where he enjoyed genuine success over a 15-year period. Parag has already made a significant impact with his experience and recently expanded his team to include two of his former colleagues, James Kingry and Lindsay Shepherd.

Performance = AUM = Net Income

The investment manager formula for success is rather simple, and while each firm has its own unique attractions, the above formula eventually applies to all. However, for the formula to be lasting, it takes time to execute, communicate and realize. New investment firms always face the competitive headwinds of the large established brands. Arguably, it is even harder to succeed today as private credit has become a very popular investment allocation, perhaps bubble like, which at times creates confusion among investors as they stamp all credit strategies with the "private credit" label. This is concerning. That said, we understand this formula well, and today Arena Investors' committed AUM is \$1 billion and growing. We expect Arena Investors' profitability to grow, eventually allowing Arena Investors to first repay investments from Westaim to fund its start-up costs (\$18.3 million at December 31, 2018) and then make distributions, which are to be allocated between Westaim and Arena Investors' management as noted in our public filings.

Westaim's initial ownership of Arena Investors is 100% and as Arena Investors achieves third party, fee paying AUM according to levels noted in our public filings, along with minimum EBITDA margin thresholds, Westaim's ownership will be reduced and transferred to the management team of Arena Investors. As Arena Investors progresses toward \$5 billion of third party, fee paying AUM (and the requisite EBITDA margin thresholds are achieved), Westaim's ownership will gradually be reduced to 25%. It is noteworthy that Westaim's eventual 25% ownership in Arena Investors is perpetual, and Westaim will have attained this equity position without any material monetary investment.

I would also like to refresh your memory of Westaim's strong alignment with Arena's management team. Upon the commencement of distributions from Arena Investors, Arena management has committed to utilize 25% of their first \$100 million of distributions to acquire Westaim common shares in the open market. When that commitment is fulfilled, Arena management is required to utilize 12.5% of their distributions to acquire Westaim common shares in the open market until they become a 19.9% owner of Westaim common shares. In other words, this is an aligned partnership for the long-term, where Arena's success and Westaim's success are inextricably linked.

We believe that distributions from capital-light Arena Investors, coupled with the ongoing investment returns achieved within Arena Finance and Arena Origination, will provide Westaim shareholders with excellent risk adjusted returns as the operating leverage from the business takes hold.

In addition to significant active involvement with HIIG and Arena, Westaim's management continues to actively seek out attractive investment opportunities for Westaim's shareholders. The current environment is one of elevated pricing and high use of leverage to generate returns, a short term game that we are reluctant to play. Our filter, beyond obligatory acceptable hurdle rates, is to look for (i) high quality management teams that we can partner with to help build businesses over the long term; (ii) businesses that have attractive business economics and capacity to grow; and (iii) businesses where the shared experience with our other platforms can provide added value. Of course, we are also very cognizant about the other options to deploy Westaim's capital through share buybacks and/or dividends, and carefully consider the viability and attractiveness of these options on a constant basis as we build the business over the long term.

Westaim's Annual General Meeting and Investor Day will be held on Thursday May 30, 2019 at 9:00am ET. This year's presentation will take place at the Hockey Hall of Fame in Toronto. As in past years, the management teams of Westaim, Arena and HIIG will be in attendance and will be providing an in-depth presentation. We look forward to seeing everyone.

Yours truly,

A handwritten signature in blue ink, appearing to read "C. MacDonald".

Cameron MacDonald
President and Chief Executive Officer

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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, 2018 and 2017 as set out on pages 56 to 79 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, 2018 and 2017 and is intended to enable the reader to assess Westaim's results of operations for the three months and year ended December 31, 2018 and financial condition as at December 31, 2018. 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\$"), the functional and presentation currency of the Company, except per share data, unless otherwise indicated. Canadian dollars are referenced as C\$. The following commentary is current as of March 27, 2019. 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

The US\$ is the functional and presentation currency of the Company. International Accounting Standard 21 "*The Effects of Changes in Foreign Exchange Rates*" describes functional currency as the currency of the primary economic environment in which an entity operates. A significant majority of the Company's revenues and costs are earned and incurred in US\$, respectively.

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 contained in Section 15, *Non-GAAP Measures* of this MD&A.

The Westaim Corporation
Management's Discussion and Analysis
Year ended December 31, 2018
(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, 2018 and 2017 (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 annual financial statements of the Arena Group for the years ended December 31, 2018 and 2017 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 27, 2019 for its fiscal year ended December 31, 2018 which is available on SEDAR at www.sedar.com. Please refer to Section 16, *Cautionary Note Regarding Future Oriented Financial Information* of this MD&A.

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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 HIIG (through 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	
	2018	2017	2018	2017
Revenue	\$ 1.1	\$ 1.2	\$ 4.5	\$ 3.7
Net results of investments	2.4	9.0	16.5	19.8
Net recovery of expenses (expenses)	3.2	(3.4)	(4.1)	(18.0)
Profit and comprehensive income	\$ 6.7	\$ 6.8	\$ 16.9	\$ 5.5
Earnings per share - basic	\$ 0.05	\$ 0.05	\$ 0.12	\$ 0.04
Earnings per share - diluted	\$ 0.04	\$ 0.05	\$ 0.11	\$ 0.04
At December 31:				
Shareholders' equity	\$ 345.2	\$ 326.0	\$ 345.2	\$ 326.0
Number of common shares outstanding	143,186,718	143,186,718	143,186,718	143,186,718
Book value per share - in US\$ ¹	\$ 2.42	\$ 2.33	\$ 2.42	\$ 2.33
Book value per share - in C\$ ¹	\$ 3.30	\$ 2.92	\$ 3.30	\$ 2.92

¹ Non-GAAP measure. See Section 15, *Non-GAAP Measures* of this MD&A. Period end exchange rates: 1.3643 at December 31, 2018 and 1.2539 at December 31, 2017.

Three months ended December 31, 2018 and 2017

The Company reported a profit and comprehensive income of \$6.7 million for the three months ended December 31, 2018 (2017 – \$6.8 million).

Revenue for the three months ended December 31, 2018 of \$1.1 million (2017 - \$1.2 million) consisted of interest income of \$0.8 million (2017 - \$0.9 million) and advisory fees of \$0.3 million (2017 - \$0.3 million).

Net results of investments were a gain of \$2.4 million for the three months ended December 31, 2018 (2017 - \$9.0 million), consisting of an unrealized gain on the Company's investments in private entities of \$1.8 million (2017 - \$9.5 million), an unrealized gain on other investments of \$0.1 (2017 - \$0.2 million) and the Company's share of profit of its Associates (as hereinafter defined) of \$0.5 million (2017 – loss of \$0.7 million).

Net recovery of expenses for the three months ended December 31, 2018 of \$3.2 million (2017 – net expenses of \$3.4 million) consisted of salaries and benefits of \$0.9 million (2017 - \$0.2 million), general, administrative and other expenses of \$nil (2017 - \$0.3 million), professional fees of \$0.1 million (2017 - \$0.1 million), site restoration provision of \$0.5 million (2017 – \$0.4 million), recovery of share-based compensation of \$0.9 million (2017 – share-based compensation of \$1.1 million), a foreign exchange gain of \$0.8 million (2017- loss of \$0.2 million), interest on preferred securities of \$0.5 million (2017 - \$0.5 million) and an unrealized gain resulting from a change in the fair value of the vested Warrants (as hereinafter defined) of \$3.5 million (2017 – unrealized loss of \$0.6 million).

Years ended December 31, 2018 and 2017

The Company reported a profit and comprehensive income of \$16.9 million for the year ended December 31, 2018 (2017 - \$5.5 million).

Revenue for the year ended December 31, 2018 of \$4.5 million (2017 - \$3.7 million) consisted of interest income of \$3.1 million (2017 - \$2.3 million) and advisory fees of \$1.4 million (2017 - \$1.4 million).

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2. OVERVIEW OF PERFORMANCE (continued)

Net results of investments were a gain of \$16.5 million for the year ended December 31, 2018 (2017 - \$19.8 million), consisting of an unrealized gain on the Company's investments in private entities of \$17.5 million (2017 - \$22.8 million) and an unrealized gain on other investments of \$0.2 million (2017 - \$0.4 million), partially offset by the Company's share of loss of its Associates (as hereinafter defined) of \$1.2 million (2017 - \$3.4 million).

Net expenses for the year ended December 31, 2018 of \$4.1 million (2017 - \$18.0 million) consisted of salaries and benefits of \$3.7 million (2017 - \$3.0 million), general, administrative and other expenses of \$0.9 million (2017 - \$1.1 million), professional fees of \$0.9 million (2017 - \$0.7 million), site restoration provision of \$0.1 million (2017 - \$0.1 million), share-based compensation of \$1.6 million (2017 - \$3.8 million), a foreign exchange gain of \$1.2 million (2017- loss of \$1.6 million), interest on preferred securities of \$1.9 million (2017 - \$1.2 million), an unrealized gain resulting from a change in fair value of the vested Warrants (as hereinafter defined) of \$3.8 million (2017 - a net expense of \$6.0 million) and preferred securities issuance cost of \$nil (2017 - \$0.5 million).

3. INVESTMENTS

The Company's investments in private entities and associates are included under investments in the consolidated statements of financial position. 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, 2018 and 2017
Investments in private entities:			
- HIIG Partnership	Ontario, Canada	Ontario, Canada	58.5% owned by Westaim ¹
- Arena Finance	Ontario, Canada	Ontario, Canada	100% owned by Westaim ²
- Arena Origination	Delaware, U.S.	New York, U.S.	100% owned by Westaim ³
Investment in Associates:			
- WAHII	Delaware, U.S.	New York, U.S.	51% beneficially owned by Westaim, indirectly through WCA ⁴
- ASOF-ON GP	Delaware, U.S.	New York, U.S.	51% beneficially owned by Westaim, indirectly through WCA ⁴
- ASOF-OFF II GP	Delaware, U.S.	New York, U.S.	51% beneficially owned by Westaim ⁴

¹ On September 30, 2018, Westaim HIIG Holdings Inc. an incorporated wholly-owned subsidiary, transferred all of its ownership interest in the HIIG Partnership to the Company and was dissolved. No book gain or loss was recorded upon the transfer. Following the transfer, the Company owns, directly 58.5% of the HIIG Partnership.

² On December 31, 2018, all outstanding Class M units held by Bernard Partners, LLC (as hereinafter defined) described under "Investment in the Arena Group - Arena Finance" were redeemed. The December 31, 2018 financial statements of Arena Finance contain a liability for the redemption payment of the M units which amounts are expected to be paid to Bernard Partners, LLC (as hereinafter defined) on or before March 31, 2019.

³ On December 31, 2018, all outstanding Class M units held by Bernard Partners, LLC (as hereinafter defined) described under "Investment in the Arena Group - Arena Origination" were redeemed. The December 31, 2018 financial statements of Arena Origination contain a liability for the redemption payment of the M units which amounts are expected to be paid to Bernard Partners, LLC (as hereinafter defined) on or before March 31, 2019.

⁴ Legal equity ownership is 100%, and beneficial ownership denotes profit percentage subject to change over time pursuant to the earn-in rights granted to Bernard Partners, LLC 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 27, 2019 for its fiscal year ended December 31, 2018 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 in investments in private entities included under investments in the Company's consolidated financial statements.

Arena Group

The Arena Group consists of the following three businesses:

- **Arena Investors** – WAHII, ASOF-ON GP and ASOF-OFF II GP (collectively, "Arena Investors") jointly operate as an investment manager offering clients access to fundamentals-based, asset-oriented credit investments. The Company's investment in Arena Investors is recorded as investment in associates included under investments in the Company's consolidated financial statements.

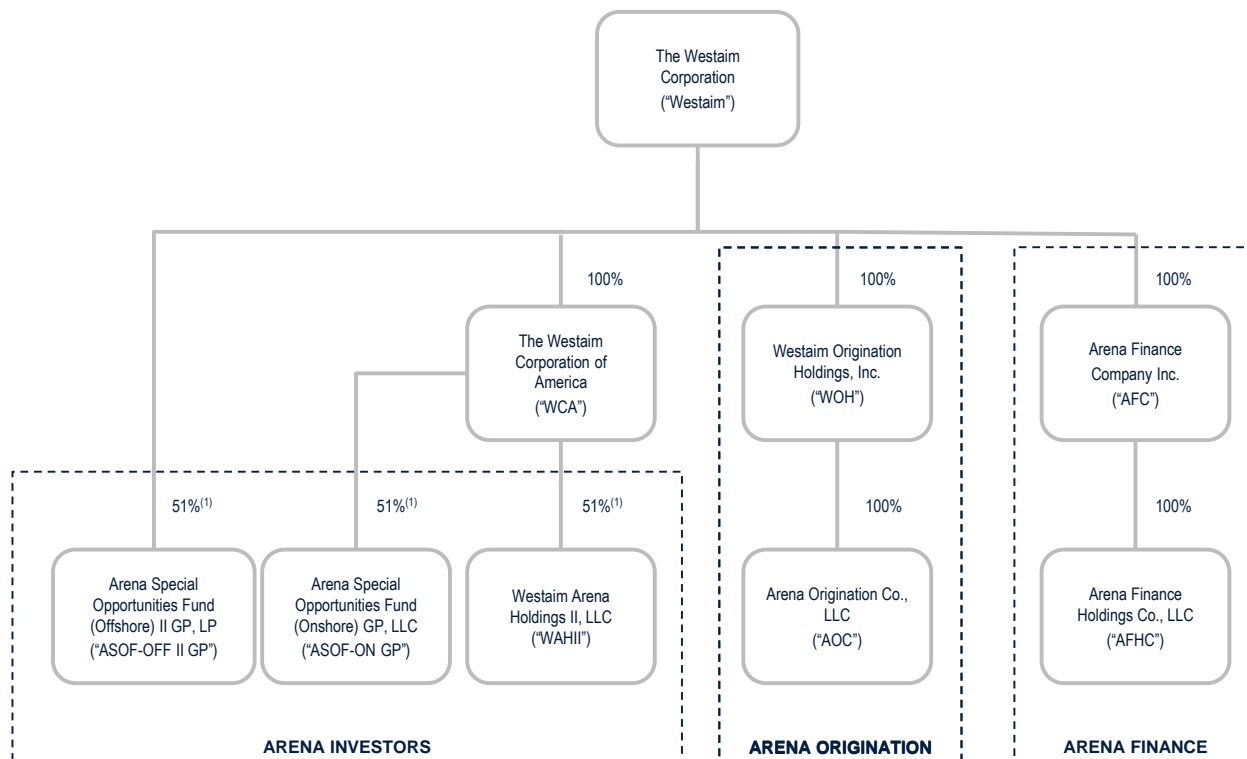
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3. INVESTMENTS (continued)

- **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, is a specialty finance company that primarily purchases fundamentals-based, asset-oriented credit investments for its own account. The Company’s investment in Arena Finance is recorded as investments in private entities included under investments 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, facilitates 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 as investments in private entities included under investments in the Company’s consolidated financial statements.

Arena Investors, Arena Finance and Arena Origination and related entities are collectively referred to as “Arena” or the “Arena Group”.

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



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 Bernard Partners, LLC described under “Investment in the Arena Group - Arena Investors”.

For a detailed discussion of the business of the Arena Group, see the Company’s Annual Information Form dated March 27, 2019 for its fiscal year ended December 31, 2018 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, 2018 and 2017, 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 6 to the Company’s audited annual consolidated financial statements for the years ended December 31, 2018 and 2017.

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3. INVESTMENTS (continued)

The Company's investment 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 investment in Associates is accounted for using the equity method and consists of investments in corporations or limited partnerships where the Company has significant influence.

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 profit and comprehensive income.

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

(millions)	Three months ended December 31, 2018			Three months ended December 31, 2017		
	Opening Balance	Unrealized gain/(loss)	Ending balance	Opening balance	Unrealized gain	Ending balance
Investments in private entities:						
- HIIG Partnership	\$ 162.8	\$ (0.7)	\$ 162.1	\$ 149.4	\$ 7.7	\$ 157.1
- Arena Finance ¹	160.9	3.0	163.9	150.5	0.8	151.3
- Arena Origination ²	35.3	(0.5)	34.8	33.9	1.0	34.9
	<u>\$ 359.0</u>	<u>\$ 1.8</u>	<u>\$ 360.8</u>	<u>\$ 333.8</u>	<u>\$ 9.5</u>	<u>\$ 343.3</u>

¹ Ownership subject to the vesting and conversion of Class M units held by Bernard Partners, LLC described under "Investment in the Arena Group - Arena Finance". On December 31, 2018, the Company redeemed all M units.

² Ownership subject to the vesting and conversion of Class M units held by Bernard Partners, LLC described under "Investment in the Arena Group - Arena Origination". On December 31, 2018, the Company redeemed all M units.

(millions)	Year ended December 31, 2018			Year ended December 31, 2017				
	Opening balance	Unrealized gain/(loss)	Ending balance	Opening balance	Additions - Equity	Repayment of term loan	Unrealized gain	Ending balance
Investments in private entities:								
- HIIG Partnership	\$ 157.1	\$ 5.0	\$ 162.1	\$ 145.3	\$ -	\$ -	\$ 11.8	\$ 157.1
- Arena Finance ¹	151.3	12.6	163.9	142.8	-	-	8.5	151.3
- Arena Origination ²	34.9	(0.1)	34.8	32.4	7.0	(7.0)	2.5	34.9
	<u>\$ 343.3</u>	<u>\$ 17.5</u>	<u>\$ 360.8</u>	<u>\$ 320.5</u>	<u>\$ 7.0</u>	<u>\$ (7.0)</u>	<u>\$ 22.8</u>	<u>\$ 343.3</u>

¹ Ownership subject to the vesting and conversion of Class M units held by Bernard Partners, LLC described under "Investment in the Arena Group - Arena Finance". On December 31, 2018, the Company redeemed all M units.

² Ownership subject to the vesting and conversion of Class M units held by Bernard Partners, LLC described under "Investment in the Arena Group - Arena Origination". On December 31, 2018, the Company redeemed all M units.

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

(millions)	Three months ended December 31		Year ended December 31	
	2018	2017	2018	2017
Investment in Associates				
Opening balance	\$ 9.3	\$ (1.4)	\$ 8.0	\$ 1.3
Repayment of advances	-	(4.4)	-	(4.4)
Additions - Loan	0.8	14.5	3.8	14.5
Share of gain (loss)	0.5	(0.7)	(1.2)	(3.4)
Ending balance	<u>\$ 10.6</u>	<u>\$ 8.0</u>	<u>\$ 10.6</u>	<u>\$ 8.0</u>

A. INVESTMENT IN HIIG

At December 31, 2018, the HIIG Partnership owned approximately 75.1% of the common shares of HIIG ("HIIG Shares"). On September 30, 2018, Westaim HIIG Holdings Inc. an incorporated wholly-owned subsidiary, transferred all of its ownership interest in the HIIG Partnership to the Company and was dissolved. No book gain or loss was recorded upon the transfer. Following the transfer, the Company owned approximately 58.5% of the HIIG Partnership, representing an approximate 43.9% 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.

(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 \$162.1 million at December 31, 2018 and \$157.1 million at December 31, 2017.

3. INVESTMENTS (continued)

Management used a multiple of net asset value as the primary valuation technique to arrive at the fair value of the Company's investment in the HIIG Partnership of \$162.1 million at December 31, 2018. The fair value of the HIIG Partnership at December 31, 2018 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, 2018. The carrying values of the HIIG Partnership's other net assets, consisting of monetary assets including cash and accounts receivable less accounts payable and accrued liabilities, approximate their fair values due to the short maturity of these financial instruments. In valuing the HIIG Shares, management determined that using net asset value as the primary valuation technique produced the best indicator of the fair value of the HIIG Shares as at December 31, 2018 and 2017, given that this is the valuation technique which a market participant would employ.

In valuing the HIIG Shares, using a multiple of net asset value as the primary valuation technique, fair value was determined to be 1.1x the adjusted book value (or adjusted Stockholders' Equity) of HIIG as at December 31, 2018 and 2017. The adjusted book value of HIIG as at December 31, 2018 reflected 100% of HIIG stockholders' equity obtained from the audited financial statements of HIIG as at and for the year ended December 31, 2018 prepared in accordance with United States generally accepted accounting principles ("US GAAP"), adjusted for a reclassification of a stock notes 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 other 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 property and casualty 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 \$0.7 million and an unrealized gain of \$7.7 million in the three months ended December 31, 2018 and 2017, respectively, and unrealized gains of \$5.0 million and \$11.8 million in the years ended December 31, 2018 and 2017, respectively, on its investment in the HIIG Partnership.

(ii) Select Financial Information of HIIG for the years ended December 31, 2018 and 2017

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 ratio" (calculated by dividing net loss and loss adjustment expenses by net earned premiums) and "combined ratio" (calculated by dividing the aggregate of net loss and loss adjustment expenses, net policy acquisition expenses and net operating expenses by net earned premiums) provide measures 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 first quarter of 2018, the management of HIIG modified the reporting segments of HIIG to better describe its business. Comparative figures have been reclassified to conform to the presentation of the current period. The reporting segments of HIIG are as follows:

- Accident and Health - group medical insurance business written on an excess basis known as stop loss business including both aggregate and specific coverage provided to small and medium size employee groups.
- Commercial – standard lines of business generally written on an admitted basis by most markets known as "Main Street" or "Middle Market" business.
- Excess & Surplus - lines of business primarily general liability written on a non-admitted basis through wholesale brokers or managing general agents. Some Excess & Surplus business is included in other segments where written in conjunction with admitted lines.
- Specialty – niche business of generally unusual or difficult risks and business specific to certain industries or professions underwritten by underwriters with more specific knowledge and expertise.
- Non-continuing lines - represent lines of business no longer actively underwritten by HIIG.

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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 annual consolidated financial statements of HIIG for the years ended December 31, 2018 and 2017 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	
	2018	2017 ²	2018	2017 ²
Income Statement				
Gross written premiums	\$ 179.7	\$ 143.4	\$ 696.9	\$ 575.3
Net written premiums	\$ 78.8	\$ 64.0	\$ 300.5	\$ 257.7
Net earned premiums	\$ 74.4	\$ 64.9	\$ 277.6	\$ 265.7
Net income(loss) before U.S. Tax Reform ¹ related income adjustment	\$ 3.9	\$ 7.4	\$ 20.9	\$ 16.6
Net income(loss)	\$ 3.9	\$ (14.7)	\$ 20.9	\$ (5.5)
Combined ratio	106.6%	102.0%	99.5%	101.5%
Select Information				
Gross written premiums:				
Commercial	\$ 50.1	\$ 37.0	\$ 190.8	\$ 161.0
Specialty	94.2	73.2	358.8	276.2
Excess & Surplus	11.4	13.9	58.0	59.6
Accident and Health	22.4	19.3	84.3	78.5
Non-continuing lines	1.6	n.m. ³	5.0	n.m. ³
	\$ 179.7	\$ 143.4	\$ 696.9	\$ 575.3
Net written premiums:				
Commercial	\$ 31.8	\$ 19.7	\$ 115.0	\$ 82.3
Specialty	32.0	30.1	120.6	115.3
Excess & Surplus	6.7	7.2	33.8	31.4
Accident and Health	7.4	7.0	28.3	30.0
Non-continuing lines	0.9	n.m. ³	2.8	(1.3)
	\$ 78.8	\$ 64.0	\$ 300.5	\$ 257.7
Net earned premiums:				
Commercial	\$ 27.8	\$ 19.1	\$ 98.5	\$ 75.2
Specialty	29.3	30.8	114.1	128.9
Excess & Surplus	7.9	8.0	32.6	32.9
Accident and Health	7.4	7.0	28.3	30.0
Non-continuing lines	2.0	n.m. ³	4.1	(1.3)
	\$ 74.4	\$ 64.9	\$ 277.6	\$ 265.7
Net Loss and LAE Ratio:				
Commercial	72.8%	80.5%	67.1%	75.8%
Specialty	74.4%	55.4%	64.8%	60.2%
Excess & Surplus	125.0%	63.1%	84.9%	68.2%
Accident and Health	76.5%	76.8%	76.3%	89.0%
Non-continuing lines	n.m. ³	n.m. ³	n.m. ³	n.m. ³
	80.2%	66.7%	70.8%	69.8%
Balance Sheet Information				
	December 31, 2018	December 31, 2017		
Investments, cash and cash equivalents	\$ 624.3	\$ 613.2		
Stockholders' equity	\$ 329.9	\$ 318.9		

¹ Tax reform in the United States ("U.S. Tax Reform") reduces the U.S. corporate federal income tax rate from 35% to 21% effective January 1, 2018. This rate reduction resulted in a decrease in HIIG's deferred tax asset at December 31, 2017 and HIIG's net income for the three months and year ended December 31, 2017 by \$22.1 million.

² Adjusted to conform to the presentation of the current year.

³ Not material or meaningful, but included in the aggregate numbers.

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3. INVESTMENTS (continued)

Gross written premiums - Gross written premiums was \$179.7 million for the three months ended December 31, 2018 compared to \$143.4 million for the three months ended December 31, 2017, an increase of 25.2%, and \$696.9 million for the year ended December 31, 2018 compared to \$575.3 million for the year ended December 31, 2017, an increase of 21.1%. The increase in gross written premiums in the three months and year ended December 31, 2018 compared to the same periods in the prior year was driven primarily by growth in the Commercial and Specialty segments.

Net written premiums - Net written premiums was \$78.8 million for the three months ended December 31, 2018 compared to \$64.0 million for the three months ended December 31, 2017, an increase of 23.2%, and \$300.5 million for the year ended December 31, 2018 compared to \$257.7 million for the year ended December 31, 2017, an increase of 16.6%, resulting from the growth in the Commercial and Specialty segments.

Net earned premiums - Net earned premiums was \$74.4 million for the three months ended December 31, 2018 compared to \$64.9 million for the three months ended December 31, 2017, an increase of 14.7%, and \$277.6 million for the year ended December 31, 2018 compared to \$265.7 million for the year ended December 31, 2017, an increase of 4.5%. The increase in net earned premiums for the year ended December 31, 2018 was attributed to HIIG's net written premium growth over the past 24 months. The increased use of reinsurance from 2017, specifically in the Specialty segment, tempered growth in net earned premiums.

Overall net loss and LAE ratio - The overall net loss and LAE ratio was 80.2% for the three months ended December 31, 2018 compared to 66.7% for the same period in the prior year, and 70.8% for the year ended December 31, 2018 compared to 69.8% for the same period in the prior year. The table below provides details of HIIG's adverse loss development on prior year loss and LAE reserves of \$5.0 million and \$5.8 million in the three months and year ended December 31, 2018, respectively, compared to \$0.2 million and \$8.8 million in the three months and year ended December 31, 2017, respectively. In addition, HIIG recorded catastrophe losses primarily in the Specialty segment, net of reinsurance, of \$nil and \$1.5 million in the three months and year ended December 31, 2018, respectively and \$nil and \$1.9 million in the three months and year ended December 31, 2017, respectively.

Net adverse (favourable) development (unaudited) (millions)	Three months ended December 31		Year ended December 31	
	2018	2017	2018	2017
Commercial	\$ 0.8	\$ -	\$ (0.3)	\$ 1.3
Specialty	2.4	0.1	3.3	2.9
Excess & Surplus	1.4	-	1.5	1.6
Accident and Health	-	(0.1)	-	2.8
Non-continuing lines	0.4	0.2	1.3	0.2
	<u>\$ 5.0</u>	<u>\$ 0.2</u>	<u>\$ 5.8</u>	<u>\$ 8.8</u>

Operating results - HIIG recorded net income of \$3.9 million for the three months ended December 31, 2018 compared to a net loss of \$14.7 million for the three months ended December 31, 2017, and net income of \$20.9 million for the year ended December 31, 2018 compared to a net loss of \$5.5 million for the year ended December 31, 2017. The increase for the year ended December 31, 2018 over the prior year was attributed primarily to improved underwriting results from a lower expense ratio and reduced corporate income tax rates as a result of the U.S. Tax Reform. The net loss of \$14.7 million and \$5.5 million for the three months and year ended December 31, 2017, respectively also included a one-time charge of \$22.1 million as a result of the U.S. Tax Reform as it related to the revaluation of deferred tax assets.

Stockholders' equity - HIIG stockholders' equity increased to \$329.9 million at December 31, 2018 from \$318.9 million at December 31, 2017. The increase of \$11.0 million resulted from HIIG's net income for the period of \$20.9 million and a net issue of the shares and settlement of loans from its employees' share purchase plan of \$1.1 million, partially offset by net unrealized losses on HIIG's investment portfolio (net of income taxes) of \$11.0 million.

B. INVESTMENT IN THE ARENA GROUP

The Arena Group makes and manages 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 include real estate, inventory, vehicles, aircraft, watercraft, oil and gas reserves, a borrower's plant and equipment, other hard assets, 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.

3. INVESTMENTS (continued)

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, structured convertible notes, 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.

Arena Finance

Arena Finance is a specialty finance company that primarily purchases fundamentals-based, asset-oriented credit investments for its own account. Arena Finance, through its subsidiaries, uses funds 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.

3. INVESTMENTS (continued)

On June 9, 2017, the Company used part of the proceeds from the Fairfax financing (see discussion in Section 4, *Financing* of this MD&A) to loan C\$30 million to AFHC (the "AFHC Loan") on market terms. The AFHC Loan is denominated in C\$, repayable on demand (with a final repayment date not later than June 9, 2022) and secured by the assets of AFHC. The AFHC Loan carries interest at a rate of 4.5% per annum plus the greater of (i) 3-month LIBOR and (ii) 1%, with the applicable rate adjusted at the beginning of each quarter. Interest is due at the end of each calendar quarter. AFHC made a principal repayment to the Company of C\$20.0 million on December 21, 2017 resulting in an outstanding loan of C\$10.0 million at December 31, 2017. In 2018, AFHC made principal repayments to the Company of C\$1.0 million each on March 7, 2018, May 25, 2018, June 26, 2018, August 22, 2018 and November 16, 2018 and increased the loan by C\$5.0 million on December 20, 2018 resulting in an outstanding loan of C\$10.0 million at December 31, 2018. The AFHC Loan is translated into US\$ at rates of exchange at the end of each reporting period and any resulting unrealized foreign exchange gain or loss is included in the consolidated statements of profit and comprehensive income. At December 31, 2018 and 2017, the US\$ converted value of the AFHC Loan was \$7.3 million and \$8.0 million, respectively. The Company recorded a foreign exchange loss relating to the AFHC Loan of \$0.2 million and a foreign exchange loss of \$0.5 million (realized gain - \$0.2 million; unrealized loss of \$0.7 million) for the three months and year ended December 31, 2018, respectively, and a foreign exchange loss of \$0.5 million and a foreign exchange gain of \$1.4 million (realized - \$0.8 million; unrealized - \$0.6 million) in the three months and year ended December 31, 2017, respectively. AFHC has used the loan proceeds for investment purposes.

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

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") 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 escalating conversion prices which are in excess of the price paid by the Company for its investment in AFHC (through Arena Finance). At December 31, 2018 and 2017, the fair value of AFHC attributable to the Class M units was \$0.6 million and \$nil, respectively. On December 31, 2018, the Company through AFHC redeemed all Class M units outstanding for the "in the money" amount of \$0.6 million and this amount is recorded as a liability on AFHC's financial statements at December 31, 2018 and therefore reflected in its fair value. The liability of \$0.6 million is expected to be paid to BP LLC on or before March 31, 2019.

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 \$163.9 million and \$151.3 million at December 31, 2018 and 2017, 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 \$163.9 million at December 31, 2018. 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 Finance at December 31, 2018, in the amount of \$163.9 million approximated the fair value of the Company's investment in Arena Finance. 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, 2018.

At December 31, 2017, 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, 2017, less the amount attributable to Class M units, in the amount of \$151.3 million approximated the fair value of the Company's investment in Arena Finance.

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 unrealized gains of \$3.0 million and \$0.8 million in the three months ended December 31, 2018 and 2017, respectively, and unrealized gains of \$12.6 million and \$8.5 million in the years ended December 31, 2018 and 2017, respectively, on its investment in Arena Finance.

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3. INVESTMENTS (continued)

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 years ended December 31, 2018 and 2017, 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, 2018		December 31, 2017	
	Fair value	Percentage of net assets at fair value	Fair value	Percentage of net assets at fair value
Cash and cash equivalents	\$ 8.5	5.2%	\$ 21.7	14.3%
Due from brokers, net	1.8	1.1%	5.6	3.7%
Investments:				
Loans / Private assets	157.6	95.3%	118.2	77.8%
Bonds	2.4	1.5%	0.7	0.5%
Derivatives	(0.1)	(0.1)%	-	-
Equity securities	1.1	0.6%	5.3	3.5%
Structured convertible notes	3.1	1.9%	8.6	5.6%
Fund investment	-	-	0.8	0.6%
	<u>164.1</u>	<u>99.2%</u>	<u>133.6</u>	<u>88.0%</u>
Loan payable to Westaim	(7.3)	(4.4)%	(8.0)	(5.3)%
Other net liabilities	(1.8)	(1.1)%	(1.1)	(0.7)%
Net assets of AFHC and AFHC's subsidiaries	\$ 165.3	100.0%	\$ 151.8	100.0%

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. In the normal course of AFHC's operations, AFHC enters into currency hedges to reduce its foreign currency exposure.

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

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3. INVESTMENTS (continued)

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

(unaudited) (millions)	Three months ended December 31		Year ended December 31	
	2018	2017	2018	2017
Operating results of AFHC and AFHC's subsidiaries:				
Investment income, net	\$ 4.9	\$ 2.7	\$ 14.4	\$ 11.2
Gain on investments	0.3	0.4	6.6	5.2
Operating expenses:				
Administrative and service fees	(0.9)	(1.4)	(4.7)	(5.6)
Interest expense ¹	(0.1)	(0.3)	(0.4)	(0.7)
Other operating expenses	(0.5)	(0.6)	(1.7)	(1.4)
	<u>3.7</u>	<u>0.8</u>	<u>14.2</u>	<u>8.7</u>
Operating income attributable to BP's Class M units	0.1	-	0.6	-
Operating income attributable to Arena Finance Class A units	3.6	0.8	13.6	8.7
Operating results of Arena Finance:				
Operating expenses	(0.2)	-	(0.3)	(0.2)
Income taxes	(0.4)	-	(0.7)	-
	<u>(0.6)</u>	<u>-</u>	<u>(1.0)</u>	<u>(0.2)</u>
Operating results of Arena Finance, AFHC and AFHC's subsidiaries attributable to Arena Finance	\$ 3.0	\$ 0.8	\$ 12.6	\$ 8.5

¹ Demand loan owed by AFHC to Westaim.

The following table shows a continuity of the carrying value of the Company's investment in Arena Finance included in the Company's investments in private entities is as follows:

(unaudited) (millions)	Three months ended December 31		Year ended December 31	
	2018	2017	2018	2017
Carrying value of Arena Finance:				
Opening balance	\$ 160.9	\$ 150.5	\$ 151.3	\$ 142.8
Unrealized gain	3.0	0.8	12.6	8.5
Ending balance	<u>\$ 163.9</u>	<u>\$ 151.3</u>	<u>\$ 163.9</u>	<u>\$ 151.3</u>

Arena Origination

Arena Origination is a specialty finance company that, through its subsidiary AOC, originates 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.

3. INVESTMENTS (continued)

In connection with the original capitalization of Arena Origination, the Company loaned \$17 million to Arena Origination on August 31, 2015. The loan 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. On June 6, 2017, Arena Origination repaid \$7 million of the term loan to Westaim, with a remaining balance of \$10 million outstanding at December 31, 2018. Related to the loan repayment, on June 6, 2017, the Company made an additional equity investment of \$7.0 million in Arena Origination by acquiring additional common shares of Arena Origination.

On June 9, 2017, the Company used part of the proceeds from the Fairfax financing (see discussion in Section 4, *Financing* of this MD&A) to loan C\$20 million to AOC (the "AOC Loan") on market terms. The AOC Loan is denominated in C\$, repayable on demand (with a final repayment date not later than June 9, 2022) and secured by the assets of AOC. The AOC Loan carries interest at a rate of 4.5% per annum plus the greater of (i) 3-month LIBOR and (ii) 1%, with the applicable rate adjusted at the beginning of each quarter. Interest is due at the end of each calendar quarter. AOC made a principal repayment to the Company of C\$5 million each on December 18, 2018 and December 19, 2018 resulting in an outstanding loan of C\$10 million and C\$20 million at December 31, 2018 and 2017, respectively. The AOC Loan is translated into US\$ at rates of exchange at the end of each reporting period and any resulting unrealized foreign exchange gain or loss is included in the consolidated statements of profit and comprehensive income. At December 31, 2018 and 2017, the US\$ converted value of the AOC Loan was \$7.4 million and \$15.9 million, respectively. The Company recorded a foreign exchange loss relating to the AOC Loan of \$0.8 million and \$1.2 million (realized - \$nil; unrealized - \$1.2 million) in the three months and year ended December 31, 2018, respectively, and a foreign exchange loss of \$0.1 million and a foreign exchange gain of \$1.1 million (realized - \$nil; unrealized - \$1.1 million) in the three months and year ended December 31, 2017, respectively. AOC has used the loan proceeds for investment purposes.

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

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 escalating conversion prices which are in excess of the price paid by the Company for its investment in AOC (through Arena Origination). On June 5, 2017, a cash distribution of \$0.93 per Class A unit, totaling \$3.2 million, was made by AOC to Arena Origination, and in accordance with the AOC LLC Agreement, the escalating conversion prices of the Class M units were correspondingly reduced by \$0.93 per Class M unit. The fair value of AOC attributable to the Class M units was \$0.1 million at December 31, 2018 and 2017. On December 31, 2018, the Company through AOC redeemed all Class M units outstanding for the "in the money" amount of \$0.1 million and this amount is recorded as a liability on AOC's financial statements at December 31, 2018 and therefore reflected in its fair value. The liability of \$0.1 million is expected to be paid to BP LLC on or before March 31, 2019.

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 \$34.8 million and \$34.9 million at December 31, 2018 and 2017, 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 \$34.8 million at December 31, 2018. 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 at December 31, 2018, in the amount of \$24.8 million and the fair value of the term loan of \$10 million, totaling \$34.8 million, approximated the fair value of the Company's investment in Arena Origination. The Company's investment in Arena Origination, through AOC, was composed largely of cash and cash equivalents and investments, carried at fair value at December 31, 2018.

At December 31, 2017, management used net asset value as the primary valuation technique and determined that 100% (or 1.0x) of the shareholder's equity of Arena Origination at December 31, 2017, less the amount attributable to Class M units, in the amount of \$24.9 million and the fair value of the term loan of \$10 million, totaling \$34.9 million approximated the fair value of the Company's investment in Arena Origination.

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3. INVESTMENTS (continued)

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

The Company recorded an unrealized loss of \$0.5 million and an unrealized gain of \$1.0 million in the three months ended December 31, 2018 and 2017, respectively, and an unrealized loss of \$0.1 million and an unrealized gain of \$2.5 million in the years ended December 31, 2018 and 2017, respectively, on its investment in Arena Origination.

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 three months and years ended December 31, 2018 and 2017, 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, 2018		December 31, 2017	
	Fair value	Percentage of net assets at fair value	Fair value	Percentage of net assets at fair value
Cash and cash equivalents	\$ 15.7	46.2%	\$ 7.3	20.6%
Due from brokers, net	2.5	7.4%	2.7	7.7%
Investments:				
Loans / Private assets	20.1	59.3%	36.9	103.6%
Bonds	2.3	6.7%	0.2	0.6%
Derivatives	(0.4)	(1.2)%	-	-
Equity securities	0.4	1.3%	1.3	3.8%
Structured convertible notes	1.5	4.3%	2.9	8.1%
	<u>23.9</u>	<u>70.4%</u>	<u>41.3</u>	<u>116.1%</u>
Loan payable to Westaim	(7.4)	(21.6)%	(15.9)	(44.8)%
Other net assets	(0.7)	(2.4)%	0.2	0.4%
Net assets of AOC	<u>\$ 34.0</u>	<u>100.0%</u>	<u>\$ 35.6</u>	<u>100.0%</u>

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. In the normal course of AOC's operations, AOC enters into currency hedges to reduce its foreign currency exposure.

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

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3. INVESTMENTS (continued)

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

(unaudited) (millions)	Three months ended December 31		Year ended December 31	
	2018	2017	2018	2017
Operating results of AOC:				
Investment income, net	\$ 1.1	\$ 1.1	\$ 5.0	\$ 4.2
(Loss) gain on investments	(0.8)	1.5	(1.4)	2.5
Operating expenses:				
Administrative and service fee recovery	0.2	-	-	0.3
Interest expense ¹	(0.2)	(0.3)	(1.0)	(0.5)
Other operating expenses	(0.6)	(0.4)	(1.8)	(2.1)
	<u>(0.3)</u>	<u>1.9</u>	<u>0.8</u>	<u>4.4</u>
Operating income attributable to BP's Class M units	-	0.1	-	0.1
Operating (loss) income attributable to Arena Origination Class A units	(0.3)	1.8	0.8	4.3
Operating results of Arena Origination:				
Operating expenses:				
Interest expense ²	(0.2)	(0.2)	(0.7)	(1.0)
Other operating expenses	(0.1)	-	(0.3)	(0.2)
Income taxes recovery (expense)	0.1	(0.6)	0.1	(0.6)
	<u>(0.2)</u>	<u>(0.8)</u>	<u>(0.9)</u>	<u>(1.8)</u>
Operating results of Arena Origination and AOC attributable to Arena Origination	\$ (0.5)	\$ 1.0	\$ (0.1)	\$ 2.5

¹ Demand loan owed by AOC to Westaim.

² Term loan owed by Arena Origination to Westaim.

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:

(unaudited) (millions)	Three months ended December 31		Year ended December 31	
	2018	2017	2018	2017
Carrying value of Arena Origination:				
Opening balance	\$ 35.3	\$ 33.9	\$ 34.9	\$ 32.4
Addition - equity	-	-	-	7.0
Repayment of term loan	-	-	-	(7.0)
Unrealized (loss) gain	(0.5)	1.0	(0.1)	2.5
Ending balance	<u>\$ 34.8</u>	<u>\$ 34.9</u>	<u>\$ 34.8</u>	<u>\$ 34.9</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.

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3. INVESTMENTS (continued)

Arena Investors generates revenues primarily from Management Fees, Incentive Fees and Asset Servicing Fees. "Management Fees" are the fees generally calculated on Arena Investors' various segregated client accounts and private pooled investment vehicles as a percentage of assets under management ("AUM"). Management fees for separately managed accounts may be based on a percentage of the fair value of invested capital for the account during the ramp-up phase. "Incentive Fees" are the fees generally calculated as a percentage of net profits earned by Arena Investors as of the end of each fiscal year or applicable withdrawal date related to client accounts subject to a "high water mark" and loss carryforward provisions for each measurement date. "Asset Servicing Fees" are the fees generally earned in connection with the management and servicing of the illiquid portion of clients' investment portfolio.

Arena Investors has established a U.S. onshore fund, Arena Special Opportunities Fund, LP ("ASOF LP") and offshore funds, Arena Special Opportunities Fund (Cayman), LP and Arena Special Opportunities Fund (Cayman 2), LLC, as commingled investment vehicles. Arena Investors continues to be in discussions with potential clients for additional capital to invest in its various pools, in accordance with its business strategy.

In connection with the Private Placement (see discussion in Section 4, *Financing* of this MD&A), Fairfax (as hereinafter defined) agreed to invest up to \$500 million in investments sourced by Arena Investors, LP. Fairfax's commitment to invest \$125 million with Arena Investors, LP was triggered by Fairfax purchasing C\$50 million of Preferred Securities (as hereinafter defined) from the Company on June 2, 2017. The agreement for Fairfax to invest an additional \$375 million with Arena Investors, LP was based on Fairfax's purchase of additional tranches of Preferred Securities. As the Company exercised its discretion not to issue additional Preferred Securities, Fairfax is not required to make any further investments with Arena Investors, LP.

As of December 31, 2018, the Arena Group had committed AUM of approximately \$1,024 million and includes the net assets of Arena Finance and Arena Origination totaling approximately \$199 million. As of December 31, 2017, the Arena Group had committed AUM of approximately \$760 million and included the net assets of Arena Finance and Arena Origination totaling \$187 million.

Rights Granted to BP LLC

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 profit 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 profit of the Associates based on achieving certain AUM and cash flow (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

On December 21, 2017, the Company (through WCA) granted a \$20 million revolving loan facility to the Associates (the "Associates Loan") in order to (i) fund growth initiatives and working capital needs of Arena Investors and (ii) enable WAHII to repay \$4.4 million in advances previously owed to the Company and extinguish the WAHII loan owed to AHFC. See section 9, *Related Party Transactions* of this MD&A for additional information on these loans. The loan facility has a term of 36 months and bears interest at a rate of 5.25% per annum. At December 31, 2018 and 2017, WAHII had drawn down the loan facility by \$18.3 million and \$14.5 million, respectively. The loan facility is secured by the assets of certain of the Associates.

The Company's investments in the Associates (Arena Investors) are accounted for using the equity method. The carrying amount of the Company's investment in the Associates was \$10.6 million and \$8.0 million at December 31, 2018 and 2017, respectively. The total of the Company's 51% share of profit of the Associates of \$0.5 million and share of loss of \$0.7 million in the three months ended December 31, 2018 and 2017, respectively, and share of loss of \$1.2 million and \$3.4 million in the year ended December 31, 2018 and 2017, respectively, was reported under "Net results of investments" in the consolidated statements of profit and comprehensive income.

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 three months and years ended December 31, 2018 and 2017, 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.

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3. INVESTMENTS (continued)

Select financial information of Arena Investors is as follows:

Statement of Financial Position ¹

(unaudited) (millions)	December 31, 2018	December 31, 2017
Cash and cash equivalents	\$ 1.0	\$ 1.5
Restricted cash	5.1	8.3
Associates Loan	(18.3)	(14.5)
Other net liabilities	(3.0)	(8.4)
Net liabilities	\$ (15.2)	\$ (13.1)
Company's share	\$ (7.7)	\$ (6.5)
Associates Loan	18.3	14.5
Carrying amount of the Company's investment in Associates	\$ 10.6	\$ 8.0

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.

Restricted cash includes deposits related to investment loans received in advance.

Statement of Profit (Loss) and Comprehensive Income (Loss) ¹

(unaudited) (millions)	Three months ended December 31		Year ended December 31	
	2018	2017	2018	2017
Management, incentive and asset servicing fees, and other income	\$ 4.6	\$ 2.4	\$ 15.2	\$ 7.8
Administrative and service fees	0.7	1.4	4.7	5.3
Gain on investments	0.1	0.8	0.2	0.8
Operating expenses	(4.0)	(6.0)	(21.4)	(20.6)
Interest expense ²	(0.3)	-	(0.9)	-
Profit (loss) and comprehensive profit (loss)	\$ 1.1	\$ (1.4)	\$ (2.2)	\$ (6.7)
Company's share of profit (loss) of Associates (51%)	\$ 0.5	\$ (0.7)	\$ (1.2)	\$ (3.4)

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 Revolving loan facility owed by the Associates to the Company (through WCA).

During the three months ended December 31, 2018, Arena Investors changed the method it used to accrue future bonus payments. The favourable impact of the change was \$0.8 million for the three months and year ended December 31, 2018.

The management, asset servicing and incentive 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.

The operating expenses of \$4.0 million for the three months ended December 31, 2018 included \$2.0 million in salaries and benefits, \$1.0 million in professional fees and \$1.0 million in general, administrative and other expenses. The operating expenses of \$6.0 million for the three months ended December 31, 2017 included \$3.7 million in salaries and benefits, \$1.3 million in professional fees, and \$1.0 million in general, administrative and other expenses.

The operating expenses of \$21.4 million for the year ended December 31, 2018 included \$15.3 million in salaries and benefits, \$2.9 million in professional fees and \$3.2 million in general, administrative and other expenses. The operating expenses of \$20.6 million for the year ended December 31, 2017 included \$13.0 million in salaries and benefits, \$3.0 million in professional fees, \$1.5 million in foreign exchange loss, and \$3.1 million in general, administrative and other expenses.

C. OTHER INVESTMENTS

The Company's investment in ASOF LP, a fund managed by Arena Investors, LP, with a fair value of \$2.5 million at December 31, 2018 and \$2.3 million at December 31, 2017, was included in other assets in the consolidated statements of financial position. The Company's unrealized gain on its investment in ASOF LP was \$0.1 million and \$0.2 million in the three months and year ended December 31, 2018, and \$0.2 million and \$0.4 million in the three months and year ended December 31, 2017, respectively.

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4. FINANCING

Preferred Securities

On April 3, 2017, the Company announced that it had entered into an agreement pursuant to which Fairfax Financial Holdings Limited, through certain of its subsidiaries (collectively, "Fairfax"), had agreed subject to the execution of definitive documentation to make an investment of up to C\$100 million in Westaim in exchange for the issuance by Westaim of 5% interest bearing notes (the "Preferred Securities") and common share purchase warrants (the "Warrants") (collectively, the "Private Placement").

The Preferred Securities are denominated in C\$, each issuable for a principal amount of C\$10 and carry interest at a rate of 5% per annum. The Preferred Securities are subordinate secured securities that will mature on May 26, 2116 but may be repaid, in whole or in part, by the Company at any time after June 2, 2022 and at any time after June 2, 2020 if the volume-weighted average trading price of Westaim's common shares for any 10 day period prior to the date on which the applicable redemption notice is given is at least C\$5.60.

On June 2, 2017, the Company closed a subscription by Fairfax of C\$50 million of Preferred Securities. The proceeds raised from the Fairfax financing were used by Westaim to make interest bearing loans to the Arena Group. See discussion in Section 3, *Investments* of this MD&A for additional information on these loans. The Company had discretion until January 1, 2018 to require Fairfax to purchase all or part of 5,000,000 additional Preferred Securities, and exercised its discretion not to do so. There were 5,000,000 Preferred Securities outstanding at December 31, 2018 and 2017.

The Preferred Securities are repayable on demand upon a change of control of Westaim and the liability is recorded at the principal amount in the consolidated statements of financial position. The Preferred Securities liability is translated into US\$ at rates of exchange at the end of each reporting period and any resulting unrealized foreign exchange gain or loss is included in the consolidated statements of profit and comprehensive income. At December 31, 2018 and 2017, the US\$ converted amount of the Preferred Securities was \$36.6 million and \$39.9 million, respectively. The Company recorded unrealized foreign exchange gains of \$2.1 million and of \$3.3 million relating to the Preferred Securities in the three months and year ended December 31, 2018, respectively, and an unrealized foreign exchange gain of \$0.2 million and an unrealized loss of \$2.9 million in the three months and year ended December 31, 2017, respectively. The carrying amount of the Preferred Securities approximated fair value at December 31, 2018.

Interest on the Preferred Securities amounted to \$0.5 million and \$1.9 million in the three months and year ended December 31, 2018, respectively, and \$0.5 million and \$1.2 million in the three months and year ended December 31, 2017, respectively. At December 31, 2018, interest of \$0.5 million (December 31, 2017 - \$0.5 million) was accrued in the consolidated statements of financial position.

Transaction costs incurred for the issuance of the Preferred Securities was \$nil and \$0.5 million in the three months and year ended December 31, 2017, and were recorded as an expense in the consolidated statements of profit and comprehensive income. There were no transactions costs incurred for the three months and year ended December 31, 2018.

On December 21, 2017, the Company entered into a foreign exchange forward contract to sell US\$15.8 million and buy C\$20 million to manage part of the foreign currency exposure arising from the Preferred Securities. The contract matured on December 21, 2018 and resulted in a realized foreign exchange loss of \$1.0 million. On December 20, 2018, the Company entered into a new foreign exchange forward contract to sell US\$26.3 million and buy C\$35 million to manage part of the foreign currency exposure arising from the Preferred Securities. The contract has a term to maturity of less than one year and may be renewed at market rates. The Company has not designated this foreign exchange forward contract as an accounting hedge. Unrealized loss on the foreign exchange forward contract at December 31, 2018 was \$0.6 million and was recorded under accounts payable and accrued liabilities in the consolidated statements of financial position (unrealized gain of \$0.1 million at December 31, 2017 was recorded under other assets in the consolidated statements of financial position). Losses on the foreign exchange contract in the amount of \$1.2 million and \$1.7 million in the three months and year ended December 31, 2018, respectively, and a gain on the foreign exchange contract in the amount of \$0.1 million in each of the three months and year ended December 31, 2017 was recorded under foreign exchange in the consolidated statements of profit and comprehensive income. In connection with foreign exchange forward contracts which the Company may enter into from time to time, the Company has obtained a credit facility under which the Company has pledged cash on deposit of \$4.4 million (2017 - \$2.5 million) as security. The security shall remain in effect for the duration of any outstanding foreign exchange forward contracts.

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4. FINANCING (continued)

Warrants

In conjunction with the private placement of Preferred Securities, Westaim also issued to Fairfax 28,571,430 Warrants, each exercisable for one Westaim common share at an exercise price of C\$3.50. The Warrants vest proportionately based upon the aggregate percentage of Preferred Securities purchased by Fairfax, with 14,285,715 having vested on June 2, 2017. The remaining 14,285,715 unvested Warrants were cancelled on January 31, 2018. Each vested Warrant is exercisable on or prior to June 2, 2022, but the expiry date will be extended to June 2, 2024 if the volume-weighted average trading price of Westaim's common shares for the 10 day period ending on June 2, 2022 is less than C\$5.60. After June 2, 2020, the Company can also elect to require early exercise of the Warrants if the volume-weighted average trading price of Westaim's common shares for any 10 day period prior to the election is at least C\$5.60.

The Warrants are subject to a cashless exercise at the discretion of Fairfax and are classified as a derivative liability in accordance with IFRS and measured at FVTPL. Subsequent changes in fair value of the vested Warrants and the related foreign exchange impact are reported in the consolidated statements of profit and comprehensive income for the period in which they arise.

Changes to the derivative warrant liability are as follows:

(millions)	Three months ended December 31		Year ended December 31	
	2018	2017	2018	2017
Opening balance	\$ 6.2	\$ 6.1	\$ 6.7	\$ -
Fair value upon initial recognition	-	-	-	9.0
Change in fair value - (gain) loss	(3.5)	0.6	(3.8)	(3.0)
Unrealized foreign exchange (gain) loss	(0.3)	-	(0.5)	0.7
Ending balance	\$ 2.4	\$ 6.7	\$ 2.4	\$ 6.7

At December 31, 2018 and 2017, a liability of \$2.4 million and \$6.7 million, respectively, had been recognized with respect to the vested Warrants in the consolidated statements of financial position. The Company recorded an expense of \$9.0 million upon initial recognition of the vested Warrants on June 2, 2017. The Company recognized unrealized gains of \$3.5 million and \$3.8 million in the three months and year ended December 31, 2018 and an unrealized loss of \$0.6 million and an unrealized gain of \$3.0 million in the three months and year ended December 31, 2017, respectively, resulting from a change in the fair value of the vested Warrants. The Company also recorded an unrealized foreign exchange gain with respect to the vested Warrants of \$0.3 million and \$0.5 million in the three months and year ended December 31, 2018, respectively, and unrealized foreign exchange losses of \$nil and \$0.7 million in the three months and year ended December 31, 2017, respectively, under foreign exchange in the consolidated statements of profit and comprehensive income.

The fair value of the vested Warrants at December 31, 2018 of \$2.4 million (December 31, 2017 - \$6.7 million) was estimated using the Monte Carlo pricing model assuming no dividends are paid on the common shares, a risk-free interest rate of 1.87% (December 31, 2017 - 1.81%), an expiration date between January 1, 2019 and June 2, 2024 (December 31, 2017: January 1, 2018 and June 2, 2024), a volatility of the underlying common shares of the Company of 23.42% (December 31, 2017 - 25.08%), a closing price of common shares of C\$2.58 (December 31, 2017 - C\$3.11) and a strike price of C\$3.50. The amounts computed according to the Monte Carlo pricing model may not be indicative of the actual values realized upon the exercise of the vested Warrants by Fairfax.

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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	
	2018	2017	2018	2017
Revenue	\$ 1.1	\$ 1.2	\$ 4.5	\$ 3.7
Net results of investments	2.4	9.0	16.5	19.8
Expenses				
Salaries and benefits	0.9	0.2	3.7	3.0
General, administrative and other	-	0.3	0.9	1.1
Professional fees	0.1	0.1	0.9	0.7
Site restoration provision	0.5	0.4	0.1	0.1
Share-based compensation	(0.9)	1.1	1.6	3.8
Foreign exchange	(0.8)	0.2	(1.2)	1.6
Interest on preferred securities	0.5	0.5	1.9	1.2
Derivative warrants	(3.5)	0.6	(3.8)	6.0
Preferred securities issuance costs	-	-	-	0.5
	\$ (3.2)	\$ 3.4	\$ 4.1	\$ 18.0
Profit and comprehensive income	\$ 6.7	\$ 6.8	\$ 16.9	\$ 5.5

5.1 Revenue

Revenue for the three months ended December 31, 2018 of \$1.1 million (2017 - \$1.2 million) consisted of interest income of \$0.8 million (2017 - \$0.9 million) and advisory fees of \$0.3 million (2017 - \$0.3 million). In the three months ended December 31, 2018, the Company earned interest on loans made to the Arena Group of \$0.8 million (2017 - \$0.8 million). In the same period, the Company earned advisory fees from HIIG of \$0.2 million (2017 - \$0.2 million) and from the Arena Group of \$0.1 million (2017 - \$0.1 million).

Revenue for the year ended December 31, 2018 of \$4.5 million (2017 - \$3.7 million) consisted of interest income of \$3.1 million (2017 - \$2.3 million) and advisory fees of \$1.4 million (2017 - \$1.4 million). In the year ended December 31, 2018, the Company earned interest on loans made to the Arena Group of \$3.0 million (2017 - \$2.2 million). In the same period, the Company earned advisory fees from HIIG of \$1.0 million (2017 - \$1.0 million) and from the Arena Group of \$0.4 million (2017 - \$0.4 million).

5.2 Net Results of Investments

Net results of investments were a gain of \$2.4 million for the three months ended December 31, 2018 (2017 - \$9.0 million), consisting of an unrealized gain on the Company's investments in private entities of \$1.8 million (2017 - \$9.5 million), an unrealized gain on other investments of \$0.1 million (2017 - \$0.2 million) and the Company's share of profit of its Associates of \$0.5 million (2017 - loss of \$0.7 million).

Net results of investments were a gain of \$16.5 million for the year ended December 31, 2018 (2017 - \$19.8 million), consisting of an unrealized gain on the Company's investments in private entities of \$17.5 million (2017 - \$22.8 million), an unrealized gain on other investments of \$0.2 million (2017 - \$0.4 million) partially offset by the Company's share of loss of its Associates of \$1.2 million (2017 - \$3.4 million).

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

Investments in Private Entities

The Company's investments in private entities are accounted for at FVTPL. In the three months ended December 31, 2018, the Company recorded an unrealized loss of \$0.7 million on its investment in the HIIG Partnership (2017 - gain of \$7.7 million), an unrealized gain of \$3.0 million on its investment in Arena Finance (2017 - \$0.8 million), and an unrealized loss of \$0.5 million on its investment in Arena Origination (2017 - gain of \$1.0 million). In the year ended December 31, 2018, the Company recorded an unrealized gain of \$5.0 million on its investment in the HIIG Partnership (2017 - \$11.8 million), an unrealized gain of \$12.6 million on its investment in Arena Finance (2017 - \$8.5 million), and an unrealized loss of \$0.1 million on its investment in Arena Origination (2017 - gain of \$2.5 million).

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5. ANALYSIS OF FINANCIAL RESULTS (continued)

Investment in Associates

The Company's investment in Associates is accounted for using the equity method. In the three months ended December 31, 2018, the Associates earned management, incentive and asset servicing fees, and other income of \$4.6 million (2017 - \$2.4 million), administrative and service fees of \$0.7 million (2017 - \$1.4 million), gain on investment of \$0.1 million (2017 - \$0.8 million), incurred operating expenses of \$4.0 million (2017 - \$6.0 million), and interest expense of \$0.3 million (2017 - \$nil) resulting in a profit of \$1.1 million (2017 - loss of \$1.4 million). In the year ended December 31, 2018, the Associates earned management, incentive and asset servicing fees, and other income of \$15.2 million (2017 - \$7.8 million), administrative and service fees of \$4.7 million (2017 - \$5.3 million), gain on investment of \$0.2 million (2017 - \$0.8 million), incurred operating expenses of \$21.4 million (2017 - \$20.6 million), and interest expense of \$0.9 million (2017 - \$nil) resulting in a loss of \$2.2 million (2017 - \$6.7 million). In the year ended December 31, 2017, operating expenses included a \$1.5 million charge relating to a non-recurring foreign currency hedging transaction.

The total of the Company's 51% share of profit of the Associates amounted to \$0.5 million and a share of loss of \$0.7 million in the three months ended December 31, 2018 and 2017, respectively and a share of loss of \$1.2 million and \$3.4 million in the year ended December 31, 2018 and 2017, respectively.

5.3 Expenses

Salaries and benefits and general, administrative and other expenses in the three months and years ended December 31, 2018 was higher when compared to periods in the prior year, primarily due to an increase in the bonus expense in the fourth quarter of 2018.

Professional fees generally include legal, accounting and consulting fees and the expense in the three months ended December 31, 2018 of \$0.1 million was comparable to the expense in the three months ended December 31, 2017. Professional fees for the year ended December 31, 2018 of \$0.9 million were higher when compared to the year ended December 31, 2017, primarily due to additional professional services rendered in the first three quarters of the year for corporate matters.

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. Reimbursements of site restoration costs are recorded when received.

Changes in share-based compensation expense from period to period result from the vesting of RSUs, the issuance of DSUs in lieu of director fees, 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, 2018 also included compensation expense for stock options of \$0.5 million (2017 - \$0.6 million) and \$2.3 million (2017 - \$2.0 million), respectively. See Section 8, *Liquidity and Capital Resources* of this MD&A for additional information on the Company's share-based compensation plans.

The Company holds C\$ denominated assets and liabilities and the Company's operating results include foreign exchange gains or losses arising from the revaluation of the Company's C\$ denominated net liabilities into US\$ at period end exchange rates. The following is a breakdown of the major components of the foreign exchange gain (loss) in the three months and year ended December 31, 2018 and 2017:

(millions)	Three months ended December 31		Year ended December 31	
	2018	2017	2018	2017
Foreign exchange gain (loss) relating to:				
- site restoration provision	\$ 0.2	\$ -	\$ 0.3	\$ (0.3)
- liabilities for RSUs and DSUs	0.5	-	0.7	(0.5)
- Preferred securities	2.1	0.2	3.3	(2.9)
- AFHC and AOC loans receivable	(1.0)	(0.5)	(1.7)	2.6
- derivative warrant liability	0.3	-	0.5	(0.7)
- foreign exchange forward contract	(1.2)	0.1	(1.7)	0.1
- other	(0.1)	-	(0.2)	0.1
	\$ 0.8	\$ (0.2)	\$ 1.2	\$ (1.6)

In the three months ended December 31, 2018, interest on preferred securities was \$0.5 million (2017 - \$0.5 million), and unrealized gain resulting from a change in the fair value of the vested Warrants was \$3.5 million (2017 - unrealized loss of \$0.6 million). In the year ended December 31, 2018, interest on preferred securities was \$1.9 million (2017 - \$1.2 million), unrealized gain resulting from a change in the fair value of the vested Warrants was \$3.8 million (2017 - a net expense of \$6.0 million) and preferred securities issuance costs were \$nil (2017 - \$0.5 million). See discussion in Section 4, *Financing* of this MD&A for additional information on these expense items.

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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, 2018	December 31, 2017
Assets		
Cash	\$ 7.8	\$ 7.8
AFHC and AOC loans receivable	14.7	23.9
Other assets	3.5	3.1
Investments	371.4	351.3
	\$ 397.4	\$ 386.1
Liabilities		
Accounts payable and accrued liabilities	\$ 9.6	\$ 9.7
Preferred securities	36.6	39.9
Derivative warrant liability	2.4	6.7
Site restoration provision	3.6	3.8
	52.2	60.1
Shareholders' equity	345.2	326.0
Total liabilities and shareholders' equity	\$ 397.4	\$ 386.1

6.1 Cash

At December 31, 2018, the Company had cash of \$7.8 million compared to \$7.8 million at December 31, 2017. At December 31, 2018 and 2017, cash consisted of cash on deposit, including restricted cash on deposit of \$4.4 million and \$2.5 million, respectively.

6.2 Loans Receivable

On June 9, 2017, the Company used the proceeds from the Fairfax financing to loan C\$30.0 million to AFHC and C\$20.0 million to AOC on market terms. AFHC made a principal repayment to the Company of C\$20.0 million on December 21, 2017 and C\$1.0 million each on March 7, 2018, May 25, 2018, June 26, 2018, August 22, 2018 and November 16, 2018 and increased the loan by C\$5.0 million on December 20, 2018 resulting in an outstanding loan of C\$10.0 million to AFHC at December 31, 2018 (C\$10.0 million to AFHC at December 31, 2017). AOC made a principal repayment to the Company of C\$5.0 million each on December 18, 2018 and December 19, 2018 resulting in an outstanding loan of C\$10.0 million to AOC at December 31, 2018 (C\$20.0 million to AOC at December 31, 2017). For additional information on these loans, see discussion in Section 3, *Investments* of this MD&A. At December 31, 2018, the carrying amount of the loans totaled \$14.7 million (December 2017 - \$23.9 million).

6.3 Other Assets

Other assets were \$3.5 million and \$3.1 million at December 31, 2018 and 2017, respectively. Other assets at December 31, 2018 included the Company's portfolio investment in ASOF LP with a fair value of \$2.5 million (December 31, 2017 - \$2.3 million), receivables from related parties of \$0.7 million (December 31, 2017 - \$0.5 million), capital assets of \$0.1 million (December 31, 2017 - \$0.1 million), unrealized gain on the foreign exchange forward contract of \$nil (December 31, 2017 - \$0.1 million) and other receivables of \$0.2 million (December 31, 2017 - \$0.1 million).

At December 31, 2018, an unrealized loss on the foreign exchange forward contract of \$0.6 million was recorded under accounts payable and other accrued liabilities.

Depreciation expense for the capital assets was nominal for the three months and years ended December 31, 2018 and 2017.

6.4 Investments

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, 2018 were determined to be \$162.1 million, \$163.9 million and \$34.8 million, respectively (December 31, 2017 - \$157.1 million, \$151.3 million and \$34.9 million, respectively). See discussion in Section 3, *Investments* of this MD&A.

6. ANALYSIS OF FINANCIAL POSITION (continued)

Investment in Associates

The Company's investment in associates consists 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 investment in the Associates at December 31, 2018 was \$10.6 million (December 31, 2017 - \$8.0 million). See discussion in Section 3, *Investments* of this MD&A.

6.5 Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities were \$9.6 million and \$9.7 million at December 31, 2018 and 2017, respectively. Accounts payable and accrued liabilities at December 31, 2018 included liabilities related to accrued employee bonuses of \$1.6 million (December 31, 2017 - \$0.9 million), RSUs of \$5.7 million (December 31, 2017 - \$7.2 million), DSUs of \$1.0 million (December 31, 2017 - \$1.0 million), interest accrued on the Preferred Securities of \$0.5 million (December 31, 2017 - \$0.5 million), unrealized loss on the foreign exchange forward contract of \$0.6 million (December 31, 2017 - unrealized gain of \$0.1 million recorded under other assets) and other accrued liabilities of \$0.2 million (December 31, 2017 - \$0.1 million). See Section 8, *Liquidity and Capital Resources* of this MD&A for additional information on the Company's share-based compensation plans.

On December 21, 2017, the Company entered into a foreign exchange forward contract to sell US\$15.8 and buy C\$20.0 million to manage part of the foreign currency exposure arising from the Preferred Securities. On December 20, 2018, this foreign exchange forward contract matured and the Company entered into a new foreign exchange forward contract to sell US\$26.3 and buy C\$35 million to manage part of the foreign currency exposure arising from the Preferred Securities. The contract has a term to maturity of less than one year and may be renewed at market rates. The Company has not designated the foreign exchange forward contracts as an accounting hedge. Unrealized losses, if applicable on the foreign exchange forward contracts are recorded under accounts payable and accrued liabilities and unrealized gains, if applicable, are recorded under other assets. See discussion in Section 4, *Financing* of this MD&A.

6.6 Preferred Securities

On June 2, 2017, the Company closed the sale to Fairfax of 5,000,000 Preferred Securities for C\$50.0 million. The Preferred Securities are repayable on demand upon a change of control of Westaim and the liability is recorded at the principal amount in the consolidated statements of financial position. The C\$ principal amount of the Preferred Securities was converted to US\$ at the period end exchange rate, resulting in a carrying amount of the Preferred Securities at December 31, 2018 of \$36.6 million (December 31, 2017 - \$39.9 million). See discussion in Section 4, *Financing* of this MD&A.

6.7 Derivative Warrant Liability

In conjunction with the purchase by Fairfax of C\$50.0 million in Preferred Securities on June 2, 2017, Westaim issued to Fairfax 28,571,430 Warrants, with 14,285,715 Warrants having vested on June 2, 2017. The remaining 14,285,715 unvested warrants were cancelled on January 31, 2018. The Warrants are subject to a cashless exercise at the discretion of Fairfax and are classified as a derivative liability and measured at FVTPL. At December 31, 2018, a liability of \$2.4 million (December 31, 2017 - \$6.7 million) representing the estimated fair value of the vested Warrants had been accrued in the consolidated statements of financial position. No liability had been accrued with respect to the unvested Warrants on December 31, 2017. See discussion in Section 4, *Financing* of this MD&A.

6.8 Site Restoration Provision

The site restoration provision of \$3.6 million at December 31, 2018 and \$3.8 million at December 31, 2017 relates to future site restoration costs associated with soil and groundwater reclamation and remediation costs relating to industrial sites previously owned by the Company.

The Company conducts periodic reviews of the underlying assumptions supporting the provision, 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 amount of the provision is the present value of the estimated future restoration costs discounted using interest rates of high quality government bonds in relation to the estimated timing of cash outflows.

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.

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6. ANALYSIS OF FINANCIAL POSITION (continued)

6.9 Shareholders' Equity

The details of shareholders' equity are as follows:

(millions)	December 31, 2018	December 31, 2017
Common shares	\$ 382.2	\$ 382.2
Contributed surplus	16.5	14.2
Accumulated other comprehensive loss	(2.2)	(2.2)
Deficit	(51.3)	(68.2)
Shareholders' equity	<u>\$ 345.2</u>	<u>\$ 326.0</u>

Common Shares

The Company had 143,186,718 common shares outstanding at December 31, 2018 and 2017.

Contributed Surplus

The increase in contributed surplus of \$2.3 million (2017 - \$2.0 million) resulted from compensation expense relating to stock options in the year ended December 31, 2018.

Accumulated Other Comprehensive Loss

Accumulated other comprehensive loss of \$2.2 million at December 31, 2018 and 2017 comprised cumulative exchange differences from currency translation as a result of a change in presentation currency from the C\$ to the US\$ on August 31, 2015.

Deficit

The decrease in deficit of \$16.9 million from December 31, 2017 to December 31, 2018 is due to the profit for the year ended December 31, 2018.

7. OUTLOOK

The focus of Arena's management team is to continue to expand Arena's diversified portfolio of quality senior ranking credit investments, increase its pipeline of investment opportunities, and grow its AUM primarily by attracting new third-party investors. Arena's investments are performing at or above expectations and Arena had 44 employees as at December 31, 2018.

Following the catastrophe losses experienced by the insurance industry in 2017 and 2018 due to adverse weather conditions in the United States, the Company believes that the industry is at the start of a cycle of increasing insurance rates and improved terms. In addition, with the operational enhancement initiatives undertaken by HIIG, an improved economy, rising interest rates and U.S. Tax Reform, HIIG's financial performance is expected to continue to improve.

The Company is continuing 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 the Preferred Securities and common shareholders' equity.

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.

8. LIQUIDITY AND CAPITAL RESOURCES (continued)

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.

At December 31, 2018 and 2017, 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, 2018 and 2017.

Dividends

No dividends were paid in the years ended December 31, 2018 and 2017.

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").

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, 2018, the Company had 10,428,337 stock options outstanding (December 31, 2017 - 6,613,337 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. At December 31, 2018, 1,835,293 of these 2,752,940 outstanding options had vested. On April 3, 2017, 3,860,397 additional 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 December 31, 2017, December 31, 2018 and December 31, 2019, and have an exercise price of C\$3.00. At December 31, 2018, 2,573,598 of these 3,860,397 additional options had vested. On January 18, 2018, 3,815,000 additional 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 December 31, 2018, December 31, 2019 and December 31, 2020, and have an exercise price of C\$3.10. At December 31, 2018, 1,271,667 of these 3,815,000 additional options had vested.

In the three months and year ended December 31, 2018, compensation expense relating to options was \$0.6 million (2017 - \$0.6 million) and \$2.3 million (2017 - \$2.0 million), respectively, with a corresponding increase to contributed surplus.

The Company also had 3,034,261 RSUs outstanding at December 31, 2018 (December 31, 2017 - 3,034,261 RSUs outstanding). On November 14, 2014, an aggregate of 2,375,000 RSUs were granted to certain officers, employees and consultants. At December 31, 2017, all of these RSUs had vested, of which 265,937 units had been exercised and 2,109,063 units are outstanding. On April 1, 2016, 925,198 additional RSUs were granted to certain officers and employees of the Company. These RSUs vested in three equal instalments on April 1, 2017, April 1, 2018 and December 31, 2018. At December 31, 2018, all of the RSUs had vested and 925,198 units are outstanding. Upon vesting, the RSUs, at the election of the holder, can be settled in common shares of the Company or cash based on the prevailing market price of the common shares on the settlement date.

At December 31, 2018, 518,855 DSUs were vested and outstanding (December 31, 2017 - 416,529 DSUs were vested and 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, 2018, no DSUs were exercised (2017 - 92,525 DSUs were exercised).

At December 31, 2018, accounts payable and accrued liabilities included amounts related to outstanding RSUs of \$5.7 million (December 31, 2017 - \$7.2 million) and outstanding DSUs of \$1.0 million (December 31, 2017 - \$1.0 million).

Market for Securities

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

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8. LIQUIDITY AND CAPITAL RESOURCES (continued)

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, 2018 (millions)	One year or less	One to five years	No specific date	Total
Financial assets:				
Cash	\$ 7.8	\$ -	\$ -	\$ 7.8
AFHC and AOC loans receivable	-	14.7	-	14.7
Other assets (excluding capital assets)	0.9	-	2.5	3.4
Investments	-	28.3	343.1	371.4
Total financial assets	8.7	43.0	345.6	397.3
Financial obligations:				
Accounts payable and accrued liabilities	2.9	-	6.7	9.6
Preferred securities	-	-	36.6	36.6
Site restoration provision	-	-	3.6	3.6
Total financial obligations	2.9	-	46.9	49.8
Financial assets net of financial obligations	\$ 5.8	\$ 43.0	\$ 298.7	\$ 347.5

December 31, 2017 (millions)	One year or less	One to five years	No specific date	Total
Financial assets:				
Cash	\$ 7.8	\$ -	\$ -	\$ 7.8
AFHC and AOC loans receivable	-	23.9	-	23.9
Other assets (excluding capital assets)	0.7	-	2.3	3.0
Investments	-	24.5	326.8	351.3
Total financial assets	8.5	48.4	329.1	386.0
Financial obligations:				
Accounts payable and accrued liabilities	1.5	-	8.2	9.7
Preferred securities	-	-	39.9	39.9
Site restoration provision	-	-	3.8	3.8
Total financial obligations	1.5	-	51.9	53.4
Financial assets net of financial obligations	\$ 7.0	\$ 48.4	\$ 277.2	\$ 332.6

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.

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	
	2018	2017	2018	2017
Salaries and benefits	\$ 0.9	\$ 0.1	\$ 3.3	\$ 2.6
Share-based compensation	(0.9)	1.2	1.6	3.8
	\$ -	\$ 1.3	\$ 4.9	\$ 6.4

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9. RELATED PARTY TRANSACTIONS (continued)

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 and compensation expense relating to RSUs issued to the Consultant were \$0.1 in each of the years ended December 31, 2018 and 2017. At December 31, 2018, a liability of \$0.1 million (December 31, 2017 - \$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 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. The Associates repaid the balance owing under the loan facility of \$7.8 million, including interest, to AFHC on December 21, 2017 and the loan facility was terminated.

The Company earned and received interest on loans to related parties as follows:

(millions)	Three months ended December 31		Year ended December 31	
	2018	2017	2018	2017
Term loan to Arena Origination	\$ 0.2	\$ 0.2	\$ 0.7	\$ 1.0
Demand loans to AFHC and AOC	0.3	0.6	1.4	1.2
Associates loan	0.3	-	0.9	-
	\$ 0.8	\$ 0.8	\$ 3.0	\$ 2.2

The Company earned advisory fees from the Arena Group of \$0.1 million in each of the three months ended December 31, 2018 and 2017, and \$0.4 million in each of the years ended December 31, 2018 and 2017. The Company also earned advisory fees from HIIG of \$0.2 million in each of the three months ended December 31, 2018 and 2017, and \$1.0 million in each of the years ended December 31, 2018 and 2017.

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, 2018. 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, 2018. The significant unobservable inputs used in the valuation of the HIIG Partnership, Arena Finance and Arena Origination at December 31, 2018 were the equity of each of the entities at December 31, 2018 and the multiple applied. For a detailed description of the valuation of the Company's investments in private entities, see note 6 to the Company's audited annual consolidated financial statements for the years ended December 31, 2018 and 2017. Due to the inherent uncertainty of valuation, management's estimated values may differ significantly from the values that would have been used had an active market for the investment existed, and the differences could be material.

The fair value of the vested Warrants is estimated using the Monte Carlo pricing model which contains various assumptions made by management. The amounts computed according to the Monte Carlo pricing model may not be indicative of the actual values realized upon the exercise of the vested Warrants by Fairfax.

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 10, note 13 and note 15, respectively, to the Company's audited annual consolidated financial statements for the years ended December 31, 2018 and 2017.

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

A description of the Company's accounting policies is disclosed in note 2 to the audited annual consolidated financial statements for the years ended December 31, 2018 and 2017.

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11. CRITICAL ACCOUNTING POLICIES AND RECENTLY ADOPTED AND PENDING ACCOUNTING PRONOUNCEMENTS (continued)

A description of the Company's recently adopted and pending accounting pronouncements are as follows:

(a) Adopted in the current period

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 to be measured at either fair value or amortized cost. 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. The Company has determined that the adoption of IFRS 9 did not have a material impact on the Company's consolidated financial statements and all loans receivable and accounts receivable will continue to be measured at amortized cost. IFRS 9 was adopted on January 1, 2018 on a retrospective basis without restatement of comparative periods. Management has reviewed the Company's assets measured at amortized cost and have concluded that the adoption of the new expected credit loss impairment model had a negligible impact on the carrying amount of these assets in the Company's consolidated financial statements as at January 1, 2018 and December 31, 2018.

On May 28, 2014, the IASB issued a standard on the recognition of revenue from contracts with customers, which replaced all existing revenue standards and interpretations. The core principle of the new standard is for entities to recognize revenue to depict the transfer of goods or services to customers in amounts that reflect the consideration to which the entity expects to be entitled in exchange for those goods or services. IFRS 15 "Revenue from Contracts with Customers" ("IFRS 15") was adopted on January 1, 2018 and was applied using the modified retrospective approach. The Company completed its assessment of IFRS 15, including an evaluation of the Company's contracts with customers and has determined that the adoption of IFRS 15 did not have a material impact on the Company's 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. These amendments were adopted on January 1, 2018. The Company completed its assessment of the amendments to IFRS 2 and management has determined that the adoption of the amendments to IFRS 2 did not have a material impact on the Company's consolidated financial statements.

(b) Issued but not yet adopted

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 finance 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. The Company has identified its leases that are impacted by IFRS 16 and does not expect the adoption of IFRS 16 to have a material impact on its consolidated financial statements. The Company will adopt the modified retrospective approach of adoption whereby comparative periods will not be restated.

In June 2017, the IASB published IFRIC 23, "Uncertainty over Income Tax Treatments" ("IFRIC 23") effective for annual periods beginning on or after January 1, 2019. The interpretation requires an entity to assess whether it is probable that a tax authority will accept an uncertain tax treatment used, or proposed to be used, by an entity in its income tax filings and to exercise judgment in determining whether each tax treatment should be considered independently or whether some tax treatments should be considered together. The decision should be based on which approach provides better predictions of the resolution of the uncertainty. An entity also has to consider whether it is probable that the relevant authority will accept each tax treatment, or group of tax treatments, assuming that the taxation authority with the right to examine any amounts reported to it will examine those amounts and will have full knowledge of all relevant information when doing so. The Company does not expect the impact of IFRIC 23 to have a material impact on its consolidated financial statements. The Company will adopt the modified retrospective basis without restatement of comparative information.

12. QUARTERLY FINANCIAL INFORMATION

(millions)	Q4 2018	Q3 2018	Q2 2018	Q1 2018	Q4 2017	Q3 2017	Q2 2017	Q1 2017
Revenue	\$ 1.1	\$ 1.2	\$ 1.1	\$ 1.1	\$ 1.2	\$ 1.1	\$ 0.7	\$ 0.7
Net results of investments - gain (loss)	2.4	5.3	4.4	4.4	9.0	4.3	3.3	3.2
Net (expenses) recovery of expenses	3.2	(2.1)	(5.6)	0.4	(3.4)	0.8	(13.5)	(1.9)
Profit (loss) and comprehensive income (loss)	\$ 6.7	\$ 4.4	\$ (0.1)	\$ 5.9	\$ 6.8	\$ 6.2	\$ (9.5)	\$ 2.0

Revenue consisted of investment income and advisory fee income.

12. QUARTERLY FINANCIAL INFORMATION (continued)

Net results of investments in Q4, 2018 included an unrealized gain on investments in private entities of \$1.8 million, an unrealized gain on other investments of \$0.1 million and share of profit of Associates of \$0.5 million. Net results of investments in Q3, 2018 included an unrealized gain on investments in private entities of \$5.7 million and share of loss of Associates of \$0.4 million. Net results of investments in Q2, 2018 included an unrealized gain on investments in private entities of \$5.0 million, an unrealized gain on other investments of \$0.1 million and share of loss of Associates of \$0.7 million. Net results of investments in Q1, 2018 included an unrealized gain on investments in private entities of \$5.0 million and share of loss of Associates of \$0.6 million. Net results of investments in Q4, 2017 included an unrealized gain on investments in private entities of \$9.5 million, an unrealized gain on other investments of \$0.2 million and share of loss of Associates of \$0.7 million. Net results of investments in Q3, 2017 included an unrealized gain on investments in private entities of \$4.8 million, an unrealized gain on other investments of \$0.1 million and share of loss of Associates of \$0.6 million. Net results of investments in Q2, 2017 included an unrealized gain on investments in private entities of \$4.8 million and share of loss of Associates of \$1.5 million. Net results of investments in Q1, 2017 included an unrealized gain on investments in private entities of \$3.7 million, an unrealized gain on other investments of \$0.1 million and share of loss of Associates of \$0.6 million.

Net recovery of expenses in Q4, 2018 consisted of salaries and benefits of \$0.9 million, general and administrative costs of \$nil, professional fees of \$0.1 million, site restoration provision of \$0.5 million, share-based compensation recovery of \$0.9 million, a foreign exchange gain of \$0.8 million, interest on preferred securities of \$0.5 million and an unrealized gain resulting from a change in the fair value of the vested Warrants of \$3.5 million. Net expenses in Q3, 2018 consisted of salaries and benefits of \$0.9 million, general and administrative costs of \$0.2 million, professional fees of \$0.2 million, site restoration provision recovery of \$0.4 million, share-based compensation expense of \$0.7 million, a foreign exchange loss of \$0.4 million, interest on preferred securities of \$0.4 million and an unrealized gain resulting from a change in the fair value of the vested Warrants of \$0.3 million. Net expenses in Q2, 2018 consisted of salaries and benefits of \$0.9 million, general and administrative costs of \$0.3 million, professional fees of \$0.3 million, site restoration provision of \$0.1 million, share-based compensation expense of \$1.8 million, a foreign exchange gain of \$0.3 million, interest on preferred securities of \$0.5 million and an unrealized loss resulting from a change in the fair value of the vested Warrants of \$2.0 million. Net recovery of expenses in Q1, 2018 consisted of salaries and benefits of \$1.0 million, general and administrative costs of \$0.4 million, professional fees of \$0.3 million, site restoration provision recovery of \$0.1 million, a foreign exchange gain of \$0.5 million, interest on preferred securities of \$0.5 million and an unrealized gain resulting from a change in the fair value of the vested Warrants of \$2.0 million.

Net expenses in Q4, 2017 consisted of salaries and benefits of \$0.2 million, general and administrative costs of \$0.3 million, professional fees of \$0.1 million, site restoration provision of \$0.4 million, share-based compensation expense of \$1.1 million, a foreign exchange loss of \$0.2 million, interest on preferred securities of \$0.5 million and an unrealized loss resulting from a change in the fair value of the vested Warrants of \$0.6 million. Net recovery of expenses in Q3, 2017 consisted of salaries and benefits of \$1.0 million, general and administrative costs of \$0.2 million, professional fees of \$0.2 million, site restoration provision recovery of \$0.6 million, share-based compensation expense of \$0.4 million, a foreign exchange loss of \$0.8 million, interest on preferred securities of \$0.5 million and an unrealized gain resulting from a change in the fair value of the vested Warrants of \$3.3 million. Net expenses in Q2, 2017 consisted of salaries and benefits of \$0.9 million, general and administrative costs of \$0.2 million, professional fees of \$0.2 million, site restoration provision expense of \$0.3 million, share-based compensation expense of \$2.0 million, a foreign exchange loss of \$0.5 million, interest on preferred securities of \$0.2 million, an expense of \$9.0 million upon initial recognition of the vested Warrants on June 2, 2017 offset in part by an unrealized gains of \$0.3 million, resulting from a change in the fair value of the vested Warrants, and preferred securities issuance cost of \$0.5 million. Net expenses in Q1, 2017 consisted of salaries and benefits of \$0.9 million, general and administrative costs of \$0.4 million, professional fees of \$0.2 million, share-based compensation expense of \$0.3 million and a foreign exchange loss of \$0.1 million.

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 27, 2019 for its fiscal year ended December 31, 2018 which is available on SEDAR at www.sedar.com.

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14. ADDITIONAL ARENA GROUP INVESTMENT SCHEDULES

ARENA FINANCE

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

Investments by Strategy				December 31, 2018		
(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	20	\$ 41.6	\$ 45.9	28.0%	22.5%	5.5%
Real Estate Private Credit and Real Estate Assets	19	24.2	24.3	14.8%	14.8%	-
Structured Finance ¹	37	86.9	87.4	53.2%	53.0%	0.2%
Other Securities	27	8.2	6.5	4.0%	1.5%	2.5%
	103	\$ 160.9	\$ 164.1	100.0%	91.8%	8.2%

Investments by Strategy				December 31, 2017		
(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	18	\$ 45.0	\$ 46.5	34.8%	34.8%	-
Real Estate Private Credit and Real Estate Assets	19	17.6	17.8	13.3%	13.3%	-
Structured Finance ¹	29	53.6	53.9	40.4%	40.1%	0.3%
Other Securities	25	12.7	15.4	11.5%	0.5%	11.0%
	91	\$ 128.9	\$ 133.6	100.0%	88.7%	11.3%

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, structured convertible notes and derivatives.

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

Investments by Geographic Breakdown	December 31, 2018			December 31, 2017		
	(unaudited)					
(millions except for percentage)	Cost	Fair value	Percentage of investments at fair value	Cost	Fair value	Percentage of investments at fair value
Loans / Private Assets						
United States	\$ 132.6	\$ 135.9	82.8%	\$ 99.3	\$ 99.8	74.8%
Asia Pacific	6.3	6.0	3.7%	1.4	1.5	1.1%
Europe	9.8	11.7	7.1%	11.6	13.0	9.7%
Latin America	4.0	4.0	2.4%	3.9	3.9	2.9%
	152.7	157.6	96.0%	116.2	118.2	88.5%
Other Securities ¹						
United States	0.6	0.3	0.2%	3.8	4.1	3.1%
Asia Pacific	0.5	0.5	0.3%	-	-	-
Canada	-	(0.2)	(0.1)%	-	-	-
Europe	4.4	3.6	2.2%	8.1	10.4	7.8%
Other	2.7	2.3	1.4%	0.8	0.9	0.6%
	8.2	6.5	4.0%	12.7	15.4	11.5%
	\$ 160.9	\$ 164.1	100.0%	\$ 128.9	\$ 133.6	100.0%

¹ Net of short positions.

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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, 2018			December 31, 2017			
	(millions except for percentage)	Cost	Fair value	Percentage of investments at fair value	Cost	Fair value	Percentage of investments at fair value
Loans / Private Assets							
Corporate Private Credit							
Business Services	\$ 10.7	\$ 11.9	7.2%	\$ 16.3	\$ 16.9	12.7%	
Consumer Products	0.9	0.9	0.6%	0.9	0.9	0.6%	
Financial Services	3.7	3.7	2.3%	1.3	1.3	1.0%	
Healthcare Services	2.3	2.3	1.4%	3.4	3.4	2.6%	
Manufacturing	-	-	-	2.7	2.6	1.9%	
Oil and Gas ⁽¹⁾	11.4	12.9	7.9%	9.7	9.6	7.2%	
Other Assets	10.2	11.8	7.2%	10.7	11.8	8.8%	
Retail	2.4	2.4	1.4%	-	-	-	
	41.6	45.9	28.0%	45.0	46.5	34.8%	
Real Estate Private Credit and Real Estate Assets							
Commercial	0.4	0.4	0.2%	1.7	1.7	1.2%	
Hospitality	7.0	7.3	4.4%	3.6	3.7	2.8%	
Industrial	-	-	-	0.4	0.4	0.3%	
Land							
- Commercial Development	5.3	5.4	3.3%	5.2	5.2	3.9%	
Land							
- Multi-Family Development	2.6	2.6	1.6%	1.5	1.5	1.1%	
Land							
- Single-Family Development	2.6	2.5	1.5%	1.4	1.5	1.1%	
Mixed Use	-	-	-	-	-	0.1%	
Multi Family	-	-	-	0.1	0.1	0.1%	
Residential	5.5	5.3	3.3%	3.4	3.5	2.6%	
Retail	0.8	0.8	0.5%	0.3	0.2	0.1%	
	24.2	24.3	14.8%	17.6	17.8	13.3%	
Structured Finance							
Commercial & Industrial	1.9	1.9	1.1%	2.0	2.0	1.5%	
Consumer	19.1	18.0	10.9%	13.4	13.0	9.8%	
Lease/Equipment	9.5	10.9	6.7%	15.0	15.5	11.6%	
Other Assets	56.4	56.6	34.5%	23.2	23.4	17.5%	
	86.9	87.4	53.2%	53.6	53.9	40.4%	
Total Loans / Private Assets	152.7	157.6	96.0%	116.2	118.2	88.5%	
Other Securities ⁽²⁾							
Consumer Products	3.0	1.8	1.1%	2.4	2.6	2.0%	
Financial Services	0.2	0.2	0.1%	1.7	1.8	1.3%	
Foreign Exchange Forwards	-	(0.1)	(0.1)%	-	-	-	
Healthcare Services	-	0.1	0.1%	0.3	0.7	0.5%	
Industrial	0.2	0.2	0.1%	4.5	4.9	3.7%	
Information Technology	0.8	0.7	0.5%	0.6	0.7	0.5%	
Oil and Gas	0.9	0.9	0.5%	2.0	3.1	2.3%	
Telecommunications	3.1	2.7	1.7%	1.2	1.6	1.2%	
	8.2	6.5	4.0%	12.7	15.4	11.5%	
	\$ 160.9	\$ 164.1	100.0%	\$ 128.9	\$ 133.6	100.0%	

¹ AFHC's exposure to commodity price risk in its private loans is generally mitigated as borrowers are typically required to hedge the commodity price risk by selling product forward and/or employing the use of other derivatives to substantially reduce all risk.

² Net of short positions.

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14. ADDITIONAL ARENA GROUP INVESTMENT SCHEDULES (continued)

ARENA FINANCE

Details of the Loan and Private Asset positions of AFHC and AFHC's subsidiaries are as follows:

Details of Loan and Private Asset Positions (unaudited) (millions except for percentage)							December 31, 2018	
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-2209	Other Assets	\$ 6.9	\$ 6.9	\$ 8.5	Europe	Equity	n/a ⁽⁴⁾	n/a ⁽⁴⁾
CPC-3198	Oil and Gas	3.7	3.7	4.8	United States	Hard Asset	n/a ⁽⁴⁾	n/a ⁽⁴⁾
CPC-3222	Oil and Gas	4.6	4.5	4.5	United States	First Lien	13.88%	59.0%
CPC-3349	Business Services	4.4	3.7	3.5	Asia Pacific	Second Lien	12.00%	54.0%
CPC-2514	Other Assets	3.4	3.3	3.3	Latin America	First Lien	12.50%	37.0%
CPC-2364	Retail	2.5	2.4	2.4	United States	First Lien ⁽⁵⁾	11.54%	55.0%
CPC-1266TL	Business Services	2.3	2.3	2.4	United States	First Lien	9.50%	44.0%
CPC-1361TL	Healthcare Services	2.3	2.3	2.3	United States	First Lien	13.00%	62.0%
CPC-2208	Business Services	2.2	2.1	2.2	United States	Second Lien	11.75%	13.0%
CPC-3316	Business Services	2.1	2.1	2.1	United States	Second Lien	10.50%	72.0%
CPC-3199	Oil and Gas	1.9	1.8	2.0	United States	First Lien	15.00%	40.0%
CPC-2752	Financial Services	1.6	1.6	1.6	United States	First Lien	14.50%	40.0%
CPC-1927	Financial Services	1.4	1.4	1.4	United States	First Lien	15.00%	49.0%
CPC-2170	Oil and Gas	2.2	1.2	1.4	United States	First Lien ⁽⁶⁾	5.75%	87.0%
CPC-2104	Business Services	-	-	1.2	United States	First Lien	n/a ⁽⁷⁾	n/a ⁽⁷⁾
CPC-2397	Financial Services	0.7	0.7	0.7	United States	First Lien	20.31%	90.0%
CPC-1265TL	Consumer Products	0.7	0.7	0.7	United States	First Lien	9.81%	25.0%
CPC-3083	Business Services	0.5	0.5	0.5	United States	Equity	n/a ⁽⁸⁾	n/a ⁽⁸⁾
CPC-1010	Oil and Gas	0.2	0.2	0.2	United States	First Lien	14.00%	43.0%
CPC-1265RC	Consumer Products	0.4	0.2	0.2	United States	First Lien	9.81%	25.0%
CPC-1266RC	Business Services	0.4	-	-	United States	First Lien	9.50%	44.0%
Subtotal / Weighted average %		44.4	41.6	45.9			12.39%	50.7%
Real Estate Private Credit and Real Estate Assets								
REPC-1068S4	Residential	3.7	3.7	3.7	United States	First Mortgage ⁽⁵⁾	13.00%	61.0%
REPC-1207	Hospitality	3.1	2.9	3.2	Europe	First Mortgage	7.00%	43.0%
REPC-2277	Land							
	- Commercial Development	3.1	3.1	3.1	United States	First Mortgage	15.00%	50.0%
REPC-2683	Land							
	- Multi-Family Development	2.6	2.6	2.6	United States	First Mortgage	13.25%	59.0%
REPC-2692	Land							
	- Single-Family Development	2.5	2.6	2.5	Asia Pacific	First Mortgage	13.50%	33.0%
REPC-2592	Land							
	- Commercial Development	1.9	1.9	2.0	United States	First Mortgage	11.25%	79.0%
REPC-2214	Hospitality	1.3	1.3	1.3	United States	First Mortgage	11.25%	67.0%
REPC-1766	Residential	0.9	1.1	0.9	United States	Real Property	n/a ⁽⁹⁾	n/a ⁽⁹⁾
REPC-2560	Hospitality	0.9	0.9	0.9	United States	First Mortgage	11.25%	68.0%
REPC-2497	Hospitality	0.9	0.9	0.9	United States	First Mortgage	11.25%	82.0%
REPC-2187	Retail	0.8	0.8	0.8	United States	First Mortgage	10.70%	82.0%
REPC-3037	Hospitality	0.7	0.7	0.7	United States	First Mortgage	10.75%	77.0%
REPC-1068	Residential	0.6	0.6	0.6	United States	First Mortgage	n/a ⁽¹⁰⁾	n/a
REPC-2159	Commercial	0.4	0.4	0.4	United States	First Mortgage	12.00%	10.0%
REPC-3035	Hospitality	0.3	0.3	0.3	United States	First Mortgage	12.50%	63.0%
REPC-1017	Land							
	- Commercial Development	0.1	0.1	0.2	United States	First Mortgage	15.00%	66.0%
REPC-1047	Land							
	- Commercial Development	0.1	0.1	0.1	United States	First Mortgage	15.00%	53.0%
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	-	United States	Real Property	n/a ⁽⁹⁾	n/a ⁽⁹⁾
Subtotal / Weighted average %		24.2	24.2	24.3			11.98%	57.1%

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14. ADDITIONAL ARENA GROUP INVESTMENT SCHEDULES (continued)

ARENA FINANCE

Details of the Loan and Private Asset positions of AFHC and AFHC's subsidiaries are as follows:

Details of Loan and Private Asset Positions (continued)							December 31, 2018		
(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-3045	Other assets	8.3	8.3	8.2	United States	Asset Pool	n/a ⁽¹¹⁾	66.0%	
SF-2253	Other assets	7.0	7.0	7.9	United States	First Lien	14.00%	92.0%	
SF-1811	Other assets	5.8	5.8	5.8	United States	Second Lien	15.00%	89.0%	
SF-1800	Other assets	5.1	5.1	5.2	United States	First Lien	14.00%	26.0%	
SF-3978	Other assets	4.8	4.8	4.8	United States	Hard Asset	n/a	n/a	
SF-2686	Other assets	6.2	4.8	4.8	United States	First Lien	18.75%	80.0%	
SF-2201	Lease/Equipment	3.8	3.9	4.3	United States	Hard Asset	n/a ⁽¹²⁾	n/a ⁽¹²⁾	
SF-2651	Other assets	4.0	4.3	4.3	United States	Hard Asset	8.00%	75.0%	
SF-1839	Consumer	3.7	3.7	3.7	United States	First Lien	18.00%	66.0%	
SF-3044	Other assets	3.0	2.8	2.8	United States	First Lien	n/a	75.0%	
SF-1052F	Consumer	2.9	2.9	2.7	United States	First Lien	15.66%	100.0%	
SF-1999	Other assets	2.8	3.0	2.7	United States	First Lien	14.00%	100.0%	
SF-2620	Consumer	2.6	2.3	2.6	United States	First Lien	n/a ⁽¹⁰⁾	25.0%	
SF-2866	Lease/Equipment	2.5	2.5	2.5	United States	Hard Asset	11.29%	80.0%	
SF-1519	Other assets	3.0	2.5	2.5	United States	Second Lien	15.00%	38.0%	
SF-2228	Other assets	2.4	2.4	2.4	United States	First Lien	16.00%	80.0%	
SF-2808	Other assets	2.4	2.4	2.4	United States	First Lien	14.00%	80.0%	
SF-1793	Lease/Equipment	1.3	1.3	2.0	United States	Hard Asset	n/a ⁽¹²⁾	n/a ⁽¹²⁾	
SF-1520	Commercial & Industrial	1.9	1.9	1.9	United States	First Lien	n/a ⁽¹³⁾	41.0%	
SF-2204	Consumer	4.3	1.4	1.4	United States	First Lien	15.81%	80.0%	
SF-2203	Lease/Equipment	1.4	1.4	1.4	United States	Hard Asset	n/a ⁽¹²⁾	n/a ⁽¹²⁾	
SF-2064	Other assets	1.5	1.3	1.3	United States	First Lien	13.50%	76.0%	
SF-1788REOS3	Consumer	1.3	1.3	1.2	United States	First Lien	n/a ⁽¹⁰⁾	78.0%	
SF-2373	Consumer	0.9	0.9	1.3	United States	First Lien	12.00%	52.0%	
SF-1788/1933	Consumer	0.8	0.8	1.2	United States	First Lien	n/a ⁽¹⁰⁾	78.0%	
SF-2139	Consumer	1.0	1.1	1.0	United States	First Lien	n/a ⁽¹⁰⁾	100.0%	
SF-1933REO	Consumer	0.8	0.8	0.7	United States	First Lien	n/a ⁽¹⁰⁾	78.0%	
SF-2762	Consumer	0.7	0.7	0.7	Latin America	Asset Pool	n/a ⁽¹⁴⁾	n/a ⁽¹⁴⁾	
SF-1716	Lease/Equipment	0.2	0.2	0.6	United States	Hard Asset	n/a ⁽¹²⁾	n/a ⁽¹²⁾	
SF-2199	Consumer	0.5	0.5	0.5	United States	First Lien	12.00%	95.0%	
SF-2729	Other assets	0.6	0.6	0.4	United States	First Lien	n/a ⁽¹⁵⁾	100.0%	
SF-1934	Consumer	0.2	0.2	0.3	United States	First Lien	n/a ⁽¹⁰⁾	78.0%	
SF-2000	Other assets	0.2	0.2	0.3	United States	Equity	n/a ⁽⁸⁾	n/a ⁽⁸⁾	
SF-2261	Other assets	0.3	0.3	0.3	United States	First Lien	18.00%	78.0%	
SF-1035	Other assets	0.4	0.4	0.3	United States	First Lien	11.63%	100.0%	
SF-1788REO	Consumer	0.4	0.4	0.3	United States	First Lien	n/a ⁽¹⁰⁾	78.0%	
SF-4007	Consumer	0.3	0.3	0.3	United States	Second Lien	16.00%	54.0%	
SF-1038	Other assets	0.2	0.2	0.2	United States	First Lien	n/a ⁽¹⁵⁾	5.0%	
SF-3196	Consumer	0.3	0.3	0.1	United States	First Lien	n/a ⁽¹⁵⁾	100.0%	
SF-2323	Lease/Equipment	0.2	0.2	0.1	United States	Hard Asset	n/a ⁽¹²⁾	n/a ⁽¹²⁾	
SF-1018	Other assets	0.2	0.2	-	United States	First Lien	9.38%	100.0%	
SF-1052S	Consumer	1.5	1.5	-	United States	First Lien	15.66%	100.0%	
Subtotal / Weighted average %		91.7	86.9	87.4			14.42%	72.2%	
Total / Weighted average %		\$ 160.3	\$ 152.7	\$ 157.6			13.31%	64.3%	

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, 2018. 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, 2018.

⁴ Investment is not a loan. Metric is not applicable.

⁵ Denotes subordinate position within the structure.

⁶ The first lien term loan is primed by a debtor-in-possession loan, of which the Arena group is a participant.

⁷ Investment is remaining profit participation on a paid off loan.

⁸ Investment is a preferred equity investment.

⁹ Investment represents owned real estate acquired through lender default.

¹⁰ Interest not accrued on loans purchased as non-performing.

¹¹ Investment represents a credit pool purchase with no stated interest rate.

¹² Investment represents an aircraft purchased. Coupon and LTV not applicable to hard assets.

¹³ Investment in litigation claim proceeds with no stated coupon rate.

¹⁴ Investment represents an unsecured credit pool purchase with no stated interest rate.

¹⁵ Investment with no stated coupon rate.

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14. ADDITIONAL ARENA GROUP INVESTMENT SCHEDULES (continued)

ARENA FINANCE

Details of the Loan and Private Asset positions of AFHC and AFHC's subsidiaries are as follows:

Details of Loan and Private Asset Positions (unaudited) (millions except for percentage)							December 31, 2017	
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-2209	Other Assets	\$ 4.7	\$ 5.1	\$ 6.2	Europe	First Lien	9.21%	56.0%
CPC-1571	Business Services	3.6	4.3	4.5	Europe	First Lien	30.00%	57.0%
CPC-2104	Business Services	4.0	3.9	3.9	United States	First Lien	13.06%	12.0%
CPC-2514	Other Assets	3.9	3.9	3.9	Mexico	First Lien	11.56%	40.0%
CPC-1266TL	Business Services	3.1	3.1	3.1	United States	First Lien	8.56%	51.0%
CPC-1450	Oil and Gas	3.0	3.0	3.0	United States	First Lien	11.11%	39.0%
CPC-1781	Business Services	2.4	2.4	2.7	United States	Second Lien	11.00%	10.3%
CPC-1361TL	Healthcare Services	2.7	2.7	2.7	United States	First Lien	12.06%	54.0%
CPC-1101	Manufacturing	2.7	2.7	2.6	United States	Second Lien	16.69%	n/a ⁽⁴⁾
CPC-2208	Business Services	2.3	2.3	2.4	United States	Second Lien	10.75%	11.0%
CPC-1783	Oil and Gas	2.5	2.4	2.4	United States	First Lien	12.98%	68.0%
CPC-2051	Oil and Gas	2.3	2.3	2.3	United States	Second Lien	13.06%	50.0%
CPC-2170	Oil and Gas	3.0	1.8	1.7	United States	First Lien	4.75%	33.4%
CPC-2752	Other Assets	1.8	1.7	1.7	United States	First Lien	13.50%	55.3%
CPC-1927	Financial Services	1.3	1.3	1.3	United States	First Lien	12.00%	33.3%
CPC-1265TL	Consumer Products	0.9	0.9	0.9	United States	First Lien	8.69%	31.0%
CPC-1630	Healthcare Services	0.7	0.7	0.7	United States	First Lien ⁽⁵⁾	12.10%	48.0%
CPC-1266RC	Business Services	0.5	0.3	0.3	United States	First Lien	8.56%	51.0%
CPC-1010	Oil and Gas	0.2	0.2	0.2	United States	First Lien	14.00%	43.0%
CPC-1265RC	Consumer Products	0.5	-	-	United States	First Lien	8.69%	31.0%
Subtotal / Weighted average %		46.1	45.0	46.5			13.09%	41.9%
Real Estate Private Credit and Real Estate Assets								
REPC-2277	Land							
	- Commercial Development	4.9	4.8	4.9	United States	First Mortgage	12.50%	46.0%
REPC-1207	Hospitality	2.2	2.2	2.3	Europe	First Mortgage	7.00%	44.8%
REPC-1068S4	Residential	1.9	1.9	1.9	United States	First Mortgage	11.06%	47.0%
REPC-2427	Commercial	1.7	1.7	1.7	United States	First Mortgage	11.56%	74.0%
REPC-2692	Land							
	- Single-Family Development	3.3	1.4	1.5	Asia Pacific	First Mortgage	13.50%	24.0%
REPC-2214	Hospitality	1.4	1.4	1.4	United States	First Mortgage	10.31%	69.0%
REPC-1766	Residential	0.9	0.9	1.1	United States	First Mortgage	16.06%	76.0%
REPC-1068S5	Land							
	- Multi-Family Development	1.0	1.0	1.0	United States	First Mortgage	12.00%	71.0%
REPC-2162	Land							
	- Multi-Family Development	0.5	0.5	0.5	United States	First Mortgage	15.00%	55.0%
REPC-1068	Residential	0.5	0.5	0.4	United States	First Mortgage	n/a ⁽⁶⁾	54.0%
REPC-1025	Industrial	0.2	0.2	0.2	United States	Real Property	n/a ⁽⁷⁾	n/a ⁽⁷⁾
REPC-1017	Land							
	- Commercial Development	0.2	0.2	0.2	United States	First Mortgage	15.00%	66.0%
REPC-1046	Industrial	0.2	0.2	0.2	United States	First Mortgage	15.00%	55.0%
REPC-1036	Retail	0.3	0.3	0.2	United States	First Mortgage	2.75%	38.0%
REPC-1047	Land							
	- Commercial Development	0.1	0.1	0.1	United States	First Mortgage	15.00%	53.0%
REPC-1042	Residential	0.1	0.1	0.1	United States	First Mortgage	15.00%	32.0%
REPC-1031	Multi-Family	0.1	0.1	0.1	United States	First Mortgage	6.75%	53.0%
REPC-1015	Land							
	- Commercial Development	0.2	0.1	-	United States	Real Property	n/a ⁽⁷⁾	n/a ⁽⁷⁾
Subtotal / Weighted average %		19.7	17.6	17.8			11.63%	52.5%

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14. ADDITIONAL ARENA GROUP INVESTMENT SCHEDULES (continued)

ARENA FINANCE

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

Details of Loan and Private Asset Positions (continued)								December 31, 2017	
(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-1793	Lease/Equipment	9.6	9.6	9.6	United States	Hard Asset	n/a ⁽⁸⁾	n/a ⁽⁸⁾	
SF-2253	Other assets	7.8	7.8	8.3	United States	First Lien	14.00%	72.0%	
SF-2201	Lease/Equipment	3.7	3.7	3.9	United States	Hard Asset	n/a ⁽⁸⁾	n/a ⁽⁸⁾	
SF-1999	Other assets	3.0	3.2	3.3	United States	First Lien	14.00%	65.0%	
SF-1052F	Consumer	3.2	3.2	3.2	United States	First Lien	15.66%	100.0%	
SF-1811	Other assets	3.6	2.8	2.8	United States	Second Lien	15.00%	77.8%	
SF-1788/1933	Consumer	2.1	2.1	2.6	United States	First Lien	n/a ⁽⁶⁾	53.4%	
SF-1800	Other assets	2.5	2.5	2.5	United States	First Lien	14.00%	34.2%	
SF-1520	Commercial & Industrial	2.0	2.0	2.0	United States	First Lien	n/a ⁽⁹⁾	41.0%	
SF-1716	Lease/Equipment	1.5	1.5	1.8	United States	Hard Asset	n/a ⁽⁸⁾	n/a ⁽⁸⁾	
SF-1519	Other assets	3.3	1.5	1.5	United States	Second Lien	15.00%	35.5%	
SF-2000	Other assets	1.5	1.5	1.5	United States	First Lien ⁽¹⁰⁾	15.18%	75.4%	
SF-1245	Consumer	1.2	1.2	1.2	United States	Second Lien	13.00%	9.0%	
SF-2204	Consumer	4.7	1.1	1.1	United States	First Lien	14.69%	81.8%	
SF-2259	Other assets	1.1	1.1	1.1	United States	First Lien	14.00%	58.0%	
SF-2139	Consumer	0.8	0.8	1.0	United States	First Lien	n/a ⁽⁶⁾	61.7%	
SF-1933REO	Consumer	0.8	0.8	0.8	United States	First Lien	n/a ⁽⁶⁾	53.4%	
SF-1788REOS3	Consumer	0.8	0.8	0.8	United States	First Lien	n/a ⁽⁶⁾	53.4%	
SF-2373	Consumer	0.7	0.7	0.8	United States	First Lien	12.00%	52.0%	
SF-2398	Other assets	0.8	0.8	0.8	United States	First Lien	14.50%	70.2%	
SF-1934	Consumer	0.6	0.6	0.6	United States	First Lien	n/a ⁽⁶⁾	53.0%	
SF-1007	Other assets	0.8	0.5	0.5	United States	First Lien	13.00%	100.0%	
SF-1788REO	Consumer	0.4	0.4	0.4	United States	First Lien	n/a ⁽⁶⁾	53.4%	
SF-1052S	Consumer	1.5	1.5	0.3	United States	First Lien	15.66%	100.0%	
SF-1035	Other assets	0.4	0.4	0.3	United States	First Lien	11.31%	100.0%	
SF-2729	Other assets	0.3	0.3	0.3	United States	First Lien	n/a ⁽¹¹⁾	52.6%	
SF-2323	Lease/Equipment	0.2	0.2	0.2	United States	Hard Asset	n/a ⁽⁸⁾	n/a ⁽⁸⁾	
SF-1038	Other assets	0.2	0.2	0.2	United States	First Lien	n/a ⁽⁹⁾	5.0%	
SF-1788REO	Consumer	0.2	0.2	0.2	United States	First Lien	n/a ⁽⁶⁾	61.7%	
SF-1282	Other assets	-	-	0.1	United States	First Lien	n/a ⁽¹²⁾	n/a ⁽¹²⁾	
SF-1018	Other assets	0.2	0.2	0.1	United States	First Lien	9.06%	100.0%	
SF-1002	Other assets	0.3	0.3	0.1	United States	First Lien	11.00%	100.0%	
SF-1037	Other assets	0.1	0.1	-	United States	First Lien	n/a ⁽¹³⁾	100.0%	
SF-2589	Other assets	2.7	-	-	Europe	First Lien	20.00%	n/a ⁽¹⁴⁾	
Subtotal / Weighted average %		62.6	53.6	53.9			14.28%	63.8%	
Total / Weighted average %		\$ 128.4	\$ 116.2	\$ 118.2			13.20%	52.2%	

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, 2017. 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, 2017.

⁴ Given deteriorating operating performance of the Borrower, Arena has retained financial and operational consultants to assess the near and long term viability of the company; one of the principal tasks of the consultants will be to derive a "normalized" EBITDA and associated assessment of Enterprise Value. The company presently has negative TTM EBITDA, therefore there are no reportable LTV or leverage ratios.

⁵ Denotes subordinate position within the structure.

⁶ Interest not accrued on loans purchased as non-performing.

⁷ Investment represents owned real estate acquired through lender default.

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

⁹ Investment in litigation claim proceeds with no stated coupon rate.

¹⁰ Investment consists of a first lien note, a second lien note and a preferred equity investment.

¹¹ Investment with no stated coupon rate.

¹² Investment is the remaining profit participation on a repaid loan.

¹³ Investment is in default past its maturity date and has an uncertain holding period as of December 31, 2017.

¹⁴ Investment is unfunded at December 31, 2017.

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14. ADDITIONAL ARENA GROUP INVESTMENT SCHEDULES (continued)

ARENA ORIGINATION

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

Investments by Strategy							December 31, 2018
(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	9	\$ 10.2	\$ 10.3	43.2%	39.9%	3.3%	
Real Estate Private Credit and Real Estate Assets	4	7.9	6.0	25.1%	25.1%	-	
Structured Finance ¹	5	3.9	3.8	15.9%	15.9%	-	
Other Securities	21	4.8	3.8	15.8%	9.6%	6.2%	
	39	\$ 26.8	\$ 23.9	100.0%	90.5%	9.5%	

Investments by Strategy							December 31, 2017
(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	5	\$ 6.2	\$ 6.2	15.0%	15.0%	-	
Real Estate Private Credit and Real Estate Assets	12	15.0	14.9	36.2%	36.2%	-	
Structured Finance ¹	9	16.3	15.7	38.0%	38.0%	-	
Other Securities	22	3.4	4.5	10.8%	0.5%	10.3%	
	48	\$ 40.9	\$ 41.3	100.0%	89.7%	10.3%	

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, structured convertible notes and derivatives.

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

Investments by Geographic Breakdown (unaudited)	December 31, 2018			December 31, 2017		
	Cost	Fair value	Percentage of investments at fair value	Cost	Fair value	Percentage of investments at fair value
Loans / Private Assets						
United States	\$ 18.8	\$ 18.6	77.9%	\$ 37.5	\$36.8	89.2%
Asia Pacific	0.8	0.8	3.3%	-	-	-
Europe	2.4	0.7	3.0%	-	-	-
	22.0	20.1	84.2%	37.5	36.8	89.2%
Other Securities ¹						
United States	0.1	0.1	0.3%	0.9	0.9	2.1%
Asia Pacific	1.3	1.3	5.4%	0.2	0.7	1.7%
Canada	2.3	1.6	6.6%	-	-	-
Europe	1.1	0.8	3.5%	2.1	2.6	6.3%
Other	-	-	-	0.2	0.3	0.7%
	4.8	3.8	15.8%	3.4	4.5	10.8%
	\$ 26.8	\$ 23.9	100.0%	\$ 40.9	\$ 41.3	100.0%

¹ Net of short positions.

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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, 2018			December 31, 2017		
	Cost	Fair value	Percentage of investments at fair value	Cost	Fair value	Percentage of investments at fair value
(millions except for percentage)						
Loans / Private Assets						
Corporate Private Credit						
Business services	\$ 6.6	\$ 6.7	28.0%	\$ 0.7	\$ 0.7	1.7%
Financial services	0.4	0.4	1.9%	1.4	1.4	3.5%
Healthcare Services	0.9	0.9	3.6%	-	-	-
Oil and Gas ⁽¹⁾	2.3	2.3	9.7%	1.8	1.8	4.2%
Retail	-	-	-	2.3	2.3	5.6%
	10.2	10.3	43.2%	6.2	6.2	15.0%
Real Estate Private Credit and Real Estate Assets						
Commercial	6.9	5.0	20.9%	3.5	3.4	8.3%
Hospitality	-	-	-	2.3	2.3	5.7%
Land						
- Commercial Development	1.0	1.0	4.2%	3.1	3.1	7.5%
Land						
- Multi-Family Development	-	-	-	1.9	1.9	4.5%
Land						
- Single-Family Development	-	-	-	0.2	0.2	0.5%
Residential	-	-	-	2.5	2.6	6.2%
Retail	-	-	-	1.5	1.4	3.5%
	7.9	6.0	25.1%	15.0	14.9	36.2%
Structured Finance						
Consumer	2.1	2.1	8.9%	11.5	11.0	26.7%
Other assets	1.8	1.7	7.0%	4.8	4.7	11.3%
	3.9	3.8	15.9%	16.3	15.7	38.0%
Total Loans / Private Assets	22.0	20.1	84.2%	37.5	36.8	89.2%
Other Securities ⁽²⁾						
Consumer Products	0.8	0.5	1.9%	0.6	0.7	1.6%
Financial Services	0.1	0.1	0.2%	0.3	0.3	0.7%
FX Forwards	-	(0.4)	(1.7)%	-	-	-
Healthcare Services	-	-	0.2%	0.1	0.2	0.5%
Industrial	3.6	3.3	13.8%	1.4	2.1	5.1%
Information Technology	0.1	0.1	0.3%	0.2	0.2	0.4%
Oil and Gas	0.2	0.2	0.9%	0.5	0.7	1.7%
Telecommunications	-	-	0.2%	0.3	0.3	0.8%
	4.8	3.8	15.8%	3.4	4.5	10.8%
	\$ 26.8	\$ 23.9	100.0%	\$ 40.9	\$ 41.3	100.0%

¹ AOC's exposure to commodity price risk in its private loans is generally mitigated as borrowers are typically required to hedge the commodity price risk by selling product forward and/or employing the use of other derivatives to substantially reduce all risk.

² Net of short positions.

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14. ADDITIONAL ARENA GROUP INVESTMENT SCHEDULES (continued)

ARENA ORIGINATION

Details of the Loan and Private Asset positions of AOC are as follows:

Details of Loan and Private Asset Positions							December 31, 2018	
(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-3083TL	Business Services	2.5	2.2	2.3	United States	Second Lien	13.50%	87.0%
CPC-3824	Oil and Gas	4.0	2.0	2.0	United States	First Lien	10.56%	32.0%
CPC-3376	Business Services	1.6	1.6	1.6	United States	Second Lien	12.50%	31.0%
CPC-3107	Business Services	1.4	1.4	1.4	United States	Second Lien	12.45%	27.0%
CPC-3391	Healthcare Services	0.9	0.9	0.9	United States	First Lien	10.13%	16.0%
CPC-3349EQY	Business Services	0.8	0.8	0.8	Asia Pacific	Second Lien	n/a ⁽⁴⁾	n/a ⁽⁴⁾
CPC-3108	Business Services	0.6	0.6	0.6	United States	Second Lien	10.75%	9.0%
CPC-2752A	Financial Services	0.4	0.4	0.4	United States	First Lien	14.50%	40.0%
CPC-3373	Oil and Gas	0.5	0.3	0.3	United States	First Lien	10.00%	15.0%
Subtotal / Weighted average %		12.7	10.2	10.3			12.00%	41.0%
Real Estate Private Credit and Real Estate Assets								
REPC-3700	Commercial	2.7	2.7	2.7	United States	First Mortgage	15.50%	44.0%
REPC-1942	Commercial Land	1.8	1.8	1.6	United States	Real Property	n/a ⁽⁵⁾	n/a ⁽⁵⁾
REPC-3655	- Commercial Development	1.0	1.0	1.0	United States	First Mortgage ⁽⁶⁾	11.50%	55.0%
REPC-2736EUR	Commercial	2.5	2.4	0.7	Europe	First Mortgage	15.00%	100.0%
Subtotal / Weighted average %		8.0	7.9	6.0			14.51%	55.6%
Structured Finance								
SF-2228DD1	Other assets	1.7	1.3	1.3	United States	First Lien	16.00%	80.0%
SF-1998	Consumer	1.2	1.1	1.1	United States	First Lien	7.87%	70.0%
SF-3178	Consumer	5.7	0.9	0.9	United States	First Lien	15.81%	80.0%
SF-1999	Other assets	0.5	0.5	0.4	United States	First Lien	14.00%	100.0%
SF-2470	Consumer	3.2	0.1	0.1	United States	First Lien	11.17%	80.0%
Subtotal / Weighted average %		12.3	3.9	3.8			13.17%	79.0%
Total / Weighted average %		\$ 33.0	\$ 22.0	\$ 20.1			12.88%	52.8%

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, 2018. 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, 2018.

⁴ Investment is an equity interest in an operating company.

⁵ Investment represents owned real estate acquired through lender default.

⁶ Denotes subordinate position within the structure.

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14. ADDITIONAL ARENA GROUP INVESTMENT SCEDULES (continued)

ARENA ORIGINATION

Details of the Loan and Private Asset positions of AOC are as follows:

Details of Loan and Private Asset Positions (unaudited) (millions except for percentage)							December 31, 2017	
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-2151	Oil and Gas	\$ 1.9	\$ 1.8	\$ 1.8	United States	First Lien	11.98%	36.0%
CPC-2397	Financial Services	1.2	1.2	1.2	United States	First Lien	18.19%	45.0%
CPC-2364TL	Retail	1.2	1.2	1.2	United States	First Lien ⁽⁴⁾	10.42%	44.0%
CPC-2364DD	Retail	1.5	1.1	1.1	United States	First Lien ⁽⁴⁾	10.42%	44.0%
CPC-104	Business Services	0.7	0.7	0.7	United States	First Lien	13.06%	12.0%
CPC-1927	Financial Services	0.2	0.2	0.2	United States	First Lien	12.00%	33.0%
Subtotal / Weighted average %		6.7	6.2	6.2			12.80%	38.0%
Real Estate Private Credit and Real Estate Assets								
REPC-2556	Residential	2.5	2.5	2.6	United States	First Mortgage	8.99%	54.0%
REPC-2952	Land							
	- Commercial Development	2.4	2.4	2.4	United States	First Mortgage	10.50%	79.0%
REPC-2683	Land							
	- Multi-Family Development	1.9	1.9	1.9	United States	First Mortgage	12.31%	58.0%
REPC-2159	Commercial	1.8	1.8	1.8	United States	First Mortgage	12.00%	31.0%
REPC-1942	Commercial	1.7	1.7	1.6	United States	Real Property	n/a ⁽⁵⁾	n/a ⁽⁵⁾
REPC-2187	Retail	1.5	1.5	1.4	United States	First Mortgage	9.76%	74.0%
REPC-2560	Hospitality	1.4	1.4	1.4	United States	First Mortgage	10.31%	65.0%
REPC-2497	Hospitality	0.9	0.9	0.9	United States	First Mortgage	10.31%	65.0%
REPC-2777	Land							
	- Commercial Development	1.1	0.7	0.7	United States	First Mortgage	10.00%	59.0%
REPC-2528	Land							
	- Single-Family Development	0.7	0.1	0.1	United States	First Mortgage	10.00%	49.0%
REPC-2342	Land							
	- Single-Family Development	0.3	0.1	0.1	United States	First Mortgage	9.00%	42.0%
REPC-2249	Land							
	- Single-Family Development	0.4	-	-	United States	First Mortgage	9.00%	42.0%
Subtotal / Weighted average %		16.6	15.0	14.9			10.50%	60.2%
Structured Finance								
SF-1839	Consumer	6.7	6.0	6.0	United States	First Lien	18.00%	65.0%
SF-2620	Consumer	4.1	4.1	3.6	United States	Consumer	n/a ⁽⁶⁾	29.0%
SF-2651	Other assets	3.1	3.1	3.0	United States	Hard Asset	8.00%	75.0%
SF-1998	Consumer	1.4	1.4	1.4	United States	First Lien	8.16%	40.0%
SF-2261	Other assets	0.6	0.6	0.6	United States	First Lien	18.00%	78.0%
SF-2064	Other assets	1.1	0.6	0.6	United States	First Lien	12.56%	37.0%
SF-1999	Other assets	0.4	0.4	0.4	United States	First Lien	14.00%	65.0%
SF-2147	Other assets	0.2	0.1	0.1	United States	First Lien	13.00%	69.0%
SF-2147TL2	Other assets	-	-	-	United States	First Lien	13.00%	45.0%
SF-2228DD1	Other assets	1.5	-	-	United States	First Lien	16.00%	n/a ⁽⁷⁾
Subtotal / Weighted average %		19.1	16.3	15.7			13.97%	56.0%
Total / Weighted average %		\$ 42.4	\$ 37.5	\$ 36.8			12.28%	54.4%

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, 2017. 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, 2017.

⁴ Denotes subordinate position within the structure.

⁵ Investment represents owned real estate acquired through lender default.

⁶ Investment not accrued on loans purchased as non-performing.

⁷ Investment is unfunded as of December 31, 2017.

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15. NON-GAAP MEASURES

Book value per share

Book value per share is computed as book value divided by the adjusted number of common shares. Management believes book value per share is a useful financial performance measure of the Company 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 Company's businesses, 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 table below provides the reconciliation of the Company's shareholders' equity at the end of the period, determined on an IFRS basis, to book value, and the number of common shares outstanding at the end of the period to the adjusted number of common shares:

(millions except share and per share data)	December 31, 2018	December 31, 2017
Book value (in US\$):		
Shareholders' equity per IFRS	\$ 345.2	\$ 326.0
Adjustments:		
RSU liability ¹	5.7	7.2
Derivative warrant liability ²	2.4	6.7
Assumed exercise proceeds of in-the-money options ³	-	9.2
	\$ 353.3	\$ 349.1
Number of common shares:		
Number of common shares outstanding	143,186,718	143,186,718
Adjustments for assumed exercise of:		
Outstanding RSUs ¹	3,034,261	3,034,261
In-the-money options ³	-	3,860,397
Adjusted number of common shares	146,220,979	150,081,376
Book value per share - in US\$	\$ 2.42	\$ 2.33
Book value per share - in C\$ ⁴	\$ 3.30	\$ 2.92
Westaim TSXV closing share price - in C\$	\$ 2.58	\$ 3.11

¹ See note 13 to the Company's audited consolidated financial statements for the years ended December 31, 2018 and 2017. Liability related to RSUs converted from C\$ to US\$ at period end exchange rates. RSUs are exercisable for common shares at no cost to the holders. Adjustment made to reflect a reclassification of the RSU liability to shareholders' equity assuming all outstanding RSUs were exercised for common shares.

² See note 9 to the Company's audited consolidated financial statements for the years ended December 31, 2018 and 2017. Derivative warrant liability converted from C\$ to US\$ at period end exchange rates. Adjustment made as the non-cash fair value change in the derivative warrant liability from period to period is not indicative of the change in the intrinsic value of the Company. Vested Warrants not included in the adjusted number of common shares as none of them were in-the-money at December 31, 2018 and December 31, 2017.

³ See note 13 to the Company's audited consolidated financial statements for the years ended December 31, 2018 and 2017. Exercise price of options denominated in C\$ and assumed exercise proceeds of in-the-money options at period end converted to US\$ at period end exchange rates. Adjustment made as exercise of in-the-money options would have resulted in an infusion of capital to the Company.

⁴ Book value per share converted from US\$ to C\$ at period end exchange rates. Period end exchange rates: 1.3643 at December 31, 2018 and 1.25390 at December 31, 2017.

16. 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; Arena's limited operating record and history of operating losses; 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; 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; 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 27, 2019

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 three 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 blue ink, appearing to read "J. Cameron MacDonald".

J. Cameron MacDonald
President and Chief Executive Officer

A handwritten signature in blue ink, appearing to read "Glenn G. MacNeil".

Glenn G. MacNeil
Chief Financial Officer

Independent Auditor's Report

To the Shareholders and the Board of Directors of
The Westaim Corporation

Opinion

We have audited the consolidated financial statements of The Westaim Corporation and its subsidiaries (the "Company"), which comprise the consolidated statements of financial position as at December 31, 2018 and 2017, and the consolidated statements of profit and comprehensive income, changes in equity and consolidated cash flow statements for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies (collectively referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2018 and 2017, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards ("IFRS").

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards ("Canadian GAAS"). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information

Management is responsible for the other information. The other information comprises:

- Management's Discussion and Analysis
- The information, other than the financial statements and our auditor's report thereon, in the Annual Report.

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon. In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We obtained Management's Discussion and Analysis and Annual Report prior to the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in this auditor's report. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

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

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian GAAS will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian GAAS, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Matthew Welchinski.

Deloitte LLP

Chartered Professional Accountants
Licensed Public Accountants
Toronto, Ontario
March 27, 2019

The Westaim Corporation
Consolidated Statements of Financial Position

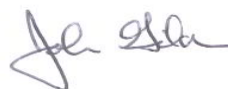
(thousands of United States dollars)	December 31 2018	December 31 2017
ASSETS		
Cash	\$ 7,836	\$ 7,813
Loans receivable (note 4)	14,660	23,925
Other assets (note 5)	3,451	3,114
Investments (note 6)	371,452	351,338
	\$ 397,399	\$ 386,190
LIABILITIES		
Accounts payable and accrued liabilities (note 7)	\$ 9,605	\$ 9,824
Preferred securities (note 8)	36,649	39,876
Derivative warrant liability (note 9)	2,382	6,678
Site restoration provision (note 10)	3,584	3,770
	52,220	60,148
Commitments and contingent liabilities (note 11)		
SHAREHOLDERS' EQUITY		
Share capital (note 12)	382,182	382,182
Contributed surplus (note 13)	16,516	14,172
Accumulated other comprehensive loss (note 2n)	(2,227)	(2,227)
Deficit	(51,292)	(68,085)
	345,179	326,042
	\$ 397,399	\$ 386,190

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

Approved on behalf of the Board



Ian W. Delaney
Director



John W. Gildner
Director

The Westaim Corporation

Consolidated Statements of Profit and Comprehensive Income

	Year Ended December 31	
(thousands of United States dollars except share and per share data)	2018	2017
Revenue		
Investment income (note 14)	\$ 3,060	\$ 2,244
Fee income (note 14)	1,440	1,440
	<u>4,500</u>	<u>3,684</u>
Net results of investments		
Unrealized gain on investments in private entities (note 6)	17,465	22,909
Share of loss of associates (note 6)	(1,101)	(3,379)
Unrealized gain on other investments (note 5)	214	333
	<u>16,578</u>	<u>19,863</u>
Net expenses		
Salaries and benefits	3,746	3,035
General, administrative and other	1,032	1,062
Professional fees	910	695
Site restoration provision (note 10)	99	72
Share-based compensation (note 13)	1,557	3,810
Foreign exchange	(1,149)	1,653
Interest on preferred securities (note 8)	1,902	1,161
Derivative warrants (note 9)	(3,812)	5,979
Preferred securities issuance costs (note 8)	-	505
	<u>4,285</u>	<u>17,972</u>
Profit and comprehensive income	\$ 16,793	\$ 5,575
Earnings per share (note 16)		
Basic	\$ 0.12	\$ 0.04
Diluted	\$ 0.11	\$ 0.04
Common shares outstanding	<u>143,187</u>	<u>143,187</u>

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, 2018					
(thousands of United States dollars)	Share Capital	Contributed Surplus	Accumulated Other Comprehensive Loss	Deficit	Total Equity
Balance at January 1, 2018	\$ 382,182	\$ 14,172	\$ (2,227)	\$ (68,085)	\$ 326,042
Stock option plan expense (note 13)	-	2,344	-	-	2,344
Profit	-	-	-	16,793	16,793
Balance at December 31, 2018	\$ 382,182	\$ 16,516	\$ (2,227)	\$ (51,292)	\$ 345,179

Year ended December 31, 2017					
(thousands of United States dollars)	Share Capital	Contributed Surplus	Accumulated Other Comprehensive Loss	Deficit	Total Equity
Balance at January 1, 2017	\$ 382,182	\$ 12,210	\$ (2,227)	\$ (73,660)	\$ 318,505
Stock option plan expense (note 13)	-	1,962	-	-	1,962
Profit	-	-	-	5,575	5,575
Balance at December 31, 2017	\$ 382,182	\$ 14,172	\$ (2,227)	\$ (68,085)	\$ 326,042

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	
	2018	2017
Operating activities		
Profit	\$ 16,793	\$ 5,575
Unrealized gain on investments in private entities (note 6)	(17,465)	(22,909)
Share of loss of associates (note 6)	1,101	3,379
Unrealized gain on other investments (note 5)	(214)	(333)
Share-based compensation expense (note 13)	1,557	3,810
Share-based compensation payments (note 13)	-	(340)
Site restoration provision expense (note 10)	99	72
Lease expense	(12)	(12)
Depreciation and amortization	42	53
Unrealized foreign exchange (gain) loss	(2,060)	2,481
Change in fair value of derivative warrant liability (note 9)	(3,812)	5,979
Net change in other non-cash balances		
Other assets	(262)	1,711
Accounts payable and accrued liabilities	632	614
Cash provided from (used in) operating activities	(3,601)	80
Investing activities		
Purchase of investments in private entities	-	(5)
Loans made to subsidiaries (note 4)	(3,717)	(37,030)
Repayment of loans made to subsidiaries (note 4)	11,109	14,812
Purchase of capital assets	(18)	(12)
Loans made to associates (note 6)	(3,750)	(14,500)
Repayment of loans made to associates (note 6)	-	4,415
Cash provided from (used in) investing activities	3,624	(32,320)
Financing activities		
Issuance of preferred securities (note 8)	-	37,026
Cash from financing activities	-	37,026
Net increase in cash	23	4,786
Cash, beginning of period	7,813	3,027
Cash, end of period	\$ 7,836	\$ 7,813
Cash is composed of:		
Cash	\$ 7,836	\$ 7,813
Supplemental disclosure of cash flow information:		
Interest paid	\$ 1,942	\$ 659

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, 2018 and 2017

(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 27, 2019.

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 6). 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\$"), the functional and presentation currency of the Company, 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 relevant 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 or convertible. Intercompany balances and transactions are eliminated upon consolidation.

Investment in associates is accounted for using the equity method in accordance with International Accounting Standard ("IAS") 28 "Investments in Associates and Joint Ventures" and consists 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 investment 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"), and are reported under investments in the consolidated statements of financial position, with the Company's share of profit (loss) and comprehensive income (loss) of the Associates reported under "Net results of investments" in the consolidated statements of profit and comprehensive income.

(b) Functional and presentation currency

The US\$ is the functional and presentation currency of the Company. IAS 21 "The Effects of Changes in Foreign Exchange Rates" describes functional currency as the currency of the primary economic environment in which an entity operates. A significant majority of the Company's revenues and costs are earned and incurred in US\$, respectively.

(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, fair value of derivative warrant liability, and unrecognized deferred tax assets.

The Westaim Corporation
Notes to Consolidated Financial Statements
For the years ended December 31, 2018 and 2017

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

2 Summary of Significant Accounting Policies (continued)

(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 and determining that the Company's functional currency is the US\$. For additional information on these judgments, see note 6 for investments in private entities and associates and note 2(b) for functional currency.

(e) Foreign currency translation

Transactions in foreign currencies are translated into US\$ at rates of exchange prevailing at the time of such transactions. Monetary assets and liabilities transacted in foreign currencies are translated into US\$ at rates of exchange at the end of the reporting period. Non-monetary items measured at fair value in a foreign currency are translated using exchange rates at the date when the fair value was measured. Any resulting foreign exchange gain or loss is included in the consolidated statements of profit and comprehensive income.

From time to time, the Company may enter into foreign exchange forward contracts to manage certain foreign currency exposures arising from foreign currency denominated transactions. The Company has not designated any foreign exchange forward contracts as accounting hedges. Any resulting foreign exchange gain or loss arising from the foreign exchange forward contracts is included in the consolidated statements of profit and comprehensive income.

(f) Revenue recognition

Investment income includes interest income and dividend income. Interest income is recognized on an accrual basis and dividend income is recognized on the ex-dividend date. Advisory and management fees are recorded as fee income over time as these services are performed.

(g) Cash and cash equivalents

Cash and cash equivalents generally consist of cash on deposit and highly liquid short-term investments with original maturities of 90 days or less. At December 31, 2018, the Company's cash consisted of cash on deposit, including restricted cash on deposit of \$4,375 (2017 – C\$2,500) (see note 8).

(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 life 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 any indication 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 profit and comprehensive income for the period in which they arise. Transaction costs on the investments are expensed as incurred.

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 and/or distributions received from the Associates. Transaction costs on investments in associates are capitalized.

The Westaim Corporation
Notes to Consolidated Financial Statements
For the years ended December 31, 2018 and 2017

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

2 Summary of Significant Accounting Policies (continued)

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 an active 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 accepted 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 reporting period. 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 profit and comprehensive income. Current tax is based on taxable income which differs from profit and comprehensive income 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 do so.

(k) Warrants

Warrants subject to a cashless exercise at the discretion of the holder are classified as a derivative liability and measured at FVTPL. Change in the fair value of the warrants is reported in the consolidated statements of profit and comprehensive income for the period in which they arise.

(l) 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 reimbursements of costs resulting from indemnifications provided to the Company by previous owners of the industrial sites have not been recognized in these consolidated financial statements. Reimbursements of site restoration costs are recorded when received.

The Westaim Corporation
Notes to Consolidated Financial Statements
For the years ended December 31, 2018 and 2017

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

2 Summary of Significant Accounting Policies (continued)

(m) Contributed surplus

The cost of stock options are 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.

(n) Accumulated other comprehensive loss

Accumulated other comprehensive loss consists of cumulative exchange differences from currency translation.

(o) Share-based compensation

The Company maintains share-based compensation plans, which are described in note 13. The value attributed to stock options at issuance are 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.

(p) Earnings per share

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

Diluted earnings per share is calculated by dividing profit 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, RSUs and Warrants. Anti-dilutive potential common shares are not included in the calculation of diluted earnings per share.

3 Accounting Pronouncements

(a) Adopted in the current period

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 to be measured at either fair value or amortized cost. 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. The Company has determined that the adoption of IFRS 9 did not have a material impact on the Company's consolidated financial statements and all loans receivable and accounts receivable will continue to be measured at amortized cost. IFRS 9 was adopted on January 1, 2018 on a retrospective basis without restatement of comparative periods. Management has reviewed the Company's assets measured at amortized cost and have concluded that the adoption of the new expected credit loss impairment model had a negligible impact on the carrying amount of these assets in the Company's consolidated financial statements as at January 1, 2018 and December 31, 2018.

On May 28, 2014, the IASB issued a standard on the recognition of revenue from contracts with customers, which replaced all existing revenue standards and interpretations. The core principle of the new standard is for entities to recognize revenue to depict the transfer of goods or services to customers in amounts that reflect the consideration to which the entity expects to be entitled in exchange for those goods or services. IFRS 15 "Revenue from Contracts with Customers" ("IFRS 15") was adopted on January 1, 2018 and was applied using the modified retrospective approach. The Company completed its assessment of IFRS 15, including an evaluation of the Company's contracts with customers, and has determined that the adoption of IFRS 15 did not have a material impact on the Company's 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. These amendments were adopted on January 1, 2018. The Company completed its assessment of the amendments to IFRS 2 and management has determined that the adoption of the amendments to IFRS 2 did not have a material impact on the Company's consolidated financial statements.

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3 Accounting Pronouncements (continued)

(b) Issued but not yet adopted

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 finance 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. The Company has identified its leases that are impacted by IFRS 16 and does not expect the adoption of IFRS 16 to have a material impact on its consolidated financial statements. The Company will adopt the modified retrospective approach of adoption whereby comparative periods will not be restated.

In June 2017, the IASB published IFRIC 23, "Uncertainty over Income Tax Treatments" ("IFRIC 23") effective for annual periods beginning on or after January 1, 2019. The interpretation requires an entity to assess whether it is probable that a tax authority will accept an uncertain tax treatment used, or proposed to be used, by an entity in its income tax filings and to exercise judgment in determining whether each tax treatment should be considered independently or whether some tax treatments should be considered together. The decision should be based on which approach provides better predictions of the resolution of the uncertainty. An entity also has to consider whether it is probable that the relevant authority will accept each tax treatment, or group of tax treatments, assuming that the taxation authority with the right to examine any amounts reported to it will examine those amounts and will have full knowledge of all relevant information when doing so. The Company does not expect the impact of IFRIC 23 to have a material impact on its consolidated financial statements. The Company will adopt the modified retrospective basis without restatement of comparative information.

4 Loans Receivable

On June 9, 2017, the Company used the proceeds from the Fairfax Financing (as defined in note 8) to loan Canadian dollars ("C\$") 30,000 to AFHC (as defined in note 6) and C\$20,000 to AOC (as defined in note 6) (collectively, the "Arena Loans") on market terms. The Arena Loans are denominated in C\$, repayable on demand (with a final repayment date not later than June 9, 2022) and secured by the assets of AFHC and AOC. The Arena Loans carry interest at a rate of 4.5% per annum plus the greater of (i) 3-month LIBOR and (ii) 1%, with the applicable rate adjusted at the beginning of each quarter. Interest is due at the end of each calendar quarter. AFHC made a principal repayment to the Company of C\$20,000 on December 21, 2017 and C\$1,000 each on March 7, 2018, May 25, 2018, June 26, 2018, August 22, 2018 and November 16, 2018 and increased the loan by C\$5,000 on December 20, 2018 resulting in an outstanding loan of C\$10,000 to AFHC at December 31, 2018 (C\$10,000 to AFHC at December 31, 2017). AOC made a principal repayment to the Company of C\$5,000 each on December 18, 2018 and December 19, 2018 resulting in an outstanding loan of C\$10,000 to AOC at December 31, 2018 (C\$20,000 to AOC at December 31, 2017).

The Arena Loans are recorded under loans receivable in the consolidated statements of financial position. The Arena Loans are translated into US\$ at rates of exchange at the end of each reporting period and any resulting foreign exchange gain or loss is included in the consolidated statements of profit and comprehensive income. At December 31, 2018 and 2017, the carrying amount of the Arena Loans, which approximated fair value, totaled \$14,660 and \$23,925, respectively. The Company recorded a foreign exchange loss relating to the Arena Loans of \$1,707 (\$166 realized gain and \$1,873 unrealized loss) and a foreign exchange gain of \$2,469 (\$762 realized and \$1,707 unrealized) for the years ended December 31, 2018 and 2017, respectively.

Interest on the Arena Loans earned and received by the Company totaled \$1,385 and \$1,265 for the years ended December 31, 2018 and 2017, respectively, and was included in investment income in the consolidated statements of profit and comprehensive income.

5 Other Assets

Other assets consist of the following:

	December 31, 2018	December 31, 2017
Capital assets	\$ 71	\$ 95
Investment in Arena Special Opportunities Fund, LP (a)	2,469	2,255
Receivables from related parties (b)	727	476
Change in fair value of foreign exchange forward contract (note 8)	-	110
Accounts receivable and other	184	178
	\$ 3,451	\$ 3,114

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5 Other Assets (continued)

- (a) The Company's investment in Arena Special Opportunities Fund, LP ("ASOF LP"), a fund managed by Arena Investors, LP (see note 6), is classified at Level 3 of the fair value hierarchy and measured at FVTPL. At December 31, 2018 and 2017, the fair value of the Company's interest in ASOF LP was determined by Arena Investors (as defined in note 6) to be \$2,469 and \$2,255, respectively. The Company reported unrealized gains of \$214 and \$333 in the years ended December 31, 2018 and 2017, respectively, with respect to the investment in the consolidated statements of profit and comprehensive income.
- (b) Receivables from related parties totaled \$727 at December 31, 2018 and \$476 at December 31, 2017 and included certain expenses paid by the Company on behalf of the Arena Group from time to time which are subject to reimbursement.

6 Investments

The carrying values of the Company's investments in private entities and associates included under investments in the consolidated statements of financial position are as follows:

	December 31, 2018	December 31, 2017
Investments in private entities	\$ 360,843	\$ 343,378
Investment in associates	10,609	7,960
	\$ 371,452	\$ 351,338

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 investment in associates is accounted for using the equity method.

	Place of establishment	Principal place of business	Ownership interest as at December 31, 2018 and 2017
Investments in private entities:			
- HIIG Partnership	Ontario, Canada	Ontario, Canada	58.5% owned by Westaim ¹
- Arena Finance	Ontario, Canada	Ontario, Canada	100% owned by Westaim ²
- Arena Origination	Delaware, U.S.	New York, U.S.	100% owned by Westaim ²
Investment in Associates:			
- WAHII	Delaware, U.S.	New York, U.S.	51% beneficially owned by Westaim, indirectly through WCA ³
- ASOF-ON GP	Delaware, U.S.	New York, U.S.	51% beneficially owned by Westaim, indirectly through WCA ³
- ASOF-OFF II GP	Delaware, U.S.	New York, U.S.	51% beneficially owned by Westaim ³

¹ On September 30, 2018, Westaim HIIG Holdings Inc. an incorporated wholly-owned subsidiary, transferred all of its ownership interest in the HIIG Partnership to the Company and was dissolved. No book gain or loss was recorded upon the transfer. Following the transfer, the Company owns, directly 58.5% of the HIIG Partnership.

² On December 31, 2018, all outstanding Class M units held by Bernard Partners, LLC (as hereinafter defined) described below under "Investments in Arena Finance and Arena Origination" were redeemed. The December 31, 2018 financial statements of Arena Finance and Arena Origination contain liabilities for the redemption payment of the M units which amounts are expected to be paid to Bernard Partners, LLC (as hereinafter defined) on or before March 31, 2019.

³ Legal equity ownership is 100%, and beneficial ownership denotes profit percentage subject to change over time pursuant to the earn-in rights granted to Bernard Partners, LLC described below under "Investment in Associates".

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

	Place of establishment	Principal place of business	Ownership interest as at December 31, 2018	Ownership interest as at December 31, 2017
HIIG Partnership:				
- Houston International Insurance Group, Ltd. ("HIIG")	Delaware, U.S.	Texas, U.S.	75.1% owned by HIIG Partnership	75.0% 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	100% owned by AFHC
- Arena Finance Markets, LP	Delaware, U.S.	New York, U.S.	100% owned by AFHC	100% owned by AFHC
Arena Origination:				
- Arena Origination Co., LLC ("AOC")	Delaware, U.S.	New York, U.S.	100% owned by Arena Origination	100% owned by Arena Origination

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6 Investments (continued)

Houston International Insurance Group, Ltd.

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

Arena Group

The Arena Group consists of the following three businesses:

- Arena Investors – WAHII, ASOF-ON GP and ASOF-OFF II GP (collectively, "Arena Investors") jointly 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 "Investment in Associates" below.
- Arena Finance – Arena Finance, through AFHC and AFHC's subsidiaries, is a specialty finance company that primarily purchases 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, facilitates 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.

Arena Investors, Arena Finance and Arena Origination and related entities are collectively referred to as the "Arena Group".

INVESTMENTS IN PRIVATE ENTITIES

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

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

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

As at December 31, 2018	Fair value	Level 1	Level 2	Level 3
Investments in private entities:				
- HIIG Partnership	\$ 162,118	-	-	\$ 162,118
- Arena Finance	163,888	-	-	163,888
- Arena Origination	34,837	-	-	34,837
	<u>\$ 360,843</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 360,843</u>
As at December 31, 2017	Fair value	Level 1	Level 2	Level 3
Investments in private entities:				
- HIIG Partnership	\$ 157,107	-	-	\$ 157,107
- Arena Finance	151,315	-	-	151,315
- Arena Origination	34,956	-	-	34,956
	<u>\$ 343,378</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 343,378</u>

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6 Investments (continued)

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

Year ended December 31, 2018	Opening balance	Unrealized gain (loss)	Ending balance
Investments in private entities:			
- HIIG Partnership	\$ 157,107	\$ 5,011	\$ 162,118
- Arena Finance	151,315	12,573	163,888
- Arena Origination	34,956	(119)	34,837
	<u>\$ 343,378</u>	<u>\$ 17,465</u>	<u>\$ 360,843</u>

Year ended December 31, 2017	Opening balance	Additions - Equity	Repayment of term loan	Unrealized Gain	Ending balance
Investments in private entities:					
- HIIG Partnership	\$ 145,227	\$ -	\$ -	\$ 11,880	\$ 157,107
- Arena Finance	142,800	-	-	8,515	151,315
- Arena Origination	32,437	7,005	(7,000)	2,514	34,956
	<u>\$ 320,464</u>	<u>\$ 7,005</u>	<u>\$ (7,000)</u>	<u>\$ 22,909</u>	<u>\$ 343,378</u>

There were no transfers among Levels 1, 2 and 3 during the years ended December 31, 2018 and 2017.

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, 2018, the Company owned, directly and indirectly, approximately 58.5% of the HIIG Partnership, representing an approximate 43.9% indirect ownership interest in HIIG.

Westaim controls the HIIG Partnership through its ownership of approximately 58.5% 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 75.1% of the issued and outstanding common shares of HIIG ("HIIG Shares") at December 31, 2018. The amount of dividends paid to HIIG by its subsidiaries which carry on an insurance business 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.

The Company, through HIIG GP, entered into a management services agreement (the "HIIG MSA") with HIIG commencing on July 31, 2014, whereby HIIG GP was entitled to receive from HIIG an advisory fee of \$1,000 annually for the first three years of the agreement and \$500 annually for two years thereafter relating to advisory services provided under the HIIG MSA. The HIIG MSA was amended as of July 1, 2017 such that HIIG GP is entitled to receive from HIIG an advisory fee of \$1,000 annually for the final two years of the agreement.

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 \$162,118 at December 31, 2018 and \$157,107 at December 31, 2017.

Management used a multiple of net asset value as the primary valuation technique to arrive at the fair value of the Company's investment in the HIIG Partnership of \$162,118 at December 31, 2018. The fair value of the HIIG Partnership at December 31, 2018 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, 2018. 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, management determined that using net asset value as the primary valuation technique produced the best indicator of the fair value of the HIIG Shares as at December 31, 2018 and 2017, given that this is the valuation technique which a market participant would employ.

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6 Investments (continued)

The significant unobservable inputs used in the valuation were the multiple applied and the adjusted book value of HIIG as at December 31, 2018. Management applied a multiple of 1.1x to the adjusted book value of HIIG at December 31, 2018 (December 31, 2017 - 1.1x). The adjusted book value of HIIG as at December 31, 2018 reflected 100% of HIIG stockholders' equity obtained from the audited financial statements of HIIG for the year ended December 31, 2018 prepared in accordance with United States generally accepted accounting principles ("US GAAP"), adjusted for a reclassification of a stock notes 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, 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 unrealized gains on its investment in the HIIG Partnership of \$5,011 and \$11,880 in the years ended December 31, 2018 and 2017, respectively.

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, 2018 was higher by \$1,000, the fair value of the Company's investment in the HIIG Partnership at December 31, 2018 would have increased by approximately \$483 (December 31, 2017 - \$483) and the unrealized gain on investments in private entities for the year ended December 31, 2018 would have increased by approximately \$483 (2017 - \$483). If HIIG stockholders' equity at December 31, 2018 was lower by \$1,000, an opposite effect would have resulted.

Investments 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, which 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, 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 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). At December 31, 2018, the fair value of AFHC attributable to the Class M units was \$620 (December 31, 2017 - \$nil). On December 31, 2018, the Company through AFHC redeemed all Class M units outstanding for the "in the money" amount of \$620 and this amount is recorded as a liability on AFHC's financial statements at December 31, 2018 and therefore reflected in its fair value. The liability of \$620 is expected to be paid to BP LLC on or before March 31, 2019.

A similar agreement was entered into between Arena Origination and BP LLC with respect to AOC. On June 5, 2017, a cash distribution of \$0.93 per Class A unit, totaling \$3,162, was made by AOC to Arena Origination, and in accordance with the AOC LLC Agreement, the pre-determined escalating conversion prices of the Class M units were correspondingly reduced by \$0.93 per Class M unit. At December 31, 2018, the fair value of AOC attributable to the Class M units was \$104 (December 31, 2017 - \$75). On December 31, 2018, the Company through AOC redeemed all Class M units outstanding for the "in the money" amount of \$104 and this amount is recorded as a liability on AOC's financial statements at December 31, 2018 and therefore reflected in its fair value. The liability of \$104 is expected to be paid to BP LLC on or before March 31, 2019.

In connection with the capitalization of Arena Origination, the Company granted a term loan of \$17,000 to Arena Origination on August 31, 2015. On June 6, 2017, Arena Origination repaid \$7,000 of the term loan to Westaim, with a remaining balance of \$10,000 outstanding at December 31, 2018 and 2017. The loan 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 or before January 1 of each year during the term. Related to this loan repayment, on June 6, 2017, the Company made an additional equity investment of \$7,005 in Arena Origination by acquiring additional common shares of Arena Origination.

FVTPL

The investments in Arena Finance and Arena Origination are accounted for at FVTPL and are included in investments in private entities. The fair values of the Company's investments in Arena Finance and Arena Origination were determined to be \$163,888 and \$34,837, respectively, at December 31, 2018 and \$151,315 and \$34,956, respectively, at December 31, 2017.

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6 Investments (continued)

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, 2018, in the amount of \$163,888 approximated the fair value of the Company's investment in Arena Finance. The same primary valuation technique was applied to Arena Origination where 100% (or 1.0x) of the shareholder's equity at December 31, 2018, in the amount of \$24,837 and the fair value of the term loan of \$10,000, totaling \$34,837, approximated the fair value of the Company's investment in Arena Origination. Management determined that the net asset value valuation technique produced the best indicator of the fair value of Arena Finance and Arena Origination at December 31, 2018.

At December 31, 2017, 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, 2017, less the amount attributable to Class M units, in the amount of \$151,315 approximated the fair value of the Company's investment in Arena Finance. The same primary valuation technique was applied to Arena Origination where 100% (or 1.0x) of the shareholder's equity at December 31, 2017, less the amount attributable to Class M units, in the amount of \$24,956 and the fair value of the term loan of \$10,000, totaling \$34,956, approximated the fair value of the Company's investment in Arena Origination.

The significant unobservable inputs used in the valuation of Arena Finance and Arena Origination at December 31, 2018 were the shareholder's equity of each of the entities at December 31, 2018 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, 2018, 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 available on a timely basis, the values of these securities are determined using valuation methodologies for Level 3 investments described below.
- Corporate bonds are valued using various inputs and techniques, which include third-party pricing services, dealer quotations, and recently executed transactions in securities of the issuer or comparable issuers. Adjustments to individual bonds can be applied to recognize trading differences compared to other bonds issued by the same issuer. Values for high-yield bonds are based primarily on pricing services and dealer quotations from relevant market makers. The dealer quotations received are supported by credit analysis of the issuer that takes into consideration credit quality assessments, daily trading activity, and the activity of the underlying equities, listed bonds, and sector-specific trends. If these inputs are not observable or timely, the values of corporate bonds and convertible bonds are determined using valuation methodologies for Level 3 investments 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 investments described below.

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6 Investments (continued)

- 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 gains on its investment in Arena Finance of \$12,573 and \$8,515 in the years ended December 31, 2018 and 2017, respectively. The operating results of Arena Finance included interest expense on the demand loan from Westaim to AFHC of \$390 and \$747 in the years ended December 31, 2018 and 2017, respectively.

The Company recorded an unrealized loss on its investment in Arena Origination of \$119 and an unrealized gain of \$2,514 in the years ended December 31, 2018 and 2017, respectively. The operating results of Arena Origination included interest expense on the term loan from Westaim to Arena Origination and the demand loan from Westaim to AOC totaling \$1,720 and \$1,460 in the years ended December 31, 2018 and 2017, 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 is wholly-owned by the Company, if the shareholder's equity of either Arena Finance or Arena Origination at December 31, 2018 was higher by \$1,000, the fair value of the Company's investment in the respective entity at December 31, 2018 would have increased by \$1,000 and the unrealized gain on investments in private entities for the year ended December 31, 2018 would have increased by \$1,000. If the shareholder's equity of either Arena Finance or Arena Origination at December 31, 2018 was lower by \$1,000, an opposite effect would have resulted.

INVESTMENT IN ASSOCIATES

The Company's investment 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.

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"). 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 profit of the Associates based on achieving certain assets under management ("AUM") and cash flow (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 does not exercise control but exercises significant influence over the Associates. The Company's investment in Associates is therefore accounted for using the equity method in accordance with IAS 28.

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6 Investments (continued)

The following summarized financial information represents amounts within the financial statements of the Associates:

	December 31, 2018	December 31, 2017
Financial information of Associates:		
Assets	\$ 20,100	\$ 19,276
Liabilities	(35,334)	(32,350)
Net liabilities	\$ (15,234)	\$ (13,074)
Company's share	\$ (7,641)	\$ (6,540)
Associates Loan	18,250	14,500
Carrying amount of the Company's investment in associates	\$ 10,609	\$ 7,960

	Year ended December 31, 2018	Year ended December 31, 2017
Financial information of Associates:		
Fee and other income	\$ 21,212	\$ 15,135
Operating expenses ¹	(23,372)	(21,760)
Loss and comprehensive loss	\$ (2,160)	\$ (6,625)
Company's share of loss of associates (51%)	\$ (1,101)	\$ (3,379)

¹ Includes interest expense on the loan granted by AFHC to the Associates (see note 14) of \$nil and \$257 in the years ended December 31, 2018 and 2017, respectively and interest expense on the loan granted by the Company (through WCA) to WAHII of \$856 and \$23 in the years ended December 31, 2018 and 2017, respectively.

The following table shows the continuity of the carrying amount of the Company's investment in Associates:

	December 31, 2018	December 31, 2017
Carrying amount of investment in Associates:		
Opening balance	\$ 7,960	\$ 1,254
Company's share of loss of Associates (51%)	(1,101)	(3,379)
Repayment-Advances to Associates	-	(4,415)
Addition - Associates Loan	3,750	14,500
Ending balance	\$ 10,609	\$ 7,960

On December 21, 2017, the Company (through WCA) granted a revolving loan facility up to \$20,000 to the Associates (the "Associates Loan") in order to (i) fund growth initiatives and working capital needs of Arena Investors and (ii) enable WAHII to repay \$4,415 in advances previously owed to the Company and extinguish the loan owed to AHFC (see note 14). The loan facility has a term of 36 months and bears interest at a rate of 5.25% per annum. WAHII had drawn down the loan facility by \$18,250 and \$14,500 at December 31, 2018 and 2017, respectively. The loan facility is secured by the assets of certain of the Associates. The Company earned and received interest on the Associates Loan of \$856 and \$23 for the years ended December 31, 2018 and 2017, respectively.

The total of the Company's 51% share of loss of the Associates was \$1,101 and \$3,379 in the years ended December 31, 2018 and 2017, respectively, and was reported under "Share of loss of associates" in the consolidated statements of profit and comprehensive income.

7 Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities consist of the following:

	December 31, 2018	December 31, 2017
RSUs (note 13)	\$ 5,738	\$ 7,154
DSUs (note 13)	981	1,033
Interest on Preferred Securities (note 8)	462	502
Fair value of foreign exchange forward contract (note 8)	630	-
Other accounts payable and accrued liabilities	1,794	1,135
Ending balance	\$ 9,605	\$ 9,824

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8 Preferred Securities

On April 3, 2017, the Company announced that it had entered into an agreement pursuant to which Fairfax Financial Holdings Limited, through certain of its subsidiaries (collectively, "Fairfax"), had agreed to make an investment of up to C\$100,000 in Westaim in exchange for the issuance by Westaim of 5% interest bearing notes (the "Preferred Securities") and common share purchase warrants (the "Warrants") (see note 9) (collectively, the "Private Placement").

The Preferred Securities are denominated in C\$, each issuable for a principal amount of C\$10 and carry interest at a rate of 5% per annum. The Preferred Securities are subordinate secured securities that will mature on May 26, 2116 but may be repaid, in whole or in part, by the Company at any time after June 2, 2022 and at any time after June 2, 2020 if the volume-weighted average trading price of Westaim's common shares for any 10 day period prior to the date on which the applicable redemption notice is given is at least C\$5.60.

On June 2, 2017, the Company closed the subscription by Fairfax of C\$50,000 of Preferred Securities (the "Fairfax Financing"). The proceeds raised from the Fairfax Financing were used by Westaim to make interest bearing loans to the Arena Group (see note 4). The Company had discretion until January 1, 2018 to require Fairfax to purchase all or part of 5,000,000 additional Preferred Securities, and exercised its discretion not to do so. There were 5,000,000 Preferred Securities outstanding at December 31, 2018 and December 31, 2017.

The Preferred Securities are repayable on demand upon a change of control of Westaim and the liability is recorded at the principal amount in the consolidated statements of financial position. The Preferred Securities liability is translated into US\$ at rates of exchange at the end of each reporting period and any resulting foreign exchange gain or loss is included in the consolidated statements of profit and comprehensive income. The carrying amount of the Preferred Securities, which approximated fair value, was \$36,649 and \$39,876 at December 31, 2018 and 2017, respectively. The Company recorded an unrealized foreign exchange gain relating to the Preferred Securities of \$3,227 and an unrealized foreign exchange loss of \$2,850 in the years ended December 31, 2018 and 2017, respectively.

Interest on the Preferred Securities amounted to \$1,902 and \$1,161 in the years ended December 31, 2018 and 2017, respectively. Accrued interest was \$462 and \$502 at December 31, 2018 and 2017, respectively, and was reported under accounts payable and accrued liabilities in the consolidated statements of financial position.

Transaction costs incurred for the issuance of the Preferred Securities totaling \$505 were recorded as an expense in the consolidated statements of profit and comprehensive income in the year ended December 31, 2017. There were no transaction costs for the year ended December 31, 2018.

On December 21, 2017, the Company entered into a foreign exchange forward contract to sell US\$15.8 million and buy C\$20 million to manage part of the foreign currency exposure arising from the Preferred Securities. The contract matured on December 21, 2018 and resulted in a realized foreign exchange loss of \$966. On December 20, 2018, the Company entered into a new foreign exchange forward contract to sell US\$26.3 million and buy C\$35 million to manage part of the foreign currency exposure arising from the Preferred Securities. The contract has a term to maturity of less than one year and may be renewed at market rates. The Company has not designated this foreign exchange forward contract as an accounting hedge. A loss was accrued on the foreign exchange forward contract in the amount of \$630 at December 31, 2018 and was recorded under accounts payable and accrued liabilities in the consolidated statements of financial position. A gain was accrued on the foreign exchange contract in the amount of \$110 at December 31, 2017 and was recorded under other assets in the consolidated statement of financial position. The foreign exchange loss was \$1,706 and the foreign exchange gain was \$110 for years ended December 31, 2018 and 2017, respectively, and was reported under foreign exchange in the consolidated statements of profit and comprehensive income. In connection with foreign exchange forward contracts which the Company may enter into from time to time, the Company has obtained a credit facility under which the Company has pledged cash on deposit of \$4,375 (2017 - \$2,500) as security. The security shall remain in effect for the duration of any outstanding foreign exchange forward contracts.

9 Derivative Warrant Liability

In connection with the Private Placement (see note 8), Westaim issued to Fairfax 28,571,430 Warrants, each exercisable for one Westaim common share at an exercise price of C\$3.50. The Warrants vest proportionately based upon the aggregate percentage of Preferred Securities purchased by Fairfax, with 14,285,715 having vested on June 2, 2017. The remaining 14,285,715 unvested Warrants were cancelled on January 31, 2018. Each vested Warrant is exercisable on or prior to June 2, 2022, but the expiry date will be extended to June 2, 2024 if the volume-weighted average trading price of Westaim's common shares for the 10 day period ending on June 2, 2022 is less than C\$5.60. After June 2, 2020, the Company can also elect to require early exercise of the Warrants if the volume-weighted average trading price of Westaim's common shares for any 10 day period prior to the election is at least C\$5.60.

The Warrants are subject to a cashless exercise at the discretion of Fairfax and are classified as a derivative liability in accordance with IFRS and measured at FVTPL. The fair value of the vested Warrants at initial recognition was recorded as an expense in the consolidated statements of profit and comprehensive income. Subsequent changes in fair value of the vested Warrants are reported in the consolidated statements of profit and comprehensive income for the period in which they arise.

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9 Derivative Warrant Liability (continued)

Changes to the derivative warrant liability are as follows:

	Year ended December 31, 2018	Year ended December 31, 2017
Opening balance	\$ 6,678	\$ -
Fair value upon initial recognition	-	8,992
Change in fair value - (gain) loss	(3,812)	(3,013)
Unrealized foreign exchange (gain) loss	(484)	699
Ending balance	\$ 2,382	\$ 6,678

The Company recorded an expense of \$8,992 upon initial recognition of the vested Warrants on June 2, 2017. The Company recognized unrealized gains resulting from a change in the fair value of the vested Warrants of \$3,812 and \$3,013 in the years ended December 31, 2018 and 2017, respectively. The Company also recorded an unrealized foreign exchange gain with respect to the vested Warrants of \$484 and an unrealized foreign exchange loss of \$699 in the years ended December 31, 2018 and 2017, respectively, under foreign exchange in the consolidated statements of profit and comprehensive income. At December 31, 2018 and 2017, a liability of \$2,382 and \$6,678, respectively, had been recognized with respect to the vested Warrants in the consolidated statements of financial position.

The fair value of the vested Warrants at December 31, 2018 of \$2,382 (December 31, 2017 - \$6,678) was estimated using the Monte Carlo pricing model assuming no dividends are paid on the common shares, a risk-free interest rate of 1.87% (December 31, 2017 - 1.81%), an expiration date between January 1, 2019 and June 2, 2024 (December 31, 2017: January 1, 2018 and June 2, 2024), a volatility of the underlying common shares of the Company of 23.42% (December 31, 2017 - 25.08%), a closing price of common shares of C\$2.58 (December 31, 2017 - C\$3.11) and a strike price of C\$3.50. The amounts computed according to the Monte Carlo pricing model may not be indicative of the actual values realized upon the exercise of the vested Warrants by Fairfax.

A sensitivity analysis is performed within the Monte Carlo pricing model, which produces a probability distribution of possible outcomes by identifying which inputs impact the outcome the most.

10 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, 2018	Year ended December 31, 2017
Opening balance	\$ 3,770	\$ 3,439
Changes due to:		
Estimates of future expenditures	102	(6)
Inflation	(36)	-
Passage of time and discount rates	33	78
Unrealized foreign exchange (gain) loss	(285)	259
Ending balance	\$ 3,584	\$ 3,770

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 100 years, with the majority to take place later than 50 years after December 31, 2018. To calculate the site restoration provision, the estimated cash outflows were adjusted for inflation and discounted to December 31, 2018. 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 1.70% (December 31, 2017 - 1.76%) per annum over the next 100 years. Discount rates are based on risk free rates which range from 1.87% to 2.18% (December 31, 2017 - 1.52% to 2.27%) 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, 2018.

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11 Commitments and Contingent Liabilities

- (a) In connection with foreign exchange forward contract which the Company entered into on December 20, 2018, the Company has obtained a credit facility under which the Company has pledged cash on deposit of \$4,375 (2017 - \$2,500) as security (see note 8).
- (b) On April 18, 2018, the Company extended its operating lease for office premises in Toronto with lease terms expiring on November 30, 2024. At December 31, 2018, the Company had a total commitment of \$1,567 for future occupancy cost payments including payments due not later than one year of \$293 and payments due later than one year of \$1,274. At December 31, 2017, the Company had operating leases for office premises in Toronto expiring on November 30, 2019 with a total commitment of \$636 for future occupancy cost payments including payments due not later than one year of \$332 and payments due later than one year of \$304.

12 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.

At December 31, 2018 and 2017, the Company had a total of 143,186,718 common shares issued and outstanding, with a stated capital of \$382,182. There were no changes in share capital in the years ended December 31, 2018 and 2017.

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, 2018 and 2017.

13 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").

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 or 14,318,671 as at December 31, 2018. 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.

In certain circumstances such as a change of control of the Company or the sale of substantially all of the assets of the Company, all outstanding options and RSUs will vest immediately.

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

	Year ended December 31, 2018		Year ended December 31, 2017	
	Number	Weighted Average Exercise Price	Number	Weighted Average Exercise Price
Opening balance	6,613,337	C\$ 3.10	2,754,940	C\$ 3.29
Granted	3,815,000	C\$ 3.10	3,860,397	C\$ 3.00
Expired	-	-	(2,000)	C\$ 61.50
Ending balance	10,428,337	C\$ 3.10	6,613,337	C\$ 3.10
Options exercisable at end of period	5,680,558	C\$ 3.10	2,204,445	C\$ 3.10

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13 Share-based Compensation (continued)

As at December 31, 2018					
Exercise prices	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
C\$ 3.10	3,815,000	6.05	C\$ 3.10	1,271,667	C\$ 3.10
C\$ 3.00	3,860,397	5.26	C\$ 3.00	2,573,598	C\$ 3.00
C\$ 3.25	2,752,940	4.25	C\$ 3.25	1,835,293	C\$ 3.25
	10,428,337	5.28	C\$ 3.10	5,680,558	C\$ 3.10

As at December 31, 2017					
Exercise prices	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
C\$ 3.00	3,860,397	6.25	C\$ 3.00	1,286,799	C\$ 3.00
C\$ 3.25	2,752,940	5.25	C\$ 3.25	917,646	C\$ 3.25
	6,613,337	5.84	C\$ 3.10	2,204,445	C\$ 3.10

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. The fair value of the options granted on April 1, 2016 was C\$0.7332 per option estimated using the Black-Scholes option pricing model assuming no dividends are paid on the common shares, a risk-free interest rate of 0.61%, an average life of 4.0 years, a volatility of 46.49%, and a grant date share price of C\$2.54 converted to US\$ at an exchange rate of \$1.3047.

On April 3, 2017, 3,860,397 additional 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 December 31, 2017, December 31, 2018 and December 31, 2019, and have an exercise price of C\$3.00. The fair value of the options granted on April 3, 2017 was C\$0.8616 per option estimated using the Black-Scholes option pricing model assuming no dividends are paid on the common shares, a risk-free interest rate of 1.00%, an average life of 4.0 years, a volatility of 35.45%, and a grant date share price of C\$2.98 converted to US\$ at an exchange rate of \$1.3386.

On January 18, 2018, 3,815,000 additional 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 December 31, 2018, December 31, 2019 and December 31, 2020, and have an exercise price of C\$3.10. The fair value of the options granted on January 18, 2018 was C\$0.7185 per option estimated using the Black-Scholes option pricing model assuming no dividends are paid on the common shares, a risk-free interest rate of 1.92%, an average life of 4.0 years, a volatility of 25.35%, and a grant date share price of C\$3.10 converted to US\$ at an exchange rate of \$1.2429.

The amounts computed according to the Black-Scholes pricing model may not be indicative of the actual values realized upon the exercise of options by the holders.

Compensation expense relating to options was \$2,344 and \$1,962 in the years ended December 31, 2018 and 2017, respectively, with a corresponding increase to contributed surplus.

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	
	2018	2017
Opening balance	3,034,261	3,082,073
Exercised	-	(47,812)
Ending balance	3,034,261	3,034,261

On November 14, 2014, an aggregate of 2,375,000 RSUs were granted to certain officers, employees and consultants. At December 31, 2018, all of these RSUs had vested, of which 265,937 RSUs had been exercised and 2,109,063 RSUs were outstanding.

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13 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, 2018, all of these RSUs had vested and none have been exercised.

There were 3,034,261 RSUs outstanding at December 31, 2018 and December 31, 2017. No RSUs were granted or exercised in the year ended December 31, 2018. In the year ended December 31, 2017, 47,812 RSUs were exercised for a cash payment of C\$3.18 per RSU and the RSU liability was correspondingly reduced by \$115.

Compensation relating to RSUs was a recovery of \$827 and an expense of \$1,495 for the years ended December 31, 2018 and 2017, respectively. At December 31, 2018, a liability of \$5,738 (December 31, 2017 - \$7,154) 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	
	2018	2017
Opening balance	416,529	398,731
Granted	102,326	110,323
Exercised	-	(92,525)
Ending balance	518,855	416,529

In the year ended December 31, 2018, 102,326 DSUs were issued in lieu of director fees of \$228 and in the year ended December 31, 2017, 110,323 DSUs were issued in lieu of director fees of \$263.

No DSUs were exercised in the year ended December 31, 2018. In the year ended December 31, 2017, 92,525 DSUs were exercised for a cash payment of C\$2.99 per DSU and the DSU liability was correspondingly reduced by \$225.

Compensation expense relating to DSUs was \$40 and \$353 for the years ended December 31, 2018 and 2017, respectively. At December 31, 2018, a liability of \$981 (December 31, 2017 - \$1,033) had been accrued with respect to outstanding DSUs in the consolidated statements of financial position.

14 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	
	2018	2017
Salaries and benefits	\$ 3,311	\$ 2,621
Share-based compensation	1,550	3,743
	\$ 4,861	\$ 6,364

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 \$138 in each of the years ended December 31, 2018 and 2017. Compensation relating to RSUs issued to the Consultant was a recovery of \$23 and an expense of \$18 for the years ended December 31, 2018 and 2017, respectively, and the amounts were included in the consolidated statements of profit and comprehensive income under share-based compensation expense. At December 31, 2018, a liability of \$112 (December 31, 2017 - \$146) had been accrued in the consolidated statements of financial position with respect to outstanding RSUs held by the Consultant.

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14 Related Party Transactions (continued)

On September 28, 2016, AFHC granted a 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. The Associates repaid the balance owing under the loan facility of \$7,773, including interest, to AFHC on December 21, 2017 and the loan facility was terminated.

The Company earned and received interest on loans to related parties as follows:

	Year ended December 31	
	2018	2017
Term loan to Arena Origination (note 6)	\$ 725	\$ 942
Demand loans to AFHC and AOC (note 4 and 6)	1,385	1,265
Associates loan (note 6)	856	23
	\$ 2,966	\$ 2,230
Interest earned and received on bank balances	94	14
	\$ 3,060	\$ 2,244

The Company earned advisory fees of \$1,000 from HIIG and \$440 from the Arena Group in each of the years ended December 31, 2018 and 2017. Advisory fees are included in fee income in the consolidated statements of profit and comprehensive income.

On December 31, 2018, all outstanding M units of AFHC and AOC held by BP LLC were redeemed. The financial statements of AFHC and AOC contain a liability for the redemption payment of the M units to BP LLC in the amount of \$620 and \$104, respectively. The redemption payments are expected to be paid to BP LLC on or before March 31, 2019.

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

	Year ended December 31	
	2018	2017
Unrealized gain on investments in private entities	\$ (2,314)	\$ (3,034)
Non-capital loss carry-forwards	2,314	3,034
	\$ -	\$ -

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

	December 31, 2018	December 31, 2017
Non-capital loss carry-forwards	\$ 30,237	\$ 50,221
Capital loss carry-forwards	5,121	5,441
Deductible temporary differences	13,928	18,557
Corporate minimum tax credits	325	354
Investment tax credits	3,330	4,331

The unrecognized non-capital losses and investment tax credits will expire at various times to the end of 2038, as follows:

Non-capital losses by year of expiry:		Investment tax credits by year of expiry:	
2031	\$ 1,974	2019	\$ 704
2033	2,807	2020	603
2034	3,576	2021	471
2035	3,105	2022	237
2036	247	2023	128
2037	10,240	Beyond 2023	1,187
2038	8,288		\$ 3,330
	\$ 30,237		

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15 Income Taxes (continued)

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

	Year ended December 31	
	2018	2017
Profit before income tax	\$ 16,793	\$ 5,575
Statutory income tax rates	26.5%	26.5%
Income taxes at statutory income tax rates	4,450	1,477
Variations due to:		
Non-taxable portion of unrealized gain on investments in private entities	(2,314)	(3,034)
Tax losses allocated from the HIIG Partnership	(22)	(26)
Non-deductible (non-taxable) items	(517)	2,288
Difference between statutory and foreign tax rates	22	(753)
Unrecognized temporary differences	(1,471)	952
Unrecognized tax losses	(148)	(904)
Income tax expense	\$ -	\$ -

16 Earnings per Share

The Company had 10,428,337 stock options, 3,034,261 RSUs and 14,285,715 Warrants outstanding at December 31, 2018 and 6,613,337 stock options, 3,034,261 RSUs and 28,571,430 Warrants outstanding at December 31, 2017. The RSUs were included in the calculation of diluted earnings per share for the year ended December 31, 2018 as they were dilutive. The stock options and Warrants for the year ended December 31, 2018 and the stock options, RSUs and Warrants for the year ended December 31, 2017 were excluded in the calculation of diluted earnings per share as they were not dilutive.

Earnings per share, basic and diluted, are as follows:

	Year ended December 31	
	2018	2017
Basic earnings per share:		
Profit	\$ 16,793	\$ 5,575
Weighted average number of common shares outstanding	143,186,718	143,186,718
Basic earnings per share	\$ 0.12	\$ 0.04
Diluted earnings per share:		
Profit	\$ 16,793	\$ 5,575
Dilutive RSU expense (recovery)	(827)	-
Profit on a diluted basis	\$15,966	\$ 5,575
Weighted average number of common shares outstanding	143,186,718	143,186,718
Dilutive impact of RSUs	2,963,557	-
Weighted average number of common shares outstanding on a diluted basis	146,150,275	143,186,718
Diluted earnings per share	\$ 0.11	\$ 0.04

17 Capital Management

The Company's capital currently consists of the Preferred Securities and common shareholders' equity.

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, 2018 and 2017

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

18 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, 2018 consists of short-term financial assets and financial liabilities with maturities of less than one year, loans receivable, investments in private entities and associates, Preferred Securities, derivative warrant liability 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.

Loans receivable by the Company were made to subsidiaries which the Company controls and the loans are secured by underlying assets of the subsidiaries. Therefore, credit risk related to these loans is nominal.

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, 2018, the Company's short-term financial liabilities amounted to \$2,886 (December 31, 2017 - \$1,637), and the Company had cash resources to meet these financial obligations.

Currency risk

The Company's C\$ denominated monetary liabilities exceed C\$ denominated monetary assets, including its C\$35 million (2017 - C\$20 million) foreign exchange forward contract. A 10% strengthening of the C\$ against the US\$ would have increased the foreign exchange loss for the year ended December 31, 2018 by approximately \$566. A similar weakening of the C\$ would have resulted in an opposite effect.

From time to time, the Company may enter into foreign exchange forward contracts to manage certain foreign currency exposures arising from foreign currency denominated transactions. The Company has not designated any foreign exchange forward contracts as accounting hedges.

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, loans receivable, or the Preferred Securities. 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. The fair values of these investments recorded in the Company's consolidated financial statements have been arrived at using industry accepted valuation techniques. Due to the inherent uncertainty of valuation, these fair values may not be indicative of the actual values which can be realized upon a liquidity event for these investments.

19 Subsequent Events

On March 6, 2019, the Company (through WCA) amended the revolving loan facility to the Associates (as described in note 6 under investment in associates) from the limit of \$20,000 to \$25,000.

SHAREHOLDER INFORMATION

BOARD OF DIRECTORS

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

Lead Director, The Westaim Corporation
President, Seeonee Inc.

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

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 30th, 2019 9:00 A.M. EDT

Hockey Hall of Fame and Museum
30 Yonge Street, Brookfield Place
Tim Hortons Theatre, Lower Level
Toronto, Ontario M5E 1X8

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, 2018 were 143,186,718

TRANSFER AGENT & REGISTRAR

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Calgary, Alberta T2P 3S8
www.investorcentre.com

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Toll : 1-514-982-7555
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