THE WESTAIM CORPORATION

ANNUAL REPORT 2019

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Contents

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

WESTAIM

Dear Fellow Shareholder:

The Westaim Corporation ("Westaim" or the "Company") continues to execute on our stated goal of partnering with and building profitable and sustainable businesses with aligned management teams, and we enter 2020 well positioned for continued growth.

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 startup of the Arena Group and the significant initial investments that we have made to put this business in a position to scale impacted the short term growth of our FDBVPS, especially in the initial startup 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
2019 - Q1	2.49	3.33	1.92	2.57
2019 - Q2	2.55	3.34	2.03	2.65
2019 - Q3	2.56	3.39	1.89	2.50
2019 - Q4	2.48	3.22	2.04	2.65
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%
FY 2019	2.5%	-2.5%	7.9%	2.7%
CAGR Since Q2 2014	4.0%	7.8%	-6.8%	-3.4%

Notes:

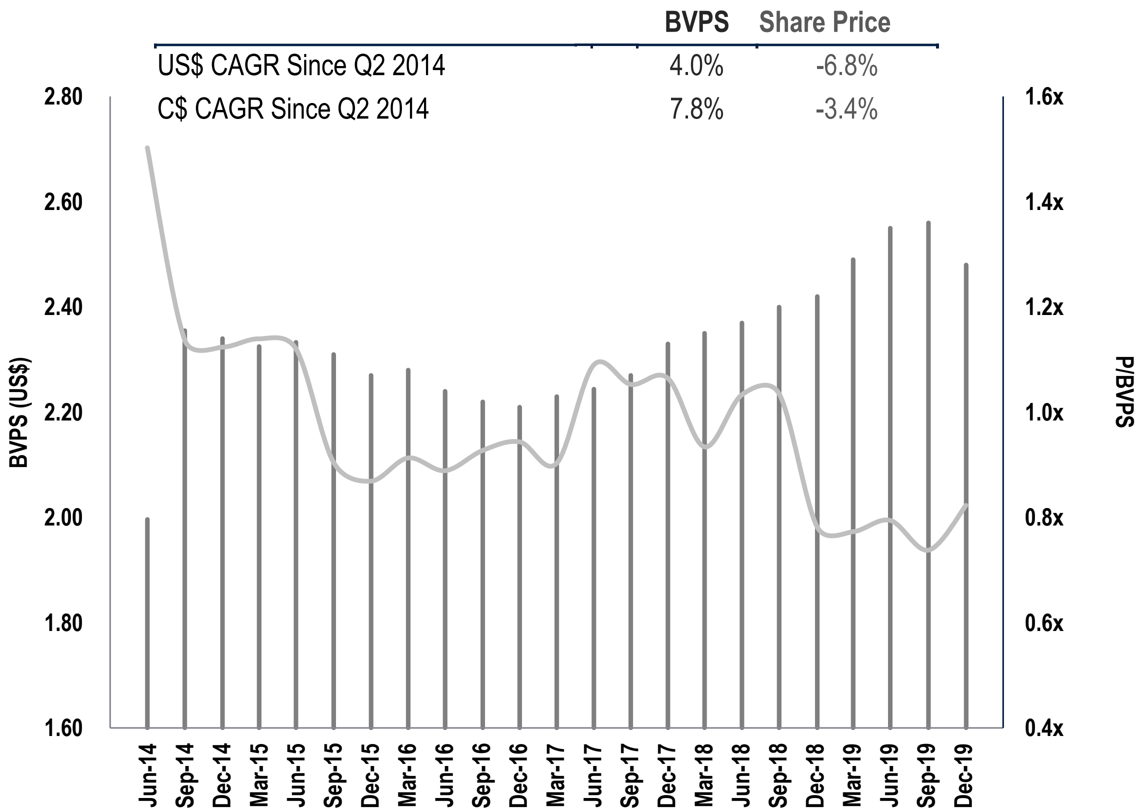
[(1)] Closed equity capital raise to complete HIIG acquisition at C$2.65 per share.

[(2)] Closed equity capital raise to fund Arena business at C$3.25 per share.

[(3)] Arena Group turns earnings positive; HIIG completes restructuring of its claims department.

[(4)] Valuation of HIIG increased from 1.0x ABVPS to 1.1x ABVPS at December 31, 2017.

In chart form, you can visually see the progression of FDBVPS over this period:



As can clearly be seen in the table and chart above, Westaim has been successful in growing FDBVPS in US$ for each quarter since the end of 2016, with the notable exception of Q4 2019. In early 2020, Houston International Insurance Group, Ltd. ("HIIG") signed a commitment letter in respect of a loss portfolio transfer ("LPT") transaction (described below under the HIIG Section), which is designed to mitigate the potential impact of adverse development on prior period loss and loss adjustment expense ("LAE") reserves. This LPT transaction will result in an after-tax charge expected to be $34.3 million for HIIG when it closes, which is expected to be in the first half of 2020. Westaim reflected its share of the expected cost of the LPT in its valuation of HIIG as at December 31, 2019, which impacted our FDBVPS growth in the quarter. For the full year 2019, FDBPVS growth in US$ grew by 2.5% despite this charge.

Below is a report card on the performance of each of our businesses in 2019, and their market positioning entering 2020 and beyond.

HIIG

HIIG achieved solid results for the year ended December 31, 2019. Highlights included:

- Gross written premiums were $878.3 million compared to $696.9 million for the year ended December 31, 2018, an increase of 26%. The Company experienced growth in premiums across all segments, particularly its commercial and specialty segments.

- Net written premiums were $421.7 million compared to $300.5 million for the year ended December 31, 2018, an increase of 40%. This growth was due to the growth in gross written premiums in all segments, combined with an overall increase in net premium retention by the Company.

- Underwriting performance, as measured by the Company's combined ratio, was 98.4% for the year ended December 31, 2019 compared to 99.5% in the prior year. While an overall improvement from 2018, the Company continued to experience adverse development of prior period loss and LAE claims reserves of $13.9 million pre-tax in 2019 versus $5.8 million in 2018.

- HIIG's investment portfolio achieved excellent performance in 2019, producing a 7.6%[1] pre-tax Total Return including both realized and unrealized gains. This return was assisted by a non-recurring gain on a strategic investment of approximately $9.3 million pre-tax. Excluding this gain, the total return would have been 6.3%[1]. Asset allocation as at December 31, 2019 (excluding restricted cash), reflected a barbell portfolio with a high weighting in short term, high quality fixed income securities (34%) and cash and short term investments (40%), combined with a small equity and strategic investments allocation (11%) and an allocation to Arena Investors (15%). Overall, the portfolio entered 2020 with a very short duration. HIIG retains an independent investment advisory firm to provide manager, performance and capital efficiency analysis.

- Net income after-tax was $32.3 million compared to $20.9 million for the year ended December 31, 2018. This net income, combined with unrealized gains on HIIG's fixed income portfolio recorded under other comprehensive income, resulted in stockholders' equity growing to $370.2 million at the end of the year, an increase of 12% from $329.9 million as at December 31, 2018.

During 2018, the property and casualty insurance industry began to experience hardening market conditions with both pricing and terms strengthening. We believe that HIIG began to meaningfully benefit from these improved conditions in 2019, and is positioned to continue to do so moving forward. Earlier this year, Marsh Global Analytics stated that global commercial insurance prices have increased for nine consecutive quarters with the fourth quarter of 2019 increasing 10.6%, the largest year-over-year increase since 2012.

With the backdrop of favorable insurance industry conditions, in early 2020 the HIIG board of directors approved two transactions designed to put HIIG in the best possible position to take advantage of current opportunities, improve its solid financial position and allow for the continued profitable growth of its business. These transactions include:

- **LPT Transaction:** HIIG has been evaluating the prospect of an LPT transaction to help minimize future prior period adverse loss and LAE reserve development. An LPT transaction is typically designed to mitigate the potential impact of adverse development of prior period loss and LAE reserves. In February 2020, HIIG entered into a commitment letter for an LPT transaction with respect to claims reserves for certain divisions, primarily related to 2017 and prior policy years. The closing of the LPT is subject to regulatory approval and is currently expected in the second quarter of 2020. HIIG is expected to record an expense of $34.3 million after-tax in the first half of 2020. <u>Westaim's share of this charge was reflected in Westaim's Q4 2019 valuation of HIIG.</u>

- **Rights Offering:** In March 2020, HIIG's board of directors approved a rights offering designed to raise up to $100 million exclusively from existing direct and indirect shareholders to subscribe on a pro rata basis for Series A Convertible Preferred Shares that will be convertible at the option of the holder into HIIG common shares. The Preferred Shares will be convertible into HIIG common shares at a conversion price of $1.74 and will be subject to adjustment from time-to-time based on the occurrence of certain events. Westaim plans to subscribe for Preferred Shares to the extent of our pro rata ownership of HIIG common shares of 44%, or approximately $44 million. Additional details regarding the rights offering are included in the notes to our audited financial statements enclosed herein and available on SEDAR at www.sedar.com.

As the world has become rapidly aware in March 2020, the onset of COVID-19 has caused considerable angst in the global community and its potential economic impact has caused high levels of volatility in world financial markets. After a considered review, HIIG does not believe it has material exposure to the impacts of the pandemic under the policies of insurance it currently has in force. However, particularly in March 2020, considerable volatility experienced in the global financial markets has resulted in unrealized losses on the public equity securities portion of HIIG's investment portfolio, which portfolio represented approximately

[1] Total Return is equal to the aggregate of net investment income, net unrealized gains on equity securities, net realized (losses) gains, and a gain on strategic investment less investment related expenses divided by the quarterly average investment portfolio outstanding for the period.

9% of the total investment portfolio as at December 31, 2019. These unrealized losses are expected to impact HIIG's reported net income (loss) for the 2020 fiscal year, unless a recovery in the equity markets, and particularly HIIG's portfolio of equity securities, is experienced during the remainder of the year. It is HIIG's strategy and intention to hold and measure its equity investments over the long term in accordance with its investment strategy.

Arena Group

The Arena Group is primarily comprised of two different investments: (i) Arena Investors, LP ("Arena") which is a U.S. based global investment manager focused on credit-oriented opportunities; and (ii) the Arena FINCOs, representing Westaim's proprietary capital invested using Arena's investment strategy.

Arena FINCOs

Westaim's proprietary capital of approximately $205.8 million as at December 31, 2019 which is held within the Arena FINCOs achieved overall gross returns (before fees, interest, expenses and income taxes) of approximately 11.5% in 2019 (13.0% in 2018)[2]. Returns net of interest, fees and other operating expenses, but before income taxes, were approximately 7.0% in 2019 (8.1% for 2018)[2].

Arena Investors

Arena's team of experienced professionals continues to build their business with specialized skills and strong sourcing capabilities that all contribute to Arena's unique performance. In keeping with prior years, the 2019 core portfolio was highly diversified, non-correlated, loan-to-value of 66% (or less), with tight covenants, an average remaining duration of 2 years and an average coupon of 13%. This performance consistency (with minimal leverage) is reflected in the 2019 results noted above.

Summary of Arena's Firm-wide Core Holdings at December 31, 2019 (1)

	# Positions	Top Attachment Point(2)	Current LTV	Coupon	Average Remaining Duration(3)
Corporate Private Credit	28	13%	66%	11.3%	2.3 years
Real Estate Private Credit	29	5%	66%	11.5%	1.0 years
Commercial & Industrial Assets	21	1%	60%	16.2%	1.7 years
Structured Finance	5	13%	74%	14.4%	2.5 years
Consumer Assets	18	0%	76%	15.3%	3.0 years
Weighted Average/Total	**101**	**6%**	**66%**	**13%**	**2.0 years**

[2] Gross Returns are calculated and compounded monthly and include the aggregate of investment income, gains (losses) on investments, and deal expenses ("Gross Income") divided by the beginning of month net assets (adjusted for any intra month dividends which are prorated for the number of days excluded from net assets during the month) for the Arena FINCOs ("Adjusted Net Assets"). Net Returns, also calculated and compounded monthly, include Gross Income less interest expense, fees, and other operating expenses of the Arena FINCOs divided by the Adjusted Net Assets for the Arena FINCOs.

Summary of Exited Holdings since Arena's launch in October 2015

	# Positions	Top Attachment Point(2)	Closing LTV	Coupon	Average Loan Term(4)
Corporate Private Credit	29	4%	39%	11.9%	1.3 years
Real Estate Private Credit	21	5%	56%	12.3%	1.2 years
Commercial & Industrial Assets	15	10%	74%	13.8%	1.5 years
Structured Finance	5	0%	57%	13.5%	1.4 years
Consumer Assets	4	0%	56%	14.4%	1.6 years
Weighted Average/Total	**74**	**5%**	**52%**	**12.6%**	**1.4 years**

(1) Portfolio characteristics summarize privately negotiated illiquid investments currently or previously held by Arena's core strategy as of December 31, 2019. In addition, Arena has invested in liquid investments including convertible structured investments summarized as "Corporate Securities" and other illiquid investments in Arena's income strategy which are not listed herein.
(2) Top Attachment Point refers to the highest average dollar-weighted position with respect to each borrower's capital structure for each investment position.
(3) Weighted average remaining duration is calculated on applicable investments. For those investments that do not allow for a traditional duration calculation (for reasons that include, but are not limited to, irregular cash flows, additional fundings, no stated maturity date, etc.), this value represents expected remaining weighted average life.
(4) Average loan term refers to the weighted average time between the funding date and exit date in years.

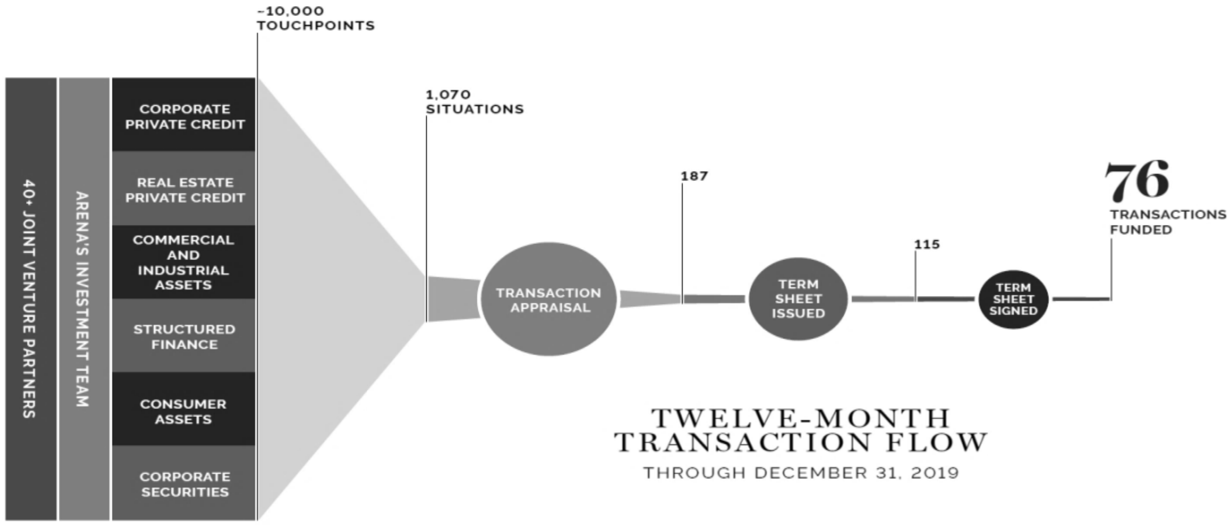
It is always pleasant to be recognized by your industry peers and on February 12, 2020, Alt Credit Fund Intelligence US Awards awarded the Arena Special Opportunities Fund, LP an investment fund managed by Arena, the Best Distressed Credit / Special Situations Award. This is the third major industry award for Arena in as many years.

Defining Arena's competitive advantage can be described in three distinct categories:

1. Mandate flexibility which allows the asset-backed credit portfolio to be uncorrelated and highly diversified by industry, strategy and geography.

2. Sourcing ability which produces a "pipeline" that is deep and vast. As highlighted in the diagram below, in 2019, Arena's investment team reviewed ~10,000+ potential investments from around the globe, across all sectors, eventually funding 76.

3. Proprietary IT system which provides a highly systematic advantage to administer credit positions for evaluation, ongoing monitoring, control and audit.



Arena's committed assets under management ("AUM"), $1.3 billion as of December 31, 2019, continue to grow as does their pipeline of possible and interested new investors. Parag Shah and his team have materially improved Arena's communication and increased the profile of the firm through a variety of publications, conferences, media events, speaking engagements and industry awards. Bulleted below are a few examples where Arena was publicly featured in 2019 all contributing to expanding the firms awareness and unique skill sets.

- Financial Times
- Absolute Return
- Kayo Conference – Women's Energy Summit Alternative Sources of Capital
- Bloomberg TV – US, Asia, Europe
- White Paper: This Time Is Different, but It Will End the Same Way
- Institutional Investor
- Grant's Interest Rate Observer
- Alt Credit Interview
- Private Debt Investor
- The Journal of Fixed Income
- Bloomberg Businessweek
- AIMA Conference
- Forbes 30 Under 30
-

The global volatility of Q1 2020 has occurred incredibly quickly and can be unsettling. It is worthwhile to refresh a few common themes and to address how Arena is positioned and executing.

Arena has from its start been a "global chaser of illiquidity". They are not a middle market fund, a collateralized loan obligation ("CLO") or a business development company. Arena originates credit situations where they can take process risk – not value risk. They are a dedicated, focused team based in New York City and London, UK, with offices in San Francisco and Melbourne, Australia and a recently opened Jacksonville, Florida office focusing on asset surveillance and operations, as well as approximately 40 exclusive joint venture relationships.

Over the last several years, Arena was not involved in many of the investment crazes that morphed into fashionable credit and investment bubbles – whether they are geared toward retail customers (bitcoin, opportunity zones, cannabis) or institutions (middle market corporate private lending, CLO equity, marketplace loan buying). Arena maintains a diversified portfolio of assets and loans where they are generally first in the capital stack, short duration (typically around two years) and charging rates that represent as great a percentage of the cash flow or value of an asset as they can negotiate – typically a targeted 17-18% base case gross underwritten IRR at inception.

Is Arena or anybody fully impervious to a situation like that through which we are currently passing? Of course not. And Arena may end up owning a few more companies and assets to which they originally lent, and they will do so without being gratuitous or overtly aggressive.

Dan Zwirn said to many of us going back a few years: "***There's a storm coming, and we are building an ark". Importantly, Arena has taken no macro view, have not invested in situations that require a "greater fool" to take them out, have little financing recourse or otherwise, has 100% of its capital fully asset-liability matched, and is open for business – as usual.***

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As we publish this Annual Letter in March 2020, the significant global market volatility has heightened concerns among all business owners and their stakeholders. Westaim believes that on balance, HIIG and Arena are well-positioned and we are not aware of any material issues or concerns. The global response to COVID-19 is unprecedented with economic consequences that will certainly affect us all, with circumstances constantly changing. We will update our views if and when appropriate.

Westaim remains of the view that as HIIG and Arena continue to build and strive to achieve continued profitable growth, this should provide Westaim options to deploy capital, options which could include share buybacks and/or dividends. To be clear, we review and consider the attractiveness of these options on a continual basis as we focus on building the business over the long term.

Yours truly,

J. Cameron MacDonald
President and Chief Executive Officer

TABLE OF CONTENTS

The "Company" in this Management's Discussion and Analysis ("MD&A") refers to The Westaim Corporation ("Westaim") on a consolidated basis. This MD&A, which has been approved by the Board of Directors of Westaim, should be read in conjunction with the Company's audited annual consolidated financial statements including notes for the years ended December 31, 2019 and 2018 as set out on pages 49 to 73 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, 2019 and 2018 and is intended to enable the reader to assess the Company's results of operations for the three months and year ended December 31, 2019 and financial condition as at December 31, 2019. 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 26, 2020. Additional information relating to the Company 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.

During the fourth quarter of 2019, management moved investments in ASOF LP (hereinafter defined) from other assets to investments and reduced the number of businesses reported under the Arena Group (hereinafter defined) to Arena Investors (hereinafter defined) and Arena FINCOs (hereinafter defined) to simplify and improve the comparability of investment results. Comparative figures have been reclassified to conform to the presentation of the current period. See Section 3, *Investments* of this MD&A

IFRS for Investment Entities
The Company 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
The Company 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 the Company'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.

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, 2019 and 2018 (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 the Company's historical financial statements including the notes thereto and the related MD&A as well as the Company'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, 2019 and 2018 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 the Company's historical financial statements including the notes thereto and the related MD&A as well as the Company's other public filings.

During the fourth quarter of 2019, management consolidated the Arena Group's financial information into Arena FINCOs (defined hereinafter) and Arena Investors (defined hereinafter) to simplify and improve the comparability of the Arena Group's results. Comparative figures have been reclassified to conform to the presentation of the current period.

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 26, 2020 for its fiscal year ended December 31, 2019 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.

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 2019	Three months ended December 31 2018	Year ended December 31 2019	Year ended December 31 2018
Revenue	$ 4.5	$ 1.1	$ 9.2	$ 4.5
Net results of investments	(14.4)	2.4	10.2	16.5
Net recovery of expenses (expenses)	(2.2)	3.2	(9.9)	(4.1)
Income tax expense	(0.9)	-	(0.9)	-
Profit (loss) and comprehensive income (loss)	$ (13.0)	$ 6.7	$ 8.6	$ 16.9
Earnings (loss) per share – basic	$ (0.09)	$ 0.05	$ 0.06	$ 0.12
Earnings (loss) per share – diluted	$ (0.09)	$ 0.04	$ 0.06	$ 0.11
At December 31:				
Shareholders' equity	$ 354.8	$ 345.2	$ 354.8	$ 345.2
Number of common shares outstanding	143,186,718	143,186,718	143,186,718	143,186,718
Book value per share - in US$ [1]	$ 2.48	$ 2.42	$ 2.48	$ 2.42
Book value per share - in C$ [1]	$ 3.22	$ 3.30	$ 3.22	$ 3.30

[1] Non-GAAP measure. See Section 15, *Non-GAAP Measures* of this MD&A. Period end exchange rates: 1.29865 at December 31, 2019 and 1.36430 at December 31, 2018.

<u>Three months ended December 31, 2019 and 2018</u>

The Company reported a loss and comprehensive loss of $13.0 million for the three months ended December 31, 2019 (2018 - profit and comprehensive profit of $6.7 million).

Revenue for the three months ended December 31, 2019 of $4.5 million (2018 - $1.1 million) consisted of interest income of $0.4 million (2018 - $0.8 million), dividend income paid to the Company from the Arena FINCOs (as hereinafter defined) of $3.8 million (2018 - $nil), and advisory fees of $0.3 million (2018 - $0.3 million).

Net results of investments were a loss of $14.4 million for the three months ended December 31, 2019 (2018 - gain of $2.4 million), consisting of an unrealized loss from the Company's investments in private entities of $10.4 million less dividends paid to the Company of $3.8 million (2018 - gains of $1.8 million less dividends of $nil), an unrealized gain on other investments of $nil million (2018 - $0.1 million) and the Company's share of loss of its associates (as hereinafter defined) of $0.2 million (2018 - profit of $0.5 million).

Net expenses for the three months ended December 31, 2019 of $2.2 million (2018 - net recovery of expenses of $3.2 million) consisted of salaries and benefits of $1.0 million (2018 - $0.9 million), general, administrative and other expenses of $0.1 million (2018 - $nil), professional fees of $0.2 million (2018 - $0.1 million), site restoration provision recovery of $1.4 million (2018 - provision of $0.5 million), share-based compensation of $0.8 million (2018 - recovery of $0.9 million), a foreign exchange loss of $0.6 million (2018 - gain of $0.8 million), interest on preferred securities of $0.5 million (2018 - $0.5 million) and an unrealized loss resulting from a change in the fair value of the vested Warrants (as hereinafter defined) of $0.4 million (2018 - gain of $3.5 million).

The Company reported income tax expense for the three months ended December 31, 2019 of $0.9 million (2018 - $nil).

<u>Years ended December 31, 2019 and 2018</u>

The Company reported a profit and comprehensive income of $8.6 million for the year ended December 31, 2019 (2018 - $16.9 million).

(Currency amounts in United States dollars unless otherwise indicated)

2. OVERVIEW OF PERFORMANCE (continued)

Revenue for the year ended December 31, 2019 of $9.2 million (2018 - $4.5 million) consisted of interest income of $2.1 million (2018 - $3.1 million), dividend income paid to the Company from the Arena FINCOs of $4.7 million (2018 - $nil) and advisory fees of $2.4 million (2018 - $1.4 million).

Net results of investments were a gain of $10.2 million for the year ended December 31, 2019 (2018 - $16.5 million), consisting of unrealized gains from the Company's investments in private entities of $14.7 million less dividends paid to the Company of $4.7 million (2018 - $17.5 million less dividends of $nil), an unrealized gain on other investments of $0.2 million (2018 - $0.2 million) and the Company's share of loss of its associates (as hereinafter defined) of $nil (2018 - $1.2 million).

Net expenses for the year ended December 31, 2019 of $9.9 million (2018 - $4.1 million) consisted of salaries and benefits of $3.7 million (2018 - $3.7 million), general, administrative and other expenses of $1.0 million (2018 - $0.9 million), professional fees of $1.0 million (2018 - $0.9 million), site restoration provision of $0.3 million (2018 - $0.1 million), share-based compensation of $1.5 million (2018 - $1.6 million), a foreign exchange loss of $1.1 million (2018 – gain of $1.2 million), interest on preferred securities of $1.9 million (2018 - $1.9 million) and an unrealized gain resulting from a change in the fair value of the vested Warrants (as hereinafter defined) of $0.6 million (2018 - $3.8 million).

The Company reported income tax expense for the year ended December 31, 2019 of $0.9 million (2018 - $nil).

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, 2019	Ownership interest as at December 31, 2018[1]
Investments in private entities:				
- HIIG Partnership	Ontario, Canada	Ontario, Canada	62.0% owned by the Company[2]	58.5% owned by the Company
- Arena FINCOs (as hereinafter defined)	Ontario, Canada/ Delaware, U.S.[3]	Ontario, Canada/ New York, U.S.[3]	100% owned by the Company	100% owned by the Company
Investment in associates:				
- Arena Investors (as hereinafter defined)	Delaware, U.S.	New York, U.S.	51% beneficially owned the Company [4]	51% beneficially owned the Company [4]

[1] Adjusted to conform to the presentation of the current year.

[2] On July 1, 2019, HIIG Partnership units held by certain unitholders were redeemed in accordance with the terms of the HIIG Partnership and exchanged for shares of HIIG resulting in an increase in the Company's ownership interest in the HIIG Partnership from 58.5% to 62.0% and a decrease in the HIIG Partnership's ownership of HIIG shares from 75.1% to 71.0%. The Company's indirect ownership of HIIG (through the HIIG Partnership) remained unchanged at approximately 44.0%.

[3] In 2019, the Arena FINCOs' Canadian entity was dissolved and two new entities were established in Delaware, U.S with the principal place of business in New York, U.S.

[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 ("BP LLC") described below 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 26, 2020 for its fiscal year ended December 31, 2019 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 holding company that underwrites select property, casualty, surety, and accident and health insurance coverages through its insurance subsidiaries. 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.

3. INVESTMENTS (continued)

Arena Group

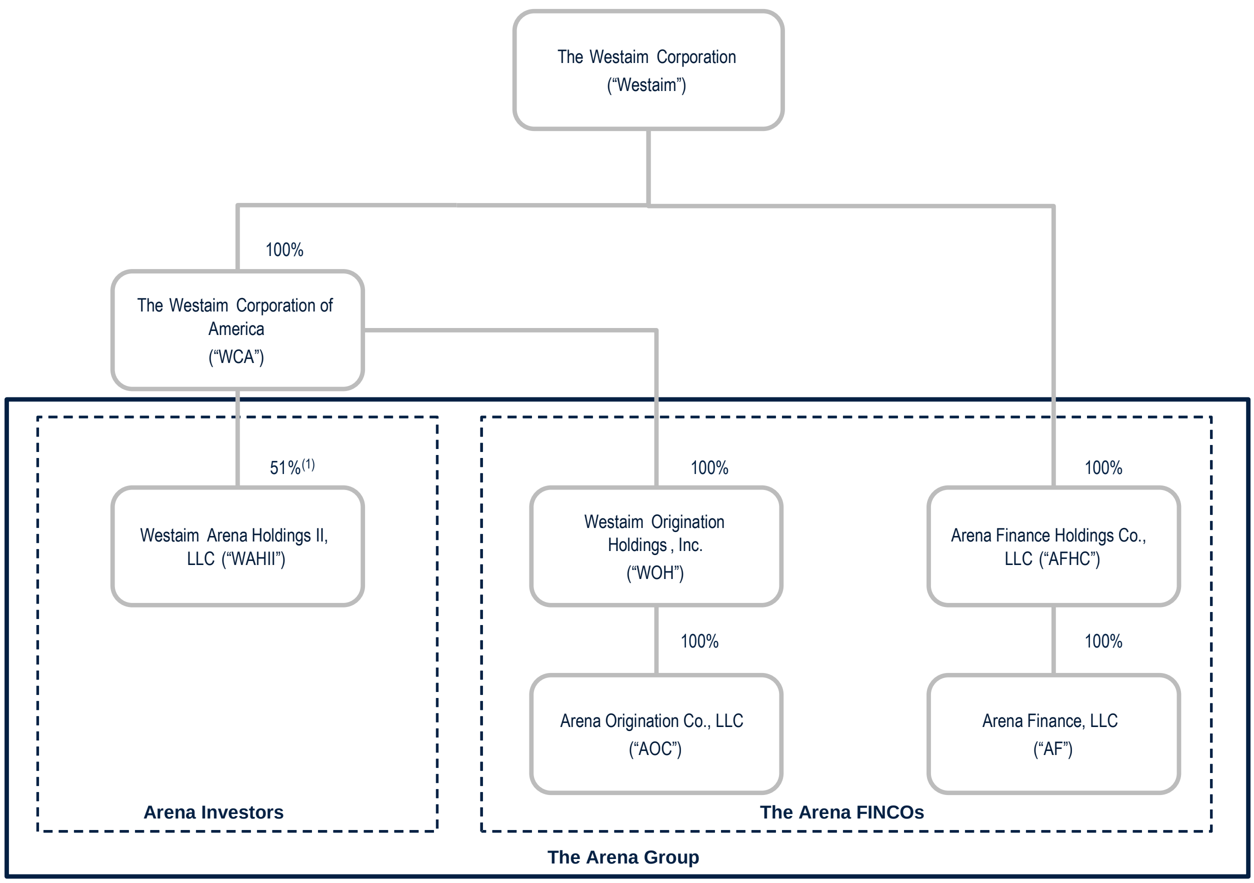
The Arena Group consists of the following businesses:

- **Arena Investors** – Westaim Arena Holdings II, LLC ("WAHII"), through its subsidiaries, operates as an investment manager offering clients access to fundamentals-based, asset-oriented credit investments. In 2018, Arena Investors included the Company's investment in WAHII, ASOF-ON GP, and ASOF-OFF II GP. Effective January 1, 2019, the Company and BP LLC, transferred their interests in ASOF-ON GP and ASOF-OFF II GP, respectively to WAHII. 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. The Company's investment in Arena Investors is accounted for using the equity method and consists of investments in corporations or limited partnerships where the Company has significant influence.

- **The Arena FINCOs** – The Arena FINCOs include specialty finance companies that primarily purchase fundamentals-based, asset-oriented credit investments for their own account and a company that facilitates the origination of fundamentals-based, asset-oriented credit investments for its own account and/or possible future sale to specialty finance companies, clients of Arena Investors and/or other third parties. The Company's investments in the Arena FINCOs are recorded as investments in private entities included under investments in the Company's consolidated financial statements.

Arena Investors and the Arena FINCOs 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 BP LLC described under "Investment in the Arena Group - Arena Investors".

3. INVESTMENTS (continued)

For a detailed discussion of the business of the Arena Group, see the Company's Annual Information Form dated March 26, 2020 for its fiscal year ended December 31, 2019 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) and the Arena FINCOs.

The Company 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, 2019 and 2018, 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, 2019 and 2018.

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:

	Three months ended December 31, 2019						Three months ended December 31, 2018[1]		
(millions)	Opening Balance	Additions - Equity	Repayment of term loan	Unrealized gain/(loss) before dividends	Dividends paid	Ending balance	Opening balance	Unrealized gain/(loss)	Ending Balance
Investments in private entities:									
- HIIG Partnership	$ 178.1	$ -	$ -	$ (13.1)	$ -	$ 165.0	$ 162.8	$ (0.7)	$ 162.1
- Arena FINCOs [2]	206.9	-	-	2.7	(3.8)	205.8	196.2	2.5	198.7
	$ 385.0	$ -	$ -	$ (10.4)	$ (3.8)	$ 370.8	$ 359.0	$ 1.8	$ 360.8

[1] Adjusted to conform to the presentation of the current year.
[2] Prior to January 1, 2019, ownership subject to the vesting and conversion of Class M units held by BP LLC described under "Investment in the Arena Group – The Arena FINCOs". On December 31, 2018, the Company redeemed all M units.

	Year ended December 31, 2019						Year ended December 31, 2018[1]		
(millions)	Opening Balance	Additions - Equity	Repayment of term loan	Unrealized gain before dividends	Dividends paid	Ending balance	Opening balance	Unrealized gain/(loss)	Ending Balance
Investments in private entities:									
- HIIG Partnership	$ 162.1	$ -	$ -	$ 2.9	$ -	$ 165.0	$ 157.1	$ 5.0	$ 162.1
- Arena FINCOs [2]	198.7	10.0	(10.0)	11.8	(4.7)	205.8	186.2	12.5	198.7
	$ 360.8	$ 10.0	$ (10.0)	$ 14.7	$ (4.7)	$ 370.8	$ 343.3	$ 17.5	$ 360.8

[1] Adjusted to conform to the presentation of the current year.
[2] Prior to January 1, 2019, ownership subject to the vesting and conversion of Class M units held by BP LLC described under "Investment in the Arena Group – The Arena FINCOs". 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 2019	Three months ended December 31 2018	Year ended December 31 2019	Year ended December 31 2018
Investment in associates				
Opening balance	$ 12.5	$ 9.3	$ 10.6	$ 8.0
Additions – Arena Investors Revolving Loan (as hereinafter defined)	-	0.8	1.7	3.8
Share of gain (loss)	(0.2)	0.5	-	(1.2)
Ending balance	$ 12.3	$ 10.6	$ 12.3	$ 10.6

A. INVESTMENT IN HIIG

At December 31, 2019, the HIIG Partnership owned approximately 71.0% of the common shares of HIIG ("HIIG Shares"). The Company owned approximately 62.0% of the HIIG Partnership, representing an approximate 44.0% indirect ownership interest in HIIG.

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

3. INVESTMENTS (continued)

(i) Fair Value

The investment in HIIG (through the HIIG Partnership) is accounted for at FVTPL. The fair value of the Company's investment in the HIIG Partnership was determined to be $165.0 million at December 31, 2019 and $162.1 million at December 31, 2018.

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 $165.0 million at December 31, 2019. The fair value of the HIIG Partnership at December 31, 2019 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, 2019. 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, 2019 and 2018, given that this is the valuation technique which a market participant would employ.

On February 25, 2020 HIIG executed a commitment letter to enter into a loss portfolio transfer ("LPT") reinsurance agreement. Pursuant to the commitment letter, HIIG agreed to cede $118.8 million of net claim reserves for certain divisions, primarily related to 2017 and prior policy years. The LPT provides reinsurance protection of approximately $127.4 million above the net ceded claim reserves and is subject to co-participations at specified amounts. The LPT is expected to result in a pretax charge and after tax charge of approximately $43.5 million and $34.4 million, respectively, in the first half of 2020. Completion of the transaction, is subject to, among other things, regulatory approvals and satisfaction of various other customary closing conditions.

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, 2019 and 2018. In determining the adjusted book value of HIIG, the after tax charge of the LPT was deducted from the book value of HIIG as at December 31, 2019. The adjusted book value of HIIG as at December 31, 2019 reflected 100% of HIIG stockholders' equity obtained from the audited financial statements of HIIG prepared in accordance with US GAAP, adjusted for the after tax charge of the LPT and 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), and the valuation of goodwill and other intangible assets.

Management considers other secondary valuation methodologies as a way to ensure no significant contradictory evidence exists that would suggest an adjustment to the fair value as determined by the primary valuation methodology used. In order to do this, the Company may also consider valuation techniques including the discounted cash flow method, the review of comparable arm's length transactions involving other specialty 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 $13.1 million and $0.7 million in the three months ended December 31, 2019 and 2018, respectively, and an unrealized gain of $2.9 million and $5.0 million in the years ended December 31, 2019 and 2018, respectively, on its investment in the HIIG Partnership.

(ii) Select Financial Information of HIIG for the years ended December 31, 2019 and 2018

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 LAE, net policy acquisition expenses and 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 fourth quarter of 2019, 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 self-funded medical programs for 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 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.

3. INVESTMENTS (continued)

- Specialty - niche business of generally unusual or difficult risks and business specific to certain industries or professions requiring underwriters with more specific knowledge and expertise.
- Non-continuing lines - represent lines of business no longer actively underwritten by HIIG.

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 condensed financial statements of HIIG for the years ended December 31, 2019 and 2018 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)	Three months ended December 31		Years ended December 31	
(millions except for percentage)	2019	2018[1]	2019	2018[1]
Income Statement				
Gross written premiums	$ 185.3	$ 179.7	$ 878.3	$ 696.9
Net written premiums	$ 90.3	$ 78.8	$ 421.7	$ 300.5
Net earned premiums	$ 111.6	$ 74.4	$ 385.1	$ 277.6
Net income	$ 8.0	$ 3.9	$ 32.3	$ 20.9
Combined ratio	96.9%	106.6%	98.4%	99.5%
Select Information				
Gross written premiums:				
Commercial	$ 53.8	$ 48.8	$ 247.1	$ 164.4
Specialty	46.3	49.5	255.4	195.9
Excess & Surplus	57.6	57.4	264.0	247.3
Accident and Health	27.6	22.4	111.4	84.3
Non-continuing lines	-	1.6	0.4	5.0
	$ 185.3	$ 179.7	$ 878.3	$ 696.9
Net written premiums:				
Commercial	$ 29.9	$ 26.9	$ 136.1	$ 92.0
Specialty	27.4	25.5	137.7	91.0
Excess & Surplus	22.4	18.0	105.3	86.4
Accident and Health	10.6	7.4	42.2	28.3
Non-continuing lines	-	1.0	0.4	2.8
	$ 90.3	$ 78.8	$ 421.7	$ 300.5
Net earned premiums:				
Commercial	$ 38.6	$ 22.3	$ 124.4	$ 78.6
Specialty	36.2	21.6	119.9	83.6
Excess & Surplus	26.1	21.1	95.1	83.0
Accident and Health	10.6	7.4	42.2	28.3
Non-continuing lines	0.1	2.0	3.5	4.1
	$ 111.6	$ 74.4	$ 385.1	$ 277.6
Net Loss and LAE Ratio:				
Commercial	73.1%	76.1%	73.6%	69.6%
Specialty	63.7%	78.1%	66.4%	65.8%
Excess & Surplus	72.8%	85.8%	66.6%	69.7%
Accident and Health	107.6%	76.5%	96.7%	76.3%
Non-continuing lines	n.m.[2]	n.m.[2]	n.m.[2]	n.m.[2]
	73.5%	80.2%	73.0%	70.8%
Balance Sheet Information	December 31, 2019	December 31, 2018		
Investments, cash and cash equivalents	$ 797.7	$ 624.3		
Stockholders' equity	$ 370.2	$ 329.9		

[1] Adjusted to conform to the presentation of the current year.
[2] Not material or meaningful, but included in aggregate numbers.

3. INVESTMENTS (continued)

Gross written premiums - Gross written premiums were $185.3 million for the three months ended December 31, 2019 compared to $179.7 million for the three months ended December 31, 2018, an increase of 3.1%, and $878.3 million for the year ended December 31, 2019 compared to $696.9 million for the year ended December 31, 2018, an increase of 26.0%. The increase in gross written premiums in the three months and year ended December 31, 2019 compared to the same periods in the prior year was driven primarily by growth in the Commercial and Accident and Health segments. The Specialty and Excess and Surplus did not have growth in the three months ended December 31, 2019, but did contribute to the increase for the full year ended December 31, 2019.

Net written premiums - Net written premiums were $90.3 million for the three months ended December 31, 2019 compared to $78.8 million for the three months ended December 31, 2018, an increase of 14.5%, and $421.7 million for the year ended December 31, 2019 compared to $300.5 million for the year ended December 31, 2018, an increase of 40.3%, resulting from the growth in gross written premiums and an increase in HIIG's net retention.

Net earned premiums - Net earned premiums were $111.6 million for the three months ended December 31, 2019 compared to $74.4 million for the three months ended December 31, 2018, an increase of 50.0%, and $385.1 million for the year ended December 31, 2019 compared to $277.6 million for the year ended December 31, 2018, an increase of 38.7%. The increase in net earned premiums was due to HIIG's net written premium growth over the past 24 months.

Overall net loss and LAE ratio - The overall net loss and LAE ratio was 73.5% for the three months ended December 31, 2019 compared to 80.2% for the same period in the prior year, and 73.0% for the year ended December 31, 2019 compared to 70.8% 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 $nil and $13.9 million in the three months and year ended December 31, 2019, respectively, compared to $5.0 million and $5.8 million in the three months and year ended December 31, 2018, respectively.

Net adverse (favourable) development (unaudited) (millions)	Three months ended December 31 2019	Three months ended December 31 2018[1]	Year ended December 31 2019	Year ended December 31 2018[1]
Commercial	$ -	$ 0.8	$ 6.1	$ (0.1)
Specialty	-	2.4	2.7	3.5
Excess & Surplus	-	1.4	0.4	1.2
Accident and Health	-	-	2.0	-
Non-continuing lines	-	0.4	2.7	1.2
	$ -	$ 5.0	$ 13.9	$ 5.8

[1] Adjusted to conform to the presentation of the current year.

Operating results (all amounts net of income tax) - HIIG recorded net income of $8.0 million for the three months ended December 31, 2019 compared to $3.9 million for the three months ended December 31, 2018, and net income of $32.3 million for the year ended December 31, 2019 compared to $20.9 million for the year ended December 31, 2018. The increase for the year ended December 31, 2019 of $11.4 million in net income was primarily attributable to higher investment income of $11.1 million and a higher underwriting result of $3.9 million, which was partially offset by a decrease in income from strategic investments of $2.7 million and higher interest and other expenses of $0.9 million. Investment income included reporting the changes in fair value of equity securities for the period as part of the operating result following the adoption of US GAAP standard ASU 2016-01.

Stockholders' equity - HIIG stockholders' equity increased to $370.2 million at December 31, 2019 from $329.9 million at December 31, 2018. The increase of $40.3 million resulted from HIIG's net income for the period of $32.3 million and a favourable change in the fair value of investments recorded under accumulated other comprehensive income, net of income tax of $8.0 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 and Industrial Assets
Commercial receivables, investments in entities (including start-up businesses) engaged, or to be engaged, in activities or investments such as distressed commercial and industrial loans, commercial and industrial assets such as small-scale asset-based loans, trade claims and vendor puts, specialized or other types of equipment leases and machinery, non-performing loans globally, hard assets (including airplanes and components, industrial machinery), commodities (physical and synthetic), reinsurance and premium finance within life and property casualty insurance businesses, legal-related finance including law firm loans, settled and appellate judgments and probate finance, royalties, trust certificates, intellectual property and other financial instruments that provide for the contractual or conditional payment of an obligation.

Structured Finance 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, 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.

The Arena FINCOs

The Arena FINCOs include specialty finance companies that primarily purchase fundamentals-based, asset-oriented credit investments for their own account and a company that facilitates the origination of fundamentals-based, asset-oriented credit investments for its own account and/or possible future sale to specialty finance companies, clients of Arena Investors and/or other third parties. This company 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. The Arena FINCOs do not have a target range of investment; the size of the loans and/or other credit investments acquired depends on, among other things, any diversity requirements which may be imposed by any lender as well as their own investment policy. In the absence of such requirements, the Arena FINCOs are not subject to concentration limitations but the management of the Arena FINCOs will use their best judgment as to what is prudent in the circumstances.

The Arena FINCOs seek to capitalize on opportunities in both private and public investments subject to its investment policy.

3. INVESTMENTS (continued)

Before acquiring or originating any such loans or other investments, the Arena FINCOs review 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. The Arena FINCOs originate and/or acquire such loans or investments based on its assessment of the fair market value of the investment at the time of purchase.

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$50 million to the Arena FINCOs (the "Arena FINCOs Demand Loan") on market terms. The Arena FINCOs Demand Loan was denominated in C$, repayable on demand (with a final repayment date not later than June 9, 2022) and secured by the assets of the Arena FINCOs. The Arena FINCOs Demand Loan carried 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 was due at the end of each calendar quarter. At December 31, 2018, C$30 million in principal repayments had been made by the Arena FINCOs and on May 9, 2019 and September 4, 2019, the Arena FINCOs made principal repayments of C$2.4 million and C$17.6 million, respectively, resulting in an outstanding loan of C$nil to the Arena FINCOs at December 31, 2019 (C$20 million to the Arena FINCOs at December 31, 2018). The Arena FINCOs Demand Loan was translated into US$ at rates of exchange at the end of each reporting period and any resulting unrealized foreign exchange gain or loss was included in the consolidated statements of profit and comprehensive income. At December 31, 2019 and 2018, the US$ converted value of the Arena FINCOs Demand Loan was $nil and $14.7 million, respectively. The Company recorded a foreign exchange gain relating to the Arena FINCOs Demand Loan of $nil and $0.3 million for the three months and year ended December 31, 2019, respectively and a foreign exchange loss relating to the Arena FINCOs Demand Loan of $1.0 million and $1.7 million for the three months and year ended December 31, 2018, respectively. The Arena FINCOs used the loan proceeds for investment purposes.

In connection with the original capitalization of the Arena FINCOs, the Company granted a term loan (the "Arena FINCOs Term Loan") with a balance of $10 million at December 31, 2018. The Arena FINCOs Term Loan had a seven year term to August 31, 2022, was unsecured and carried interest at a rate of 7.25% per annum, with interest due on January 1 of each year during the term. On April 1, 2019, the Company converted the Arena FINCOs Term Loan of $10 million into additional common shares of WOH and as a result the balance of the 7.25% Arena FINCOs Term Loan was $nil at December 31, 2019 (December 31, 2018 - $10 million).

The primary revenue of the Arena FINCOs consists of interest income, dividend income and/or investment-related fees earned on the credit investments that it originates or acquires. The operating results of the Arena FINCOs also include gains (losses) on its investments.

The Arena FINCOs paid cash dividends to Westaim in the amount of $3.7 million and $4.6 million in the three months and year ended December 31, 2019, respectively, and paid a dividend in kind in the amount of $0.1 million for each of the three months and year ended December 31, 2019, resulting in a decrease in the Company's carrying value of the Arena FINCOs. No dividends were paid in the three months and year ended December 31, 2018.

<u>Rights Granted to BP LLC</u>

Each of AOC and AFHC is governed by the terms of a limited liability company agreement, originally dated August 31, 2015, as amended from time to time, between Bernard Partners, LLC ("BP LLC"), a limited liability company controlled by certain members of the Arena Group management team, and a wholly-owned subsidiary of the Company setting forth the rights and obligations each of BP LLC and the Company (through its relevant subsidiary) as members of each of AOC and AFHC. Under each such agreement, BP LLC was issued Class M units which were 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 each of AOC and AFHC. The Class M units were to vest equally over 5 years from August 31, 2015 and carry escalating conversion prices in excess of the price paid by the Company for its investment in AOC and AFHC. On December 31, 2018, the Company through AOC and AFHC redeemed all Class M units of each of AOC and AFHC outstanding for the aggregate "in the money" amount of $0.7 million and this amount was recorded as a liability on the financial statements of the Arena FINCOs at December 31, 2018 and therefore reflected in their fair value. The liability of $0.7 million was paid to BP LLC on March 27, 2019.

<u>Accounting for the Arena FINCOs</u>

The Company's investments in the Arena FINCOs are accounted for at FVTPL and are included in investments in private entities. The fair value of the Company's investments in the Arena FINCOs was determined to be $205.8 million and $198.7 million at December 31, 2019 and 2018, respectively.

Management used net asset value as the primary valuation technique and arrived at the fair value of the Company's investments in the Arena FINCOs of $205.8 million at December 31, 2019. 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 the Arena FINCOs at December 31, 2019, in the amount of $205.8 million approximated the fair value of the Company's investments in the Arena FINCOs. The Company's investments in the Arena FINCOs are composed largely of cash and cash equivalents and investments, carried at fair value at December 31, 2019. This same valuation technique was also used to determine the fair value of the Company's investments in the Arena FINCOs of $198.7 million at December 31, 2018.

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 investments in the Arena FINCOs at the end of each reporting period.

The Company recorded an unrealized gain on its investments in the Arena FINCOs of $2.7 million before dividends paid to the Company of $3.8 million in the three months ended December 31, 2019 and an unrealized gain of $2.5 million in the three months ended December 31, 2018. There were no dividends paid in the three months ended 31, 2018. In the year ended December 31, 2019, the Company recorded an unrealized gain on its investments in the Arena FINCOs of $11.8 million before dividends paid to the Company of $4.7 million and in the year ended December 31, 2018, the Company recorded an unrealized gain of $12.5 million. No dividends were paid in the year ended December 31, 2018.

Select Financial Information of the Arena FINCOs

The Company considers certain financial results of the Arena FINCOs 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 the Arena FINCOs set out below is unaudited and has been derived from the financial statements of WOH, Arena Origination Co., LLC ("AOC"), Arena Finance Holdings Co., LLC ("AFHC") and the consolidated financial statements of Arena Finance, LLC ("AF") and its subsidiaries for the three months and years ended December 31, 2019 and 2018, which have been prepared in accordance with IFRS or US GAAP. Such statements are the responsibility of the management of the Arena FINCOs. 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 the Arena FINCOs is as follows:

(unaudited)	December 31, 2019		December 31, 2018[1]	
(millions except for percentage)	Fair value	Percentage of net assets at fair value	Fair value	Percentage of net assets at fair value
Cash and cash equivalents	$ 8.6	4.2%	$ 24.3	12.2%
Due from brokers, net	1.6	0.8%	4.3	2.2%
Investments:				
Loans / Private assets	167.6	81.4%	177.7	89.4%
Other Securities	21.5	10.4%	10.3	5.2%
	189.1	91.8%	188.0	94.6%
Arena FINCOs Demand Loan payable to the Company	-	-	(14.7)	(7.4)%
Other net assets (liabilities)	6.5	3.2%	(3.2)	(1.6)%
Net assets of the Arena FINCOs	$ 205.8	100.0%	$ 198.7	100.0%

[1] Adjusted to conform to the presentation of the current year.

Due from brokers consists of cash balances as well as net amounts due from brokers for unsettled securities transactions. Investment securities are net of short positions. In the normal course of the Arena FINCOs' operations, the Arena FINCOs enter into currency hedges to reduce its currency exposure.

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

3. INVESTMENTS (continued)

A summary of the operating results of the Arena FINCOs attributable to the Company is as follows:

(unaudited) (millions)	Three months ended December 31 2019	2018[1]	Year ended December 31 2019	2018[1]
Net operating results of the Arena FINCOs:				
Investment income, net	$ 5.6	$ 6.0	$ 19.7	$ 19.4
Net gains (losses) on investments	(0.6)	(0.5)	3.9	5.2
Operating expenses:				
Management and asset servicing fees	(1.3)	-	(5.0)	-
Incentive fees	(0.3)	-	(1.5)	-
Administrative fees	-	(1.2)	-	(5.8)
Interest expense on the Arena FINCOs Demand Loan paid to the Company	-	(0.3)	(0.7)	(1.4)
Deal expenses and other operating expenses	(0.7)	(0.6)	(2.7)	(2.4)
	2.7	3.4	13.7	15.0
Operating income attributable to BP LLC's Class M units	-	0.1	-	0.6
Operating income attributable to the Company's Class A units	2.7	3.3	13.7	14.4
Arena FINCOs holding companies' expenses:				
Advisory fees paid to the Company	-	(0.1)	(1.3)	(0.4)
Interest expense on the Arena FINCOs term loan paid to the Company	-	(0.2)	(0.2)	(0.7)
Other expenses	-	(0.2)	-	(0.2)
Income tax expense	-	(0.3)	(0.4)	(0.6)
	-	(0.8)	(1.9)	(1.9)
Net operating results of the Arena FINCOs	$ 2.7	$ 2.5	$ 11.8	$ 12.5

[1] Adjusted to conform to the presentation of the current year.

The Net Return on the investment portfolios of the Arena FINCOs was 1.3% and 7.0% for the three months and year ended December 31, 2019, respectively and 1.7% and 8.1% for the three months and year ended December 31, 2018, respectively. See Section 15, *Non-GAAP Measures* of this MD&A.

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

(unaudited) (millions)	Three months ended December 31 2019	2018	Year ended December 31 2019	2018
Carrying value of the Arena FINCOs:				
Opening balance	$ 206.9	$ 196.2	$ 198.7	$ 186.2
Unrealized gain before dividends	2.7	2.5	11.8	12.5
Dividends paid to the Company	(3.8)	-	(4.7)	-
Ending balance	$ 205.8	$ 198.7	$ 205.8	$ 198.7

Arena Investors

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.

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", preferred return 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 portfolios.

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.

As of December 31, 2019, the Arena Group had committed AUM of approximately $1.3 billion. The committed AUM included the net assets of the Arena FINCOs totaling $206 million. As of December 31, 2018, the Arena Group had committed AUM of approximately $1.0 billion. The committed AUM included the net assets of the Arena FINCOs totaling $199 million.

Rights Granted to BP LLC

On August 31, 2015, agreements were entered into between the Company and BP LLC in respect of WAHII (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 to thereby 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 WAHII Associate Agreement.

Accounting for Arena Investors

On March 6, 2019, the Company amended a revolving loan facility to the associates (the "Arena Investors' Revolving Loan") from the limit of $20 million to $25 million in order to continue funding growth initiatives and working capital needs of Arena Investors. The loan facility had a term of 36 months to December 21, 2020, which has been extended to March 31, 2023 and bears interest at a rate of 5.25% per annum. Arena Investors had drawn down the loan facility by $20.0 million at December 31, 2019 and $18.3 million at December 31, 2018. The loan facility is secured by all the assets of Arena Investors.

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 $12.3 million and $10.6 million at December 31, 2019 and 2018, respectively. The total of the Company's 51% share of loss of $0.2 million and share of profit of $0.5 million for the three months ended December 31, 2019 and 2018, respectively, and share of loss of $nil and $1.2 million in the year ended December 31, 2019 and 2018, 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, 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 for the three months and year ended December 31, 2019 and from the financial statements of WAHII, ASOF-ON GP and ASOF-OFF II GP for the three months and year ended December 31, 2018, 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.

3. INVESTMENTS (continued)

Select financial information of Arena Investors is as follows:

Statement of Financial Position

(unaudited) (millions)	December 31, 2019	December 31, 2018[1]
Cash and cash equivalents	$ 1.6	$ 1.0
Restricted cash	6.5	5.1
Arena Investors' Revolving Loan from the Company	(20.0)	(18.3)
Other net liabilities	(3.5)	(3.0)
Net liabilities	$ (15.4)	$ (15.2)
Company's share	$ (7.7)	$ (7.7)
Arena Investors' Revolving Loan from the Company	20.0	18.3
Carrying amount of the Company's investment in associates	$ 12.3	$ 10.6

[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)

(unaudited)	Three months ended December 31		Year ended December 31	
(millions)	2019	2018[1,2]	2019	2018[1,2]
Management and asset servicing fees	$ 4.9	$ 2.9	$ 18.7	$ 9.4
Incentive fees	2.4	1.7	9.6	5.8
Administrative fees	-	1.3	-	5.9
Net gains on investments	0.1	-	0.3	0.2
Total revenue	7.4	5.9	28.6	21.3
Salaries and benefits	(5.4)	(2.7)	(20.6)	(16.5)
Professional fees	(1.1)	(0.8)	(3.7)	(2.9)
General, administration and other expenses	(1.2)	(1.0)	(3.5)	(3.2)
Interest expense on the Revolving Loan from the Company	(0.2)	(0.3)	(1.0)	(0.9)
Total expenses	(7.9)	(4.8)	(28.8)	(23.5)
Profit (loss) and comprehensive profit (loss)	$ (0.5)	$ 1.1	$ (0.2)	$ (2.2)
Company's share of profit (loss) of associates (51%)	$ (0.2)	$ 0.5	$ -	$ (1.2)

[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] Adjusted to conform to the presentation of the current year.

The management, asset servicing and incentive fees were generated from the various segregated client accounts and managed funds of Arena Investors. Effective January 1, 2019, investment management fees, asset servicing fees and incentive fees replaced administrative fees that were charged to the Arena FINCOs in 2018 and prior years.

C. Other Investments

The Company's investment in ASOF LP, a fund managed by Arena Investors, LP, with a fair value of $2.7 million at December 31, 2019 and $2.5 million at December 31, 2018, is included in investments in the consolidated statements of financial position. The Company's unrealized gain on its investment in ASOF LP was $nil and $0.2 million in the three months and year ended December 31, 2019, respectively and $0.1 million and $0.2 million in the three months and year ended December 31, 2018, respectively.

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").

4. FINANCING (continued)

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, 2019 and 2018.

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, 2019 and 2018, the US$ converted amount of the Preferred Securities was $38.5 million and $36.6 million, respectively. The Company recorded an unrealized foreign exchange loss of $0.8 million and $1.9 million relating to the Preferred Securities in the three months and year ended December 31, 2019, respectively, and an unrealized foreign exchange gains of $2.1 million and $3.3 million in the three months and year ended December 31, 2018, respectively. The carrying amount of the Preferred Securities approximated fair value at December 31, 2019.

Interest on the Preferred Securities amounted to $0.5 million and $1.9 million in the three months and year ended December 31, 2019, respectively, and $0.5 million and $1.9 million the three months and year ended December 31, 2018, respectively. At December 31, 2019, interest of $0.5 million (December 31, 2018 - $0.5 million) was accrued in the consolidated statements of financial position.

Foreign Currency Forward Contract

On December 20, 2018, the Company entered into a Canadian dollar currency forward contract to sell $26.3 million and buy C$35 million to manage the Canadian dollar currency exposures, including the currency exposure arising from the Preferred Securities. The contract matured on December 20, 2019 and resulted in a realized foreign exchange gain of $0.4 million. On December 20, 2019, the Company entered into a new Canadian dollar currency forward contract to sell $30.6 million and buy C$40 million to manage the Canadian dollar currency exposures, including the currency exposure arising from the Preferred Securities. The contract has a term to maturity of three months and may be renewed at market rates. The Company has not designated these Canadian dollar currency forward contracts as accounting hedges. A gain was accrued on the Canadian dollar currency forward contract in the amount of $0.3 million at December 31, 2019 and was recorded under other assets in the consolidated statements of financial position. A loss was accrued on the Canadian dollar currency forward contract in the amount of $0.6 million at December 31, 2018 and was recorded under accounts payable and accrued liabilities in the consolidated statements of financial position. A gain on the Canadian dollar currency forward contract in the amount of $0.5 million and $1.3 million in the three months and year ended December 31, 2019, respectively, and losses on the Canadian dollar currency forward contract in the amount of $1.2 million and $1.7 million in the three months and year ended December 31, 2018, respectively, was recorded under foreign exchange in the consolidated statements of profit and comprehensive income. In connection with Canadian dollar currency 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 $3.0 million (December 31, 2018 - $4.4 million) as security. The security shall remain in effect for the duration of the outstanding foreign exchange forward contract.

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.

4. FINANCING (continued)

Changes to the derivative warrant liability are as follows:

	Three months ended December 31		Year ended December 31	
(millions)	2019	2018	2019	2018
Opening balance	$ 1.5	$ 6.2	$ 2.4	$ 6.7
Change in fair value – (gain)	0.4	(3.5)	(0.6)	(3.8)
Unrealized foreign exchange loss (gain)	-	(0.3)	0.1	(0.5)
Ending balance	$ 1.9	$ 2.4	$ 1.9	$ 2.4

At December 31, 2019 and 2018, a liability of $1.9 million and $2.4 million, respectively, had been recognized with respect to the vested Warrants in the consolidated statements of financial position. The Company recognized an unrealized loss of $0.4 million and an unrealized gain of $0.6 million in the three months and year ended December 31, 2019, and unrealized gains of $3.5 million and $3.8 million in the three months and year ended December 31, 2018, respectively, resulting from a change in the fair value of the vested Warrants. The Company also recorded unrealized foreign exchange losses with respect to the vested Warrants of $nil and $0.1 million in the three months and year ended December 31, 2019, respectively, and unrealized foreign exchange gains of $0.3 million and $0.5 million in the three months and year ended December 31, 2018, respectively, under foreign exchange in the consolidated statements of profit and comprehensive income.

The fair value of the vested Warrants at December 31, 2019 of $1.9 million (December 31, 2018 - $2.4 million) was estimated using the Monte Carlo pricing model assuming no dividends are paid on the common shares, a risk-free interest rate of 1.69% (December 31, 2018 - 1.87%), an expiration date between January 1, 2020 and June 2, 2024 (December 31, 2018: January 1, 2019 and June 2, 2024), a volatility of the underlying common shares of the Company of 23.23% (December 31, 2018 – 23.42%), a closing price of common shares of C$2.65 (December 31, 2018 - C$2.58) 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.

5. ANALYSIS OF FINANCIAL RESULTS

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

	Three months ended December 31		Year ended December 31	
(millions)	2019	2018	2019	2018
Revenue				
Interest income	$ 0.4	$ 0.8	$ 2.1	$ 3.1
Dividend income from investments in private entities	3.8	-	4.7	-
Advisory fee income	0.3	0.3	2.4	1.4
	$ 4.5	$ 1.1	$ 9.2	$ 4.5
Net results of investments	(14.4)	2.4	10.2	16.5
Expenses				
Salaries and benefits	(1.0)	(0.9)	(3.7)	(3.7)
General, administrative and other	(0.1)	-	(1.0)	(0.9)
Professional fees	(0.2)	(0.1)	(1.0)	(0.9)
Site restoration provision	1.4	(0.5)	(0.3)	(0.1)
Share-based compensation	(0.8)	0.9	(1.5)	(1.6)
Foreign exchange	(0.6)	0.8	(1.1)	1.2
Interest on preferred securities	(0.5)	(0.5)	(1.9)	(1.9)
Derivative warrants	(0.4)	3.5	0.6	3.8
	$ (2.2)	$ 3.2	$ (9.9)	$ (4.1)
Income tax expense	(0.9)	-	(0.9)	-
Profit (loss) and comprehensive income (loss)	$ (13.0)	$ 6.7	$ 8.6	$ 16.9

5.1 Revenue

In the three months ended December 31, 2019, the Company earned interest on loans made to the Arena Group of $0.2 million (2018 - $0.8 million) and dividends from the Arena Group of $3.8 million (2018 - $nil). In the same period, the Company earned advisory fees from HIIG of $0.1 million (2018 - $0.2 million) and from the Arena Group of $0.2 million (2018 - $0.1 million).

5. ANALYSIS OF FINANCIAL RESULTS (continued)

In the year ended December 31, 2019, the Company earned interest on loans made to the Arena Group of $1.9 million (2018 - $3.1 million) and dividends from the Arena Group of $4.7 million (2018 - $nil). In the same period, the Company earned advisory fees from HIIG of $0.8 million (2018 - $1.0 million) and from the Arena Group of $1.6 million (2018 - $0.4 million).

5.2 Net Results of Investments

In the three months ended December 31, 2019, the net results of investments consisted of an unrealized loss from the Company's investments in private entities of $10.4 million less dividends paid to the Company of $3.8 million (2018 – unrealized gain of $1.8 million less dividends of $nil), unrealized gains on other investments of $nil (2018 - $0.1 million) and the Company's share of loss of its associates of $0.2 million (2018 – share of gains of $0.5 million).

In the year ended December 31, 2019, the net results of investments consisted of unrealized gains from the Company's investments in private entities of $14.7 million less dividends paid to the Company of $4.7 million (2018 - $17.5 million less dividends of $nil), unrealized gains on other investments of $0.2 million (2018 - $0.2 million) and the Company's share of loss of its associates of $nil (2018 - $1.2 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, 2019, the Company recorded an unrealized loss of $13.1 million on its investment in the HIIG Partnership (2018 - $0.7 million), an unrealized gain of $2.7 million less dividends paid to the Company of $3.8 million on its investment in the Arena FINCOs (2018 - $2.5 million less dividends of $nil).

In the year ended December 31, 2019, the Company recorded an unrealized gain of $2.9 million on its investment in the HIIG Partnership (2018 - $5.0 million), an unrealized gain of $11.8 million less dividends paid to the Company of $4.7 million on its investment in the Arena FINCOs (2018 - $12.5 million less dividends of $nil).

Investment in Associates

The Company's investment in associates is accounted for using the equity method. In the three months ended December 31, 2019, the associates earned management and asset servicing fees of $4.9 million (2018 - $2.9 million), incentive fees of $2.4 million (2018 - $1.7 million), administrative fees of $nil (2018 - $1.3 million), net gains on investment of $0.1 million (2018 - $nil), offset by salaries and benefits of $5.4 million (2018 - $2.7 million), professional fees of $1.1 million (2018 - $0.8 million), general, administrative and other expenses of $1.2 million (2018 - $1.0 million), and interest expense on the Revolving Loan from the Company of $0.2 million (2018 - $0.3 million) resulting in a loss of $0.5 million (2018 - profit of $1.1 million).

In the year ended December 31, 2019, the associates earned management and asset servicing fees of $18.7 million (2018 - $9.4 million), incentive fees of $9.6 million (2018 - $5.8 million), administrative fees of $nil (2018 - $5.9 million), net gains on investment of $0.3 million, (2018 - $0.2 million), offset by salaries and benefits of $20.6 million (2018 - $16.5 million), professional fees of $3.7 million (2018 - $2.9 million), general, administrative and other expenses of $3.5 million (2018 - $3.2 million), and interest expense on the Revolving Loan from the Company of $1.0 million (2018 - $0.9 million) resulting in a loss of $0.2 million (2018 - $2.2 million).

The total of the Company's 51% share of loss of the associates amounted to $0.2 million and $nil in the three months and year ended December 31, 2019, respectively, and its share of profit of the associates amounted to $0.5 million and a share of loss of $1.2 million in the three months and year ended December 31, 2018, respectively.

5.3 *Expenses*

Salaries and benefits, general, administrative and other expenses and professional fees in the three months and year ended December 31, 2019 were comparable to the corresponding period in the prior year.

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.

5. ANALYSIS OF FINANCIAL RESULTS (continued)

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, 2019 also included compensation expense for stock options of $0.3 million (2018 - $0.5 million) and $1.0 million (2018 - $2.3 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 and revaluation of C$ foreign exchange forward contract 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, 2019 and 2018:

	Three months ended December 31		Year ended December 31	
(millions)	2019	2018	2019	2018
Foreign exchange gains (losses) relating to:				
- site restoration provision	$ (0.1)	$ 0.2	$ (0.2)	$ 0.3
- liabilities for RSUs and DSUs	(0.1)	0.5	(0.3)	0.7
- Preferred securities	(0.8)	2.1	(1.9)	3.3
- Arena FINCOs Demand Loan receivable	-	(1.0)	0.3	(1.7)
- derivative warrant liability	-	0.3	(0.1)	0.5
- foreign exchange forward contracts	0.5	(1.2)	1.3	(1.7)
- other	(0.1)	(0.1)	(0.2)	(0.2)
	$ (0.6)	$ 0.8	$ (1.1)	$ 1.2

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, 2019	December 31, 2018[1]
Assets		
Cash	$ 22.2	$ 7.8
Income tax receivable	0.4	-
Arena FINCOs Demand Loan receivable	-	14.7
Other assets	2.3	1.0
Investments	385.8	373.9
	$ 410.7	$ 397.4
Liabilities		
Accounts payable and accrued liabilities	$ 10.7	$ 9.6
Income tax payable	0.4	-
Preferred securities	38.5	36.6
Derivative warrant liability	1.9	2.4
Site restoration provision	4.1	3.6
Deferred tax liability	0.3	-
	55.9	52.2
Shareholders' equity	354.8	345.2
Total liabilities and shareholders' equity	$ 410.7	$ 397.4

[1] Adjusted to conform to the presentation of the current year.

6.1 Cash

At December 31, 2019, the Company had cash of $22.2 million compared to $7.8 million at December 31, 2018. At December 31, 2019 and 2018, cash consisted of cash on deposit, including restricted cash on deposit of $3.0 million and $4.4 million, respectively.

6. ANALYSIS OF FINANCIAL POSITION (continued)

6.2 Income Tax Receivable

At December 31, 2019, the Company had an income tax receivable due from the Canadian federal tax authority of $0.4 million compared to $nil million at December 31, 2018.

6.3 Loans Receivable

On June 9, 2017, the Company used the proceeds from the Fairfax financing to loan C$50.0 million to the Arena FINCOs on market terms. At December 31, 2018, C$30.0 million in principal repayments had been made by the Arena FINCOs and on May 9, 2019 and September 4, 2019, the Arena FINCOs made a principal repayment of C$2.3 million, and C$17.7 million respectively, resulting in an outstanding loan of C$nil to the Arena FINCOs at December 31, 2019 (C$20.0 million to the Arena FINCOs at December 31, 2018). For additional information on these loans, see discussion in Section 3, *Investments* of this MD&A. At December 31, 2019, the carrying amount of the loans totaled $nil (December 2018 - $14.7 million).

6.4 Other Assets

Other assets were $2.3 million and $1.0 million at December 31, 2019 and 2018, respectively. Other assets at December 31, 2019 included receivables from related parties of $1.1 million (December 31, 2018 - $0.7 million), right of use asset of $0.6 million (December 31, 2018 - $nil), capital assets of $nil (December 31, 2018 - $0.1 million), fair value of foreign exchange forward contract of $0.3 million (December 31, 2018 - $nil) and other receivables of $0.3 million (December 31, 2018 - $0.2 million).

Effective, December 1, 2019, the Company entered into an operating lease for the office premises in Toronto expiring on November 30, 2024. At the commencement date of the lease, a right of use asset was recorded at cost under other assets and a lease liability was recorded at amortized cost under accounts payable and accrued liabilities in the consolidated statements of financial position. Subsequent to initial recognition, the right of use asset is depreciated using the straight-line method over the term of the lease with depreciation recorded in the consolidated statements of profit and comprehensive income. Each lease payment reduces the lease liability and the accretion of the lease liability is recorded as interest expense in the consolidated statements of profit and comprehensive income.

The right of use asset for office premises was $0.6 million and $nil at December 31, 2019 and 2018, respectively. The depreciation on the right of use asset for the years ended December 31, 2019 was nominal (December 31, 2018 - $nil).

The lease liability for office premises was $0.6 million and $nil at December 31, 2019 and 2018, respectively. The lease payments were $nil and the interest expense on the lease liability was nominal for the year ended December 31, 2019 (December 31, 2018 - $nil). The Company recorded a nominal foreign exchange loss relating to the lease liability for the year ended December 31, 2019 (December 31, 2018 - $nil).

Depreciation expense for the capital assets was nominal for the three months and year ended December 31, 2019 and 2018.

6.5 Investments

Investments in Private Entities

The Company's investments in private entities consist of its investments in HIIG (through the HIIG Partnership) and the Arena FINCOs, which are accounted for at FVTPL. The fair values of the HIIG Partnership and the Arena FINCOs at December 31, 2019 were determined to be $165.0 million and $205.8 million, respectively (December 31, 2018 - $162.1 million and $198.7 million, respectively). See discussion in Section 3, *Investments* of this MD&A.

Investment in Associates

The Company's investment in associates consists of the Company's investment in Arena Investors. This investment is accounted for using the equity method. The carrying value of the Company's investment in then associates at December 31, 2019 was $12.3 million (December 31, 2018 - $10.6 million). See discussion in Section 3, *Investments* of this MD&A.

Other Investments

The Company's investment in other investments consists of the Company's investment in ASOF LP, which is accounted for at FVTPL. The fair value of ASOF LP at December 31, 2019 was determined to be $2.7 million (December 31, 2018 - $2.5 million). See discussion in Section 3, *Investments* of this MD&A.

6. ANALYSIS OF FINANCIAL POSITION (continued)

6.6 Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities were $10.7 million and $9.6 million at December 31, 2019 and 2018, respectively. Accounts payable and accrued liabilities at December 31, 2019 included liabilities related to accrued employee bonuses of $1.7 million (December 31, 2018 - $1.6 million), RSUs of $6.2 million (December 31, 2018 - $5.7 million), DSUs of $1.3 million (December 31, 2018 - $1.0 million), lease liability of $0.6 million (December 31, 2018 - $nil), interest accrued on the Preferred Securities of $0.5 million (December 31, 2018 - $0.5 million), unrealized loss on the foreign exchange forward contract of $nil (December 31, 2018 - $0.6 million) and other accrued liabilities of $0.4 million (December 31, 2018 - $0.2 million). See Section 6.3 *Other Assets* of this MD&A for additional information on the lease liability. See Section 8, *Liquidity and Capital Resources* of this MD&A for additional information on the Company's share-based compensation plans.

6.7 Income Tax Payable

At December 31, 2019, the Company had an income tax payable due to the United States federal tax authority of $0.4 million compared to $nil million at December 31, 2018.

6.8 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, 2019 of $38.5 million (December 31, 2018 - $36.6 million). See discussion in Section 4, *Financing* of this MD&A.

6.9 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, 2019, a liability of $1.9 million (December 31, 2018 - $2.4 million) representing the estimated fair value of the vested Warrants had been accrued in the consolidated statements of financial position. See discussion in Section 4, *Financing* of this MD&A.

6.10 Site Restoration Provision

The site restoration provision of $4.1 million at December 31, 2019 and $3.6 million at December 31, 2018 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 adjusted for the present value of the estimated future restoration costs discounted using interest rates of high quality government bonds and inflation 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.

6.11 Shareholders' Equity

The details of shareholders' equity are as follows:

(millions)	December 31, 2019	December 31, 2018
Common shares	$ 382.2	$ 382.2
Contributed surplus	17.5	16.5
Accumulated other comprehensive loss	(2.2)	(2.2)
Deficit	(42.7)	(51.3)
Shareholders' equity	$ 354.8	$ 345.2

Common Shares

The Company had 143,186,718 common shares outstanding at December 31, 2019 and 2018.

6. ANALYSIS OF FINANCIAL POSITION (continued)

Contributed Surplus

The Company had $17.5 million in contributed surplus at December 31, 2019 (December 31, 2018 - $16.5 million). The increase in contributed surplus of $1.0 million resulted from compensation expense relating to stock options in the year ended December 31, 2019.

Accumulated Other Comprehensive Loss

Accumulated other comprehensive loss of $2.2 million at December 31, 2019 and 2018 comprised cumulative exchange differences from currency translation as a result of a change in presentation currency from the C$ to the US$ on August 31, 2015.

Deficit

The decrease in deficit of $8.6 million from December 31, 2018 to December 31, 2019 is due to the profit for the year ended December 31, 2019.

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 expectations and Arena had 56 employees as at December 31, 2019.

Following the catastrophe losses experienced by the property and casualty insurance industry in 2017 and 2018 due to adverse weather conditions and wildfires in the United States, the Company believes that the industry is at the start of a cycle of increasing insurance rates and improved underwriting terms. This expected improvement in industry conditions, combined with operational enhancement initiatives undertaken by HIIG and a measured increase in the retention of premium, is expected to result in continued improvement in HIIG's financial performance.

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.

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, 2019 and 2018, 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, 2019 and 2018.

Dividends

No dividends were paid in the years ended December 31, 2019 and 2018.

8. LIQUIDITY AND CAPITAL RESOURCES (continued)

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. As the DSUs are settled solely in cash, they are not included in the 10% limitation referred to above.

At December 31, 2019 and 2018, the Company had 10,428,337 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, 2019, all 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. These 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, 2019, all of these 3,860,397 options had vested. On January 18, 2018, 3,815,000 additional 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 December 31, 2018, December 31, 2019 and December 31, 2020, and have an exercise price of C$3.10. At December 31, 2019, 2,543,333 of these 3,815,000 options had vested.

In the three months and year ended December 31, 2019, compensation expense relating to options was $0.3 million (2018 - $0.5 million) and $1.0 million (2018 - $2.3 million), respectively, with a corresponding increase to contributed surplus.

The Company also had 3,034,261 RSUs outstanding at December 31, 2019 and 2018. On November 14, 2014, an aggregate of 2,375,000 RSUs were granted to certain officers, employees and consultants. There RSUs have a term of fifteen years and at December 31, 2019, all of these RSUs had vested, of which 265,937 RSUs had been exercised and 2,109,063 RSUs are outstanding. On April 1, 2016, 925,198 additional RSUs were granted to certain officers and employees of the Company. These RSUs have a term of fifteen years and at December 31, 2019, all of the RSUs had vested and 925,198 units are outstanding. 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, 2019, 642,779 DSUs were vested and outstanding (December 31, 2018 – 518,855 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. With respect to the DSUs that are outstanding, they are paid out solely in cash no later than the end of the calendar year following the year the participant ceases to be a director. In the years ended December 31, 2019 and 2018, no DSUs were exercised.

At December 31, 2019, accounts payable and accrued liabilities included amounts related to outstanding RSUs of $6.2 million (December 31, 2018 - $5.7 million) and outstanding DSUs of $1.3 million (December 31, 2018 - $1.0 million).

Market for Securities

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

Cash Flow Objectives

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

8. LIQUIDITY AND CAPITAL RESOURCES (continued)

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

December 31, 2019 (millions)	One year or less	One to five years	No specific date/ later than five years	Total
Financial assets:				
Cash	$ 22.2	$ -	$ -	$ 22.2
Income tax receivable	0.4	-	-	0.4
Other assets (excluding capital assets)	1.7	0.6	-	2.3
Investments	-	20.0	365.8	385.8
Total financial assets	24.3	20.6	365.8	410.7
Financial obligations:				
Accounts payable and accrued liabilities	2.6	0.6	7.5	10.7
Income tax payable	0.4	-	-	0.4
Preferred securities	-	-	38.5	38.5
Site restoration provision	-	-	4.1	4.1
Deferred tax liability	-	0.3	-	0.3
Total financial obligations	3.0	0.9	50.1	54.0
Financial assets net of financial obligations	$ 21.3	$ 19.7	$ 315.7	$ 356.7

December 31, 2018 (millions)[1]	One year or less	One to five years	No specific date/ later than five years	Total
Financial assets:				
Cash	$ 7.8	$ -	$ -	$ 7.8
Arena FINCOs Demand Loan receivable	-	14.7	-	14.7
Other assets (excluding capital assets)	0.9	-	-	0.9
Investments	-	28.3	345.6	373.9
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

[1] Adjusted to conform to the presentation of the current year.

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 with a view to ensuring 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 directors of the Company.

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

	Three months ended December 31		Year ended December 31	
(millions)	2019	2018	2019	2018
Salaries and benefits	$ 0.9	$ 0.9	$ 3.2	$ 3.3
Share-based compensation	0.7	(0.9)	1.4	1.6
	$ 1.6	$ -	$ 4.6	$ 4.9

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 million in each of the years ended December 31, 2019 and 2018. At December 31, 2019, a liability of $0.1 million (December 31, 2018 - $0.1 million) had been accrued in the consolidated statements of financial position with respect to outstanding RSUs held by the Consultant.

The Company received a cash dividend of $3.7 million (2018 - $nil) and a dividend in kind of $0.1 million (2018 - $nil) from the Arena FINCOs in the three months ended December 31, 2019 and a cash dividend of $4.6 million (2018 - $nil) and a dividend in kind of $0.1 million (2018 - $nil) from the Arena FINCOs in the year ended December 31, 2019.

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

	Three months ended December 31		Year ended December 31	
(millions)	2019	2018	2019	2018
Arena FINCOs Term Loan	$ -	$ 0.2	$ 0.2	$ 0.7
Arena FINCOs Demand Loan	-	0.3	0.7	1.4
Arena Investors Revolving Loan	0.2	0.3	1.0	0.9
	$ 0.2	$ 0.8	$ 1.9	$ 3.0

The Company earned advisory fees from the Arena Group of $0.2 million and $0.1 million in the three months ended December 31, 2019 and 2018, respectively, and $1.6 million and $0.4 million in the years ended December 31, 2019 and 2018, respectively. The Company also earned advisory fees from HIIG of $0.1 million and $0.2 million in the three months ended December 31, 2019 and 2018, respectively and $0.8 million and $1.0 million in the years ended December 31, 2019 and 2018, respectively.

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, 2019. Management determined that this valuation technique produced the best indicator of the fair value of the HIIG Partnership, and the Arena FINCOs at December 31, 2019. The significant unobservable inputs used in the valuation of the HIIG Partnership and the Arena FINCOs at December 31, 2019 were the equity of each of the entities at December 31, 2019 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, 2019 and 2018. 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 11, note 14 and note 16, respectively, to the Company's audited annual consolidated financial statements for the years ended December 31, 2019 and 2018.

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, 2019 and 2018

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

On January 13, 2016, the IASB issued IFRS 16 "Leases" ("IFRS 16") which replaced IAS 17 "Leases". As required, the Company adopted IFRS 16, effective January 1, 2019. IFRS 16 eliminates the distinction between operating and finance leases for lessees, requiring instead that the Company recognize a right-of-use asset and a lease liability at lease commencement for all leases, with certain exceptions permitted through elections and practical expedients on the transition date. As a result of the adoption of IFRS 16, on December 1, 2019, a right of use asset of $0.6 million and a lease liability of $0.6 million were recorded on the Company's consolidated statements of financial position. The Company adopted the modified retrospective approach of adoption whereby comparative periods were not 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 adoption of IFRIC 23 did not have a material impact on the Company's consolidated financial statements

12. QUARTERLY FINANCIAL INFORMATION

(millions)	Q4 2019	Q3 2019	Q2 2019	Q1 2019	Q4 2018	Q3 2018	Q2 2018	Q1 2018
Revenue	$ 4.5	$ 2.1	$ 1.2	$ 1.4	$ 1.1	$ 1.2	$ 1.1	$ 1.1
Net results of investments – (loss) gain	(14.4)	2.7	10.1	11.8	2.4	5.3	4.4	4.4
Net (expenses) recovery of expenses	(2.2)	(1.1)	(3.5)	(3.1)	3.2	(2.1)	(5.6)	0.4
Income tax expense	(0.9)	-	-	-	-	-	-	-
Profit (loss) and comprehensive income (loss)	$ (13.0)	$ 3.7	$ 7.8	$ 10.1	$ 6.7	$ 4.4	$ (0.1)	$ 5.9

The Company's quarterly financial results do not follow any special trends and are not generally subject to seasonal variation but are instead impacted by general market and economic conditions, regulatory risks and foreign exchange fluctuations. In addition, the value of the derivative warrant liability, site restoration obligations and share-based compensation are impacted by fluctuations in the trading price of the Company's shares, discount rates, and foreign exchange fluctuations.

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 26, 2020 for its fiscal year ended December 31, 2019 which is available on SEDAR at www.sedar.com.

14. ADDITIONAL ARENA GROUP INVESTMENT SCHEDULES

THE ARENA FINCOs

The investments of the Arena FINCOs shown by investment strategy is as follows:

Investments by Strategy (unaudited)						**December 31, 2019**
(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	35	$ 58.7	$ 61.9	32.7%	18.7%	14.0%
Real Estate Private Credit and Real Estate Assets	26	30.3	31.5	16.7%	12.0%	4.7%
Commercial and Industrial Assets	21	43.0	47.3	24.9%	16.3%	8.6%
Structured Finance	2	4.4	4.4	2.4%	2.4%	-
Consumer Assets	15	23.6	22.5	11.9%	11.9%	-
Other Securities	55	25.6	21.5	11.4%	8.7%	2.7%
	154	$ 185.6	$ 189.1	100.0%	70.0%	30.0%

Investments by Strategy (unaudited)						**December 31, 2018**
(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	26	$ 51.8	$ 56.2	29.9%	24.6%	5.3%
Real Estate Private Credit and Real Estate Assets	23	32.1	30.3	16.1%	14.4%	1.7%
Commercial and Industrial Assets	23	64.7	66.4	35.3%	25.8%	9.5%
Structured Finance	3	4.2	4.2	2.3%	2.3%	-
Consumer Assets	14	21.9	20.6	10.9%	10.9%	-
Other Securities	32	13.0	10.3	5.5%	2.5%	3.0%
	121	$ 187.7	$ 188.0	100.0%	80.5%	19.5%

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 the Arena FINCOs shown by geographic breakdown is as follows:

Investments by Geographic Breakdown (unaudited)	**December 31, 2019**			**December 31, 2018**		
(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						
North America	$ 137.7	$ 142.5	75.4%	$ 151.4	$ 154.5	82.2%
Europe	15.7	18.0	9.5%	12.2	12.4	6.6%
Asia/Pacific	6.0	6.6	3.5%	7.1	6.8	3.6%
Latin America	0.6	0.5	0.2%	4.0	4.0	2.1%
	160.0	167.6	88.6%	174.7	177.7	94.5%
Other Securities [1]						
North America	11.7	10.7	5.7%	0.7	0.4	0.2%
Europe	8.1	6.3	3.3%	5.5	4.4	2.4%
Asia/Pacific	2.7	2.3	1.2%	1.8	1.8	1.0%
Canada	-	-	-	2.3	1.4	0.7%
Other	3.1	2.2	1.2%	2.7	2.3	1.2%
	25.6	21.5	11.4%	13.0	10.3	5.5%
	$ 185.6	$ 189.1	100.0%	$ 187.7	$ 188.0	100.0%

[1] Net of short positions.

14. ADDITIONAL ARENA GROUP INVESTMENT SCHEDULES (continued)

THE ARENA FINCOs

The investments of the Arena FINCOs shown by industry is as follows:

Investments by Industry (unaudited) (millions except for percentage)	December 31, 2019 Cost	December 31, 2019 Fair value	December 31, 2019 Percentage of investments at fair value	December 31, 2018 Cost	December 31, 2018 Fair value	December 31, 2018 Percentage of investments at fair value
Loans / Private Assets						
Corporate Private Credit						
Business Services	$ 17.1	$ 17.5	9.3%	$ 17.3	$ 18.5	9.9%
Consumer Products	-	-	-	0.9	0.9	0.5%
Financial Services	1.8	1.8	0.9%	2.6	2.6	1.4%
Healthcare Services	6.7	6.8	3.6%	3.2	3.2	1.7%
Oil and Gas (1)	16.9	18.6	9.8%	13.7	15.2	8.1%
Other Assets	12.1	13.1	6.9%	11.7	13.4	7.1%
Retail	4.1	4.1	2.2%	2.4	2.4	1.2%
	58.7	61.9	32.7%	51.8	56.2	29.9%
Real Estate Private Credit and Real Estate Assets						
Commercial	2.0	1.6	0.9%	7.3	5.4	2.9%
Hospitality	8.4	9.6	5.0%	7.1	7.3	3.9%
Land - Commercial Development	5.2	5.2	2.8%	6.3	6.4	3.4%
Land - Multi-Family Development	5.3	5.4	2.9%	2.6	2.6	1.4%
Land - Single-Family Development	1.3	1.4	0.7%	2.6	2.5	1.3%
Residential	7.8	8.0	4.2%	5.4	5.3	2.8%
Retail	-	-	-	0.8	0.8	0.4%
Storage	0.3	0.3	0.2%	-	-	-
	30.3	31.5	16.7%	32.1	30.3	16.1%
Commercial and Industrial Assets						
Lease/Equipment	5.2	7.7	4.0%	9.6	10.9	5.9%
Oil and Gas	0.7	0.8	0.4%	-	-	-
Other Assets	37.1	38.8	20.5%	55.1	55.5	29.4%
	43.0	47.3	24.9%	64.7	66.4	35.3%
Structured Finance						
Other Assets	4.4	4.4	2.4%	4.2	4.2	2.3%
	4.4	4.4	2.4%	4.2	4.2	2.3%
Consumer Assets						
Consumer	23.6	22.5	11.9%	21.9	20.6	10.9%
	23.6	22.5	11.9%	21.9	20.6	10.9%
Total Loans / Private Assets	160.0	167.6	88.6%	174.7	177.7	94.5%
Other Securities (2)						
Consumer Products	4.6	2.0	1.0%	3.9	2.2	1.2%
Financial Services	1.7	1.7	0.9%	0.2	0.2	0.1%
Foreign Exchange Forwards	-	(0.2)	(0.1)%	-	(0.5)	(0.3)%
Healthcare Services	0.2	0.3	0.1%	-	0.2	0.1%
Industrial	3.2	2.8	1.5%	3.7	3.5	1.9%
Information Technology	1.6	1.7	0.9%	0.9	0.8	0.4%
Oil and Gas	3.9	3.6	1.9%	1.1	1.1	0.6%
Real Estate	3.1	3.2	1.7%	-	-	-
Telecommunications	6.1	5.2	2.8%	3.2	2.8	1.5%
Utilities	1.2	1.2	0.7%	-	-	-
	25.6	21.5	11.4%	13.0	10.3	5.5%
	$ 185.6	$ 189.1	100.0%	$ 187.7	$ 188.0	100.0%

1 The Arena FINCOs' 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 position

14. ADDITIONAL ARENA GROUP INVESTMENT SCHEDULES (continued)

THE ARENA FINCOs

Details of the Loan and Private Asset positions of the Arena FINCOs is as follows:

Details of Loan and Private Asset Positions **December 30, 2019**
(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-2209	Other Assets	$ 10.4	$ 10.5	$ 11.5	Europe	Equity	n/a (4)	n/a (4)
CPC-3198	Oil and Gas	3.8	3.8	5.4	North America	Hard Asset	n/a (4)	n/a (4)
CPC-3222	Oil and Gas	4.7	4.7	4.7	North America	Hard Asset	n/a (4)	110.0%
CPC-3349	Business Services	3.6	3.7	4.4	Asia/Pacific	Second Lien	12.00%	76.0%
CPC-3677	Business Services	3.5	3.5	3.8	North America	First Lien	10.41%	52.0%
CPC-4248	Healthcare Services	3.6	2.9	2.9	North America	First Lien	11.01%	68.0%
CPC-3083TL	Business Services	2.9	2.7	2.8	North America	Second Lien	9.46%	94.0%
CPC-3199	Oil and Gas	2.3	2.3	2.3	North America	First Lien	15.00%	90.0%
CPC-1361TL	Healthcare Services	2.2	2.2	2.2	North America	First Lien	12.26%	41.0%
CPC-2364	Retail	2.2	2.2	2.2	North America	First Lien(5)	10.64%	37.0%
CPC-3316	Business Services	2.1	2.1	2.1	North America	Second Lien	9.76%	57.0%
CPC-5027	Retail	1.9	1.9	1.9	North America	First Lien	11.91%	81.0%
CPC-4108	Oil and Gas	1.7	1.7	1.7	North America	First Lien	13.50%	40.0%
CPC-2752	Other Assets	1.6	1.6	1.6	North America	First Lien	14.00%	30.0%
CPC-3107	Business Services	1.2	1.3	1.4	North America	Equity	n/a (6)	n/a (6)
CPC-4985	Oil and Gas	1.3	1.3	1.3	North America	First Lien	10.00%	32.0%
CPC-3824	Oil and Gas	1.2	1.2	1.2	North America	First Lien	9.66%	75.0%
CPC-1927	Financial Services	1.0	1.0	1.0	North America	First Lien	15.00%	29.0%
CPC-3376	Business Services	1.0	1.0	1.0	North America	Second Lien	10.60%	23.0%
CPC-2170	Oil and Gas	1.8	0.9	0.8	North America	First Lien(7)	5.25%	100.0%
CPC-5143	Oil and Gas	0.8	0.8	0.8	North America	Hard Asset	12.00%	91.6%
CPC-2397	Financial Services	0.8	0.8	0.8	North America	Equity	n/a (4)	n/a (4)
CPC-3083	Business Services	0.8	0.8	0.7	North America	Equity	n/a (8)	n/a (8)
CPC-3349EQY	Business Services	1.2	0.8	0.6	Asia/Pacific	Equity	n/a(6)	n/a(6)
CPC-3391	Healthcare Services	0.4	0.4	0.4	North America	First Lien	9.73%	24.6%
CPC-4347	Healthcare Services	0.4	0.4	0.4	North America	First Lien	10.00%	29.0%
CPC-4256	Healthcare Services	0.4	0.4	0.4	North America	First Lien	9.00%	15.6%
CPC-4248EQY	Healthcare Services	0.3	0.4	0.4	North America	Equity	n/a(8)	n/a(8)
CPC-4530	Business Services	0.3	0.3	0.3	North America	First Lien	9.50%	11.6%
CPC-3108	Business Services	0.3	0.3	0.3	North America	Second Lien	10.35%	6.0%
CPC-3199EQY	Oil and Gas	-	-	0.2	North America	Equity	n/a (4)	n/a (4)
CPC-1010	Oil and Gas	0.2	0.2	0.2	North America	First Lien	14.00%	43.0%
CPC-2208	Business Services	0.6	0.6	0.1	North America	Second Lien	n/a (4)	n/a (4)
CPC-4473	Healthcare Services	0.1	-	0.1	North America	Equity	n/a (6)	n/a (6)
Subtotal / Weighted average %		60.2	58.7	61.9			11.28%	66.9%

14. ADDITIONAL ARENA GROUP INVESTMENT SCHEDULES (continued)

THE ARENA FINCOs

Details of Loan and Private Asset Positions (continued) — **December 31, 2019**
(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]
Real Estate Private Credit and Real Estate Assets								
REPC-1207	Hospitality	4.6	5.2	6.5	Europe	Real Property	n/a[9]	n/a[9]
REPC-1068S4	Residential	3.7	3.7	3.7	North America	First Mortgage[5]	12.26%	61.0%
REPC-2277	Land - Commercial Development	3.1	3.1	3.1	North America	First Mortgage	15.00%	50.0%
REPC-2683	Land - Multi-Family Development	2.6	2.6	2.7	North America	First Mortgage	12.51%	44.0%
REPC-2592	Land - Commercial Development	1.9	1.9	2.0	North America	First Mortgage	10.51%	79.0%
REPC-4698	Land - Multi-Family Development	2.0	1.9	1.9	North America	First Mortgage	11.50%	54.0%
REPC-1942	Commercial	2.0	2.0	1.6	North America	Real Property	n/a [10]	n/a [10]
REPC-2214	Hospitality	1.4	1.4	1.4	North America	First Mortgage	10.51%	108.0%
REPC-4111	Residential	1.2	1.2	1.3	North America	First Mortgage	9.25%	80.0%
REPC-4133	Residential	1.1	1.1	1.2	North America	First Mortgage	9.83%	58.0%
REPC-4220	Residential	1.1	1.1	1.1	North America	First Mortgage	12.00%	83.0%
REPC-2560	Hospitality	0.9	0.9	0.9	North America	First Mortgage	10.51%	108.0%
REPC-3812	Land - Multi-Family Development	1.3	0.8	0.8	North America	First Mortgage	11.50%	42.0%
REPC-2497	Hospitality	0.9	0.9	0.8	North America	First Mortgage	10.51%	108.0%
REPC-1068	Residential	0.7	0.7	0.7	North America	Real Property	n/a[9]	n/a[9]
REPC-4319	Self Storage	1.6	0.3	0.3	North America	First Mortgage	11.00%	64.0%
REPC-4350	Land - Single-Family Development	0.4	0.2	0.2	Asia/Pacific	First Mortgage	11.00%	69.0%
REPC-4437	Land - Single-Family Development	0.3	0.2	0.2	Asia/Pacific	First Mortgage	11.00%	55.0%
REPC-4097	Land - Single-Family Development	0.3	0.2	0.2	Asia/Pacific	First Mortgage	11.00%	75.0%
REPC-4212	Land - Single-Family Development	0.3	0.2	0.2	Asia/Pacific	First Mortgage	11.00%	55.0%
REPC-2528	Land - Single-Family Development	0.3	0.2	0.2	North America	First Mortgage	10.00%	57.0%
REPC-4684	Land - Single-Family Development	0.2	0.1	0.2	Asia/Pacific	First Mortgage	11.00%	67.0%
REPC-1047	Land - Commercial Development	0.1	0.1	0.1	North America	First Mortgage	15.00%	53.0%
REPC-4436	Land - Single-Family Development	0.1	0.1	0.1	Asia/Pacific	First Mortgage	11.00%	53.0%
REPC-5123	Land - Single-Family Development	0.1	0.1	0.1	Asia/Pacific	First Mortgage	12.00%	61.0%
REPC-1015	Land - Commercial Development	0.2	0.1	-	North America	Real Property	n/a[9]	n/a[9]
Subtotal / Weighted average %		32.4	30.3	31.5			11.78%	65.9%

14. ADDITIONAL ARENA GROUP INVESTMENT SCHEDULES (continued)

THE ARENA FINCOs

Details of Loan and Private Asset Positions (continued) — **December 31, 2019**
(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]
Commercial and Industrial Assets								
CI-1800	Other assets	8.9	8.9	9.2	North America	First Lien	14.00%	27.1%
CI-3045	Other assets	6.3	6.3	8.0	North America	Asset Pool	n/a [11]	66.3%
CI-2651	Other assets	4.0	4.3	4.3	North America	Hard Asset	8.00%	75.0%
CI-2686	Other assets	4.0	4.1	4.1	North America	First Lien	18.25%	80.0%
CI-3978	Lease/Equipment	2.7	3.1	3.7	North America	Hard Asset	n/a [12]	n/a [12]
CI-2064	Other assets	2.9	2.9	3.0	North America	First Lien	12.76%	80.0%
CI-1999EQY	Other assets	2.8	3.1	3.0	North America	Equity	n/a [4]	n/a [4]
CI-2201	Lease/Equipment	1.7	1.7	2.9	North America	Hard Asset	n/a [12]	n/a [12]
CI-1520	Other assets	1.9	1.9	1.9	North America	First Lien	n/a [13]	41.0%
CI-4250	Other assets	1.3	1.2	1.2	North America	First Lien	14.76%	76.0%
CI-5001	Other assets	0.9	0.9	0.9	North America	First Lien	13.20%	52.0%
CI-4301	Oil and Gas	0.6	0.7	0.8	North America	Hard Asset	n/a [4]	13.0%[14]
CI-2203	Lease/Equipment	0.4	0.4	0.7	North America	Hard Asset	n/a [12]	n/a [12]
CI-4753	Other assets	0.6	0.6	0.6	North America	Second Lien	18.00%	33.0%
CI-4370	Other assets	0.5	0.5	0.5	North America	First Lien	n/a	19.0%
CI-2000	Other assets	0.5	0.5	0.5	North America	Equity	n/a [8]	n/a [8]
CI-4091	Other assets	0.4	0.4	0.4	Asia/Pacific	Asset Pool	n/a [11]	49.0%
CI-1716	Lease/Equipment	-	-	0.4	North America	Hard Asset	n/a [12]	n/a [12]
CI-3221	Other assets	0.4	0.4	0.4	North America	First Lien	13.20%	52.0%
CI-1035	Other assets	0.4	0.5	0.3	North America	First Lien	11.51%	100.0%
CI-4905	Other assets	0.2	0.2	0.2	North America	First Lien	13.20%	52.0%
CI-5113	Other assets	0.1	0.1	0.1	North America	First Lien	13.20%	52.0%
CI-1999	Other assets	0.1	0.1	0.1	North America	First Lien	0.00%	n/a[15]
CI-2808	Other assets	-	-	0.1	North America	Equity	n/a [4]	n/a [4]
CI-1282	Other assets	-	-	-	North America	First Lien	n/a [16]	n/a [16]
CI-1018	Other assets	0.2	0.2	-	North America	First Lien	9.26%	100.0%
Subtotal / Weighted average %		41.8	43.0	47.3			13.56%	56.4%
Structured Finance								
SF-2228	Other assets	2.5	2.5	2.5	North America	First Lien	16.00%	80.0%
SF-2239	Other assets	1.9	1.9	1.9	North America	First Lien	n/a [17]	54.0%
Subtotal / Weighted average %		4.4	4.4	4.4			16.00%	68.4%

14. ADDITIONAL ARENA GROUP INVESTMENT SCHEDULES (continued)

THE ARENA FINCOs

Details of Loan and Private Asset Positions (continued) **December 31, 2019**
(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)
Consumer Assets								
CA-3595	Consumer	5.1	4.9	5.0	North America	First Lien	15.50%	81.1%
CA-1052F	Consumer	2.6	2.6	2.5	North America	First Lien	15.66%	116.0%
CA-4718	Consumer	2.0	2.0	2.2	North America	First Lien	29.00%	66.0%
CA-2620	Consumer	0.6	0.6	1.6	North America	First Lien	n/a (18)	27.0%
CA-4727	Consumer	1.5	1.5	1.5	North America	First Lien	25.00%	64.0%
CA-2204	Consumer	2.5	1.5	1.4	North America	First Lien	14.91%	80.0%
CA-2199	Consumer	1.3	1.3	1.3	North America	First Lien	12.00%	95.0%
CA-3178	Consumer	4.0	1.3	1.3	North America	First Lien	15.00%	80.0%
CA-1788AS3	Consumer	1.3	1.3	1.0	North America	First Lien	n/a (18)	82.0%
CA-2139	Consumer	1.0	1.1	0.9	North America	First Lien	n/a (18)	100.0%
CA-1788/1933	Consumer	0.6	0.6	0.8	North America	First Lien	n/a (18)	82.0%
CA-1933A	Consumer	0.8	0.8	0.7	North America	First Lien	n/a (18)	82.0%
CA-2762	Consumer	0.6	0.6	0.5	Latin America	Asset Pool	n/a (19)	n/a (19)
CA-2373	Consumer	0.2	0.2	0.5	North America	First Lien	n/a (17)	52.0%
CA-2729	Consumer	0.8	0.8	0.4	North America	First Lien	n/a (17)	252.0%
CA-4007	Consumer	0.3	0.3	0.3	North America	Second Lien	16.00%	28.0%
CA-1788A	Consumer	0.4	0.4	0.3	North America	First Lien	n/a (18)	82.0%
CA-1934	Consumer	0.2	0.2	0.2	North America	First Lien	n/a (18)	82.0%
CA-2470	Consumer	0.1	0.1	0.1	North America	First Lien	11.26%	80.0%
CA-1052S	Consumer	1.5	1.5	-	North America	First Lien	15.66%	116.0%
Subtotal / Weighted average %		27.4	23.6	22.5			17.99%	81.5%
Total / Weighted average %		$ 166.3	$ 160.0	$ 167.6			13.09%	66.3%

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, 2019. 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, 2019.

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

5 Denotes subordinate position within the structure.

6 Investment is a warrant to purchase an equity interest in an operating company.

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

8 Investment is a preferred equity investment.

9 Investment represents owned real estate acquired through lender default.

10 Investment is directly held property acquired when the Arena group and its partners foreclosed upon a related loan.

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 a right to collect a fixed cash flow stream. While not technically a loan, the contract is backed by assets valued at 3-4 times the total collection amount.

15 Investment is a maturity default where the Arena Group and its partners acquired the borrower in bankruptcy.

16 Investment is remaining profit participation on a repaid off loan.

17 Investment with no stated coupon rate.

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

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

14. ADDITIONAL ARENA GROUP INVESTMENT SCHEDULES (continued)

THE ARENA FINCOs

Details of the Loan and Private Asset positions of the Arena FINCOs is 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-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	North America	Hard Asset	n/a (4)	n/a (4)
CPC-3222	Oil and Gas	4.6	4.5	4.5	North America	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	North America	First Lien(5)	11.54%	55.0%
CPC-1266TL	Business Services	2.3	2.3	2.4	North America	First Lien	9.50%	44.0%
CPC-1361TL	Healthcare Services	2.3	2.3	2.3	North America	First Lien	13.00%	62.0%
CPC-3083TL	Business Services	2.5	2.2	2.3	North America	Second Lien	13.50%	87.0%
CPC-2208	Business Services	2.2	2.1	2.2	North America	Second Lien	11.75%	13.0%
CPC-3316	Business Services	2.1	2.1	2.1	North America	Second Lien	10.50%	72.0%
CPC-3199	Oil and Gas	1.9	1.8	2.0	North America	First Lien	15.00%	40.0%
CPC-3824	Oil and Gas	4.0	2.0	2.0	North America	First Lien	10.56%	32.0%
CPC-3376	Business Services	1.6	1.6	1.6	North America	Second Lien	12.50%	31.0%
CPC-2752	Other Assets	1.6	1.6	1.6	North America	First Lien	14.50%	40.0%
CPC-1927	Financial Services	1.4	1.4	1.4	North America	First Lien	15.00%	49.0%
CPC-2170	Oil and Gas	2.2	1.2	1.4	North America	First Lien(6)	5.75%	87.0%
CPC-3107	Business Services	1.4	1.4	1.4	North America	Second Lien	12.45%	27.0%
CPC-2104	Business Services	-	-	1.2	North America	First Lien	n/a (7)	n/a (7)
CPC-3391	Healthcare Services	0.9	0.9	0.9	North America	First Lien	10.13%	16.0%
CPC-3349EQY	Business Services	0.8	0.8	0.8	Asia/Pacific	Equity	n/a(8)	n/a(8)
CPC-2397	Financial Services	0.7	0.7	0.7	North America	Equity	n/a (4)	n/a (4)
CPC-1265TL	Consumer Products	0.7	0.7	0.7	North America	First Lien	9.81%	25.0%
CPC-3108	Business Services	0.6	0.6	0.6	North America	Second Lien	10.75%	9.0%
CPC-3083	Business Services	0.5	0.5	0.5	North America	Equity	n/a (8)	n/a (8)
CPC-2752A	Financial Services	0.4	0.4	0.4	North America	First Lien	14.50%	40.0%
CPC-3373	Oil and Gas	0.5	0.3	0.3	North America	First Lien	10.00%	15.0%
CPC-1010	Oil and Gas	0.2	0.2	0.2	North America	First Lien	14.00%	43.0%
CPC-1265RC	Consumer Products	0.4	0.2	0.2	North America	First Lien	9.81%	25.0%
CPC-1266RC	Business Services	0.4	-	-	North America	First Lien	9.50%	44.0%
Subtotal / Weighted average %		57.1	51.8	56.2			12.15%	47.6%

14. ADDITIONAL ARENA GROUP INVESTMENT SCHEDULES (continued)

THE ARENA FINCOs

Details of the Loan and Private Asset positions of the Arena FINCOs is 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)
Real Estate Private Credit and Real Estate Assets								
REPC-1068S4	Residential	3.7	3.7	3.7	North America	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	North America	First Mortgage	15.00%	50.0%
REPC-3700	Commercial	2.7	2.7	2.7	North America	First Mortgage	15.50%	44.0%
REPC-2683	Land							
	- Multi-Family Development	2.6	2.6	2.6	North America	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	North America	First Mortgage	11.25%	79.0%
REPC-1942	Commercial	1.8	1.8	1.6	North America	Real Property	n/a (9)	n/a (9)
REPC-2214	Hospitality	1.3	1.3	1.3	North America	First Mortgage	11.25%	67.0%
REPC-3655	Land							
	- Commercial Development	1.0	1.0	1.0	North America	First Mortgage(5)	11.50%	55.0%
REPC-1766	Residential	0.9	1.1	0.9	North America	Real Property	n/a (9)	n/a (9)
REPC-2560	Hospitality	0.9	0.9	0.9	North America	First Mortgage	11.25%	68.0%
REPC-2497	Hospitality	0.9	0.9	0.9	North America	First Mortgage	11.25%	82.0%
REPC-2187	Retail	0.8	0.8	0.8	North America	First Mortgage	10.70%	82.0%
REPC-3037	Hospitality	0.7	0.7	0.7	North America	First Mortgage	10.75%	77.0%
REPC-2736EUR	Commercial	2.5	2.4	0.7	Europe	First Mortgage	15.00%	100.0%+
REPC-1068	Residential	0.6	0.6	0.6	North America	Real Property	n/a (9)	n/a (9)
REPC-2159	Commercial	0.4	0.4	0.4	North America	First Mortgage	12.00%	10.0%
REPC-3035	Hospitality	0.3	0.3	0.3	North America	First Mortgage	12.50%	63.0%
REPC-1017	Land							
	- Commercial Development	0.1	0.1	0.2	North America	First Mortgage	15.00%	66.0%
REPC-1047	Land							
	- Commercial Development	0.1	0.1	0.1	North America	First Mortgage	15.00%	53.0%
REPC-1042	Residential	0.1	0.1	0.1	North America	First Mortgage	15.00%	32.0%
REPC-1015	Land							
	- Commercial Development	0.2	0.1	-	North America	Real Property	n/a (9)	n/a (9)
Subtotal / Weighted average %		25.0	32.1	30.3			12.40%	56.8%
Commercial and Industrial Assets								
CI-3045	Other assets	8.3	8.3	8.2	North America	Asset Pool	n/a (10)	66.0%
CI-2253	Other assets	7.0	7.0	7.9	North America	First Lien	14.00%	92.0%
CI-1811	Other assets	5.8	5.8	5.8	North America	Second Lien	15.00%	89.0%
CI-1800	Other assets	5.1	5.1	5.2	North America	First Lien	14.00%	26.0%
CI-3978	Other assets	4.8	4.8	4.8	North America	Hard Asset	n/a (11)	n/a (11)
CI-2686	Other assets	6.2	4.8	4.7	North America	First Lien	18.75%	80.0%
CI-2201	Lease/Equipment	3.8	3.9	4.3	North America	Hard Asset	n/a (11)	n/a (11)
CI-2651	Other assets	4.0	4.3	4.3	North America	Hard Asset	8.00%	75.0%
CI-3044	Other assets	3.0	2.8	2.8	North America	First Lien	n/a	75.0%
CI-1999	Other assets	2.8	3.0	2.7	North America	First Lien	14.00%	100.0%
CI-2866	Lease/Equipment	2.5	2.5	2.5	North America	First Lien	11.29%	80.0%
CI-1519	Other assets	3.0	2.5	2.5	North America	Second Lien	15.00%	38.0%
CI-2808	Other assets	2.4	2.4	2.4	North America	First Lien	14.00%	80.0%
CI-1793	Lease/Equipment	1.3	1.3	2.0	North America	Hard Asset	n/a (11)	n/a (11)
CI-1520	Other assets	1.9	1.9	1.9	North America	First Lien	n/a (12)	41.0%
CI-2203	Lease/Equipment	1.4	1.4	1.4	North America	Hard Asset	n/a (11)	n/a (11)
CI-2064	Other assets	1.5	1.2	1.3	North America	First Lien	13.50%	76.0%
CI-1716	Lease/Equipment	0.2	0.2	0.6	North America	Hard Asset	n/a (11)	n/a (11)
CI-1999	Other assets	0.5	0.5	0.4	North America	First Lien	14.00%	100.0%+
CI-2000	Other assets	0.2	0.2	0.3	North America	Equity	n/a (9)	n/a(9)
CI-1035	Other assets	0.4	0.4	0.3	North America	First Lien	11.63%	100.0%
CI-2323	Lease/Equipment	0.2	0.2	0.1	North America	Hard Asset	n/a (11)	n/a (11)
CI-1018	Other assets	0.2	0.2	-	North America	First Lien	9.38%	100.0%
Subtotal / Weighted average %		66.5	64.7	66.4			13.92%	72.5%

14. ADDITIONAL ARENA GROUP INVESTMENT SCHEDULES (continued)

THE ARENA FINCOs

Details of the Loan and Private Asset positions of the Arena FINCOs is 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-2228	Other assets	2.4	2.4	2.4	North America	First Lien	16.00%	80.0%
SF-2228DD1	Other assets	1.7	1.3	1.3	North America	First Lien	16.00%	80.0%
SF-2261	Other assets	0.3	0.3	0.3	North America	First Lien	18.00%	78.0%
SF-1038	Other assets	0.2	0.2	0.2	North America	First Lien	n/a (13)	5.0%
Subtotal / Weighted average %		4.6	4.2	4.2			16.15%	76.7%
Consumer Assets								
CA-1839	Consumer	3.7	3.7	3.7	North America	First Lien	18.00%	66.0%
CA-1052F	Consumer	2.9	2.9	2.7	North America	First Lien	15.66%	100.0%
CA-2620	Consumer	2.6	2.4	2.6	North America	First Lien	n/a (14)	25.0%
CA-2204	Consumer	4.3	1.4	1.4	North America	First Lien	15.81%	80.0%
CA-2373	Consumer	0.9	0.9	1.3	North America	First Lien	12.00%	52.0%
CA-1788AS3	Consumer	1.3	1.3	1.3	North America	First Lien	n/a (14)	78.0%
CA-1788/1933	Consumer	0.8	0.8	1.2	North America	First Lien	n/a (14)	78.0%
CA-1998	Consumer	1.2	1.1	1.1	North America	First Lien	7.87%	70.0%
CA-2139	Consumer	1.0	1.1	1.0	North America	First Lien	n/a (14)	100.0%
CA-3178	Consumer	5.7	0.9	0.9	North America	First Lien	15.81%	80.0%
CA-1933A	Consumer	0.8	0.8	0.7	North America	First Lien	n/a (14)	78.0%
CA-2762	Consumer	0.7	0.7	0.7	Latin America	Asset Pool	n/a (15)	n/a (15)
CA-2199	Consumer	0.5	0.5	0.5	North America	First Lien	12.00%	95.0%
CA-2729	Consumer	0.6	0.6	0.4	North America	First Lien	n/a (13)	100.0%
CA-1934	Consumer	0.2	0.2	0.3	North America	First Lien	n/a (14)	78.0%
CA-1788A	Consumer	0.4	0.4	0.3	North America	First Lien	n/a (14)	78.0%
CA-4007	Consumer	0.3	0.3	0.3	North America	Second Lien	16.00%	54.0%
CA-2470	Consumer	3.2	0.1	0.1	North America	First Lien	11.17%	80.0%
CA-3196	Consumer	0.3	0.3	0.1	North America	First Lien	n/a(13)	100.0%
CA-1052S	Consumer	1.5	1.5	-	North America	First Lien	15.66%	100.0%
Subtotal / Weighted average %		32.9	21.9	20.6			15.11%	71.9%
Total / Weighted average %		$ 186.1	$ 174.7	$ 177.7			13.20%	62.7%

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 Investment represents a credit pool purchase with no stated interest rate.
11 Investment represents an aircraft purchased. Coupon and LTV not applicable to hard assets.
12 Investment in litigation claim proceeds with no stated coupon rate.
13 Investment with no stated coupon rate.
14 Interest not accrued on loans purchased as non-performing.
15 Investment represents an unsecured credit pool purchase with no stated interest rate.

15. NON-GAAP MEASURES

(a) 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, 2019	December 31, 2018
Book value (in US$):		
Shareholders' equity per IFRS	$ 354.8	$ 345.2
Adjustments:		
RSU liability [1]	6.2	5.7
Derivative warrant liability [2]	1.9	2.4
	$ 362.9	$ 353.3
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
Adjusted number of common shares	146,220,979	146,220,979
Book value per share - in US$	$ 2.48	$ 2.42
Book value per share - in C$ [3]	$ 3.22	$ 3.30
Westaim TSXV closing share price - in C$	$ 2.65	$ 2.58

1 See note 14 to the Company's audited consolidated financial statements for the years ended December 31, 2019 and 2018. Liability related to RSUs converted from C$ to US$ at period end exchange rates. RSUs are exercisable for common shares or cash 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 10 to the Company's audited consolidated financial statements for the years ended December 31, 2019 and 2018. 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, 2019 and December 31, 2018.

3 Book value per share converted from US$ to C$ at period end exchange rates. Period end exchange rates: 1.29865 at December 31, 2019 and 1.36430 at December 31, 2018.

4 See note 14 to the Company's audited consolidated financial statements for the years ended December 31, 2019 and 2018. No adjustments were made for options for the years ended December 31, 2019 and 2018 since they were not in-the money. The exercise of in-the-money options would have resulted in an infusion of capital to the Company.

(b) Net Returns on the Arena FINCOs Investment Portfolios

Net Return on the Arena FINCOs investment portfolios is the aggregate of investment income, net of gains (losses) on investments less interest expense, management, asset servicing and incentive fees, and deal expenses and other operating expenses of the Arena FINCOs divided by average carrying values for the Arena FINCOs, for the period.

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.

16. CAUTIONARY NOTE REGARDING FUTURE ORIENTED FINANCIAL INFORMATION (continued)

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 the Arena FINCOs on the creditworthiness of borrowers; the ability of the Arena FINCOs to mitigate the risk of default by and bankruptcy of a borrower; the ability of the Arena FINCOs to adequately obtain, perfect and secure loans; the ability of the Arena FINCOs to limit the need for enforcement or liquidation procedures; the ability of the Arena FINCOs 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 26, 2020

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.

J. Cameron MacDonald	**Glenn G. MacNeil**
President and Chief Executive Officer	Chief Financial Officer

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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 (the "Company"), which comprise the consolidated statements of financial position as at December 31, 2019 and 2018, and the consolidated statements of profit and comprehensive income, changes in equity and cash flows 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, 2019 and 2018, 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 26, 2020

The Westaim Corporation
Consolidated Statements of Financial Position

(thousands of United States dollars)		December 31 2019		December 31 2018
ASSETS				
Cash	$	22,240	$	7,836
Income tax receivable (note 16)		427		-
Loans receivable (note 4)		-		14,660
Other assets (note 2j and 5)		2,298		982
Investments (note 2j and 6)		385,784		373,921
	$	410,749	$	397,399
LIABILITIES				
Accounts payable and accrued liabilities (note 7)	$	10,770	$	9,605
Income tax payable (note 16)		387		-
Preferred securities (note 8)		38,502		36,649
Derivative warrant liability (note 10)		1,921		2,382
Site restoration provision (note 11)		4,097		3,584
Deferred tax liability (note 16)		399		-
		56,076		52,220
Commitments and contingent liabilities (note 12)				
SHAREHOLDERS' EQUITY				
Share capital (note 13)		382,182		382,182
Contributed surplus (note 14)		17,486		16,516
Accumulated other comprehensive loss (note 2o)		(2,227)		(2,227)
Deficit		(42,768)		(51,292)
		354,673		345,179
	$	410,749	$	397,399

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

(thousands of United States dollars except share and per share data)	Year Ended December 31 2019	2018
Revenue		
Interest income (note 15)	$ 2,071	$ 3,060
Dividend income from investments in private entities (note 15)	4,698	-
Fee income (note 15)	2,404	1,440
	9,173	4,500
Net results of investments		
Unrealized gain on investments in private entities, net of dividends (note 6)	9,960	17,465
Share of loss from investment in associates (note 6)	(86)	(1,101)
Unrealized gain on other investments (note 6)	239	214
	10,113	16,578
Net expenses		
Salaries and benefits	3,674	3,746
General, administrative and other	947	1,032
Professional fees	1,024	910
Site restoration provision (note 11)	348	99
Share-based compensation (note 14)	1,418	1,557
Foreign exchange	1,070	(1,149)
Interest on preferred securities (note 8)	1,899	1,902
Interest on lease liability (note 5)	1	-
Derivative warrant (note 10)	(557)	(3,812)
	9,824	4,285
Income before income tax	9,462	16,793
Income tax expense (note 16)	(938)	-
Profit and comprehensive income	$ 8,524	$ 16,793
Earnings per share (note 17)		
Basic	$ 0.06	$ 0.12
Diluted	$ 0.06	$ 0.11
Common shares outstanding	143,187	143,187

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, 2019 (thousands of United States dollars)	Share Capital	Contributed Surplus	Accumulated Other Comprehensive Loss	Deficit	Total Equity
Balance at January 1, 2019	$ 382,182	$ 16,516	$ (2,227)	$ (51,292)	$ 345,179
Stock option plan expense (note 14)	-	970	-	-	970
Profit and comprehensive income	-	-	-	8,524	8,524
Balance at December 31, 2019	$ 382,182	$ 17,486	$ (2,227)	$ (42,768)	$ 354,673

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 14)	-	2,344	-	-	2,344
Profit and comprehensive income	-	-	-	16,793	16,793
Balance at December 31, 2018	$ 382,182	$ 16,516	$ (2,227)	$ (51,292)	$ 345,179

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 2019	2018
Operating activities		
Profit	$ 8,524	$ 16,793
Unrealized gain on investments in private entities, net of dividends (note 6)	(9,960)	(17,465)
Share of loss of associates (note 6)	86	1,101
Unrealized gain on other investments (note 6)	(239)	(214)
Share-based compensation (note 14)	1,418	1,557
Site restoration provision (note 11)	348	99
Site restoration net payments	(49)	-
Lease expense	(10)	(12)
Depreciation and amortization	49	42
Unrealized foreign exchange (gain) loss	1,484	(2,060)
Change in fair value of derivative warrant liability (note 10)	(557)	(3,812)
Change in income tax receivable (note 16)	(427)	-
Change in income tax payable (note 16)	387	-
Change in deferred tax Liability (note 16)	399	-
Net change in other non-cash balances		
Other assets	(1,115)	(262)
Accounts payable and accrued liabilities	1,007	632
Cash provided from (used in) operating activities	1,345	(3,601)
Investing activities		
Loans made to subsidiaries (note 4)	(3,789)	(3,717)
Repayment of loans made to subsidiaries (note 4)	18,601	11,109
Purchase of capital assets	(3)	(18)
Loans made to associates (note 6)	(1,750)	(3,750)
Cash provided from investing activities	13,059	3,624
Net increase in cash	14,404	23
Cash, beginning of period	7,836	7,813
Cash, end of period	$ 22,240	$ 7,836
Cash is composed of:		
Cash	$ 22,240	$ 7,836
Supplemental disclosure of cash flow information:		
Interest paid	$ 1,876	$ 1,942

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

1 Nature of Operations

The Westaim Corporation ("Westaim") was incorporated on May 7, 1996 by articles of incorporation under the Business Corporations Act (Alberta). Westaim'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 Westaim on March 26, 2020.

These consolidated financial statements include the accounts of Westaim and its wholly-owned subsidiaries, Westaim Management Limited Partnership ("Management LP"), Westaim Management GP Inc. ("Management GP"), Westaim HIIG GP Inc. ("HIIG GP"), Arena Finance Company II Inc. ("AFCII") and The Westaim Corporation of America ("WCA") and are collectively referred to as the "Company".

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 defined in note 6). Westaim's common shares are traded on the TSX Venture Exchange (the "TSXV") under the symbol WED.

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"), and the Arena FINCOs (as defined in note 6).

The financial statements of entities controlled by Westaim which provide investment-related services are consolidated. These entities consist of its wholly-owned subsidiaries, Management LP, Management GP, HIIG GP, AFCII 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 "*Investments in Associates and Joint Ventures*" ("IAS 28") 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 investment in Arena Investors, and is 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.

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, 2019, the Company's cash consisted of cash on deposit, including restricted cash on deposit of $3,000 (December 31, 2018 - $4,375) (see note 9).

(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) Leases

A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys a right to control the use of an identified asset, the Company assesses whether, i) the contract involves an identified asset, which is physically distinct and cannot be substituted by the supplier and ii) the Company has the right to obtain substantially all of the economic benefits from the use of the identified asset during the period of use, the Company has the right to operate the identified asset and the Company designed the identified asset in a way that predetermines how and for what purpose the identified asset will be used.

This policy is applied to contracts entered into or modified on or after January 1, 2019.

The Company recognizes a right-of-use asset and a lease liability at the lease commencement date. The right of use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made on or before the commencement date, plus any costs incurred to dismantle and remove the underlying asset or restore the underlying asset or the site on which it is located, less any lease incentives received.

The right of use asset is measured at cost less any accumulated depreciation and any accumulated impairment losses. Depreciation is measured using the straight line method from the commencement date to the earlier of the end of the useful life of the right of use asset or the end of the lease term.

2 Summary of Significant Accounting Policies (continued)

The lease liability is initially measured at the present value of the future lease payments not paid at the commencement date and the lease payments are discounted using the interest rate implicit in the lease if the rate can be readily determined, or the lessee's incremental borrowing rate if the rate cannot be determined.

In accordance with IFRS 16 "Leases" ("IFRS 16"), the Company has elected not to recognize right of use assets and lease liabilities for short term leases of less than a term of 12 months and leases of low value. The Company recognizes the lease payments associated with these leases as an expense on a straight line basis over the term of the lease.

(j) 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 including the impact of dividends and/or distributions 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.

During 2019, management reclassified its investment in ASOF LP (as hereinafter defined) of $2,708 (December 31, 2018 - $2,469) from other assets in the consolidated statements of financial position to investments to improve comparability of investment results. Comparative figures have been reclassified to conform to the presentation of the current period. Investment in ASOF LP is classified as FVTPL and are carried at fair value.

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.

(k) Income taxes

Income tax expense is recognized in the consolidated statements of profit and comprehensive income. Current tax which is based on taxable income in countries where the Company operates 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.

2 Summary of Significant Accounting Policies (continued)

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.

(l) 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.

(m) 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 high quality government bonds and inflation 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.

(n) 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.

(o) Accumulated other comprehensive loss

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

(p) Share-based compensation

The Company maintains share-based compensation plans, which are described in note 14. 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.

(q) 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

On January 13, 2016, the IASB issued IFRS 16, which replaced IAS 17 "Leases". As required, the Company adopted IFRS 16, effective January 1, 2019. IFRS 16 eliminates the distinction between operating and finance leases for lessees, requiring instead that the Company recognize a right-of-use asset and a lease liability at lease commencement for all leases, with certain exceptions permitted through elections and practical expedients on the transition date. As a result of the adoption of IFRS 16, on December 1, 2019, a right of use asset of $631 and a lease liability of $631 were recorded on the Company's consolidated statements of financial position (see note 5). The Company adopted the modified retrospective approach of adoption whereby comparative periods were not restated.

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

3 Accounting Pronouncements (continued)

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 adoption of IFRIC 23 did not have a material impact on the Company's consolidated financial statements.

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$") 50,000 to the Arena FINCOs (as defined in note 6) (the "Arena FINCOs Demand Loan") on market terms. The Arena FINCOs Demand Loan was denominated in C$, repayable on demand (with a final repayment date not later than June 9, 2022) and secured by the assets of the Arena FINCOs. The Arena FINCOs Demand Loan carried 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 was due at the end of each calendar quarter.

At December 31, 2018, C$30,000 in principal repayments had been made by the Arena FINCOs and on May 9, 2019 and September 4, 2019, the loan was further repaid by C$2,350 and C$17,650, respectively, resulting in an outstanding loan of C$nil to the Arena FINCOs at December 31, 2019 (C$20,000 to the Arena FINCOs at December 31, 2018).

The Arena FINCOs Demand Loan was recorded under loans receivable in the consolidated statements of financial position. The Arena FINCOs Demand Loan was translated into US$ at rates of exchange at the end of each reporting period and any resulting foreign exchange gain or loss was included in the consolidated statements of profit and comprehensive income. At December 31, 2019 and 2018, the carrying amount of the Arena FINCOs Demand Loan, which was recorded at fair value, totaled $nil and $14,660, respectively. The Company recorded a foreign exchange gain relating to the Arena FINCOs Demand Loan of $313 and a foreign exchange loss of $1,707 for the years ended December 31, 2019 and 2018, respectively.

Interest on the Arena FINCOs Demand Loan earned and received by the Company totaled $680 and $1,385 for the years ended December 31, 2019 and 2018, respectively, and was included in interest income in the consolidated statements of profit and comprehensive income.

5 Other Assets

Other assets consist of the following:

	December 31, 2019	December 31, 2018[1]
Capital assets	$ 36	$ 71
Right of use asset (a)	620	-
Receivables from related parties (b)	1,119	727
Fair value of foreign exchange forward contract (note 9)	244	-
Accounts receivable and other	279	184
	$ 2,298	$ 982

[1] Adjusted to conform to the presentation of the current year.

(a) Effective, December 1, 2019, Westaim entered into a new operating lease for its office premises in Toronto expiring on November 30, 2024. At the commencement date of the lease, a right of use asset was recorded at cost under other assets and a lease liability was recorded at amortized cost under accounts payable and accrued liabilities in the consolidated statements of financial position. Subsequent to initial recognition, the right of use asset is depreciated using the straight-line method over the term of the lease with depreciation recorded in the consolidated statements of profit and comprehensive income. Each lease payment reduces the lease liability and the accretion of the lease liability is recorded as interest expense in the consolidated statements of profit and comprehensive income.

The right of use asset recorded for the office premises was $620 and $nil at December 31, 2019 and 2018, respectively. The depreciation on the right of use asset for the years ended December 31, 2019 and 2018 was $11 and $nil, respectively.

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

5 Other Assets (continued)

The lease liability recorded for the office premises was $645 and $nil at December 31, 2019 and 2018, respectively. The lease payments were $nil and the interest expense on the lease liability was $1 for the year ended December 31, 2019. The lease payments and the interest expense on the lease liability were $nil for the year ended December 31, 2018. The Company recorded a foreign exchange loss relating to the lease liability of $13 and $nil for the years ended December 31, 2019 and 2018, respectively.

(b) Receivables from related parties totaled $1,119 at December 31, 2019 and $727 at December 31, 2018 and included certain expenses paid by the Company on behalf of the Arena Group and HIIG from time to time which are subject to reimbursement.

6 Investments

The carrying values of the Company's investments in private entities, associates and Arena Special Opportunities Fund, LP ("ASOF LP") included under investments in the consolidated statements of financial position are as follows:

	December 31, 2019	December 31, 2018[1]
Investments in private entities	$ 370,803	$ 360,843
Investment in associates	12,273	10,609
Investment in Arena Special Opportunities Fund, LP ("ASOF LP")	2,708	2,469
	$ 385,784	$ 373,921

[1] Adjusted to conform to the presentation of the current year.

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, 2019	Ownership interest as at December 31, 2018[1]
Investments in private entities:				
- HIIG Partnership	Ontario, Canada	Ontario, Canada	62.0% owned by the Company[2]	58.5% owned by the Company
- Arena FINCOs (as hereinafter defined)	Ontario, Canada/ Delaware, U.S.[3]	Ontario, Canada/ New York, U.S.[3]	100% owned by the Company	100% owned by the Company
Investment in associates:				
- Arena Investors (as hereinafter defined)	Delaware, U.S.	New York, U.S.	51% beneficially owned by the Company[4]	51% beneficially owned by the Company[4]

[1] Adjusted to conform to the presentation of the current year.
[2] On July 1, 2019, HIIG Partnership units held by certain unitholders were redeemed in accordance with the terms of the HIIG Partnership and exchanged for shares of HIIG resulting in an increase in the Company's ownership interest in the HIIG Partnership from 58.5% to 62.0% and a decrease in the HIIG Partnership's ownership of HIIG shares from 75.1% to 71.0%. The Company's indirect ownership of HIIG (through the HIIG Partnership) remained unchanged at approximately 44.0%.
[3] In 2019, the Arena FINCOs' Canadian entity was dissolved and two new entities were established in Delaware, U.S with the principal place of business in New York, U.S.
[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 ("BP LLC") described below under "Investment in Associates".

The HIIG Partnership and Arena FINCOs are investment entities, as defined in IFRS 10, and the Company accounts for these investments at FVTPL instead of consolidating them. The subsidiaries of the HIIG Partnership and Arena FINCOs are as follows:

	Place of establishment	Principal place of business	Ownership interest as at December 31, 2019	Ownership interest as at December 31, 2018[1]
HIIG Partnership:				
- Houston International Insurance Group, Ltd. ("HIIG")	Delaware, U.S.	Texas, U.S.	71.0% owned by HIIG Partnership	75.1% owned by HIIG Partnership
Arena FINCOs:				
- Arena Finance Company Inc. ("AFC")	Ontario, Canada	Ontario, Canada	na[2]	100% owned by the Company
- Arena Finance Holdings Co., LLC ("AFHC")	Delaware, U.S.	New York, U.S.	100% owned by the Company[2]	100% owned by AFC[2]
- Arena Finance, LLC ("AF")	Delaware, U.S.	New York, U.S.	100% owned by AFHC	na[3]
- Westaim Origination Holdings Inc. ("WOH")	Delaware, U.S.	New York, U.S.	100% owned by the Company	100% owned by the Company
- Arena Origination Co., LLC ("AOC")	Delaware, U.S.	New York, U.S.	100% owned by WOH	100% owned by WOH

[1] Adjusted to conform to the presentation of the current year.
[2] On October 1, 2019, AFC was dissolved resulting in the Company owning 100% of AFHC. Prior to the dissolution of AFC, AFC owned 100% of AFHC and its subsidiaries.
[3] On October 1, 2019, AF was established.

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

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 businesses:

- Arena Investors – Westaim Arena Holdings II, LLC ("WAHII"), through its subsidiaries, operates as an investment manager offering clients access to fundamentals-based, asset-oriented credit investments. In 2018, Arena Investors included the Company's investment in WAHII, ASOF-ON GP, and ASOF-OFF II GP. Effective January 1, 2019, the Company and BP LLC, transferred their interests in ASOF-ON GP and ASOF-OFF II GP, respectively to WAHII. 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. 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.

- The Arena FINCOs – The Arena FINCOs include specialty finance companies that primarily purchase fundamentals-based, asset-oriented credit investments for their own account and a company that facilitates the origination of fundamentals-based, asset-oriented credit investments for its own account and/or possible future sale to specialty finance companies, clients of Arena Investors and/or other third parties. The Company's investments in the Arena FINCOs is measured at FVTPL in the Company's consolidated financial statements. See "Investments in Private Entities" below.

Arena Investors and the Arena FINCOs 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 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, 2019	Fair value	Level 1	Level 2	Level 3
Investments in private entities:				
- HIIG Partnership	$ 164,953	-	-	$ 164,953
- Arena FINCOs	205,850	-	-	205,850
	$ 370,803	$ -	$ -	$ 370,803

As at December 31, 2018[1]	Fair value	Level 1	Level 2	Level 3
Investments in private entities:				
- HIIG Partnership	$ 162,118	-	-	$ 162,118
- Arena FINCOs	198,725	-	-	198,725
	$ 360,843	$ -	$ -	$ 360,843

[1] Adjusted to conform to the presentation of the current year.

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

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, 2019	Opening balance	Additions - Equity	Repayment of term loan	Unrealized gain before dividends	Dividends paid	Ending balance
Investments in private entities:						
- HIIG Partnership	$ 162,118	$ -	$ -	$ 2,835	$ -	$ 164,953
- Arena FINCOs	198,725	10,000	(10,000)	11,823	(4,698)	205,850
	$ 360,843	$ 10,000	$ (10,000)	$ 14,658	$ (4,698)	$ 370,803

Year ended December 31, 2018[1]	Opening balance	Additions - Equity	Repayment of term loan	Unrealized gain before dividends	Dividends paid	Ending Balance
Investments in private entities:						
- HIIG Partnership	$ 157,107	$ -	$ -	$ 5,011	$ -	$ 162,118
- Arena FINCOs	186,271	-	-	12,454	-	198,725
	$ 343,378	$ -	$ -	$ 17,465	$ -	$ 360,843

[1] Adjusted to conform to the presentation of the current year.

There were no transfers among Levels 1, 2 and 3 during the years ended December 31, 2019 and 2018.

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 holding company that underwrites select property, casualty, surety, and accident and health insurance coverages through its insurance subsidiaries.

At December 31, 2019, the Company owned approximately 62.0% of the HIIG Partnership, representing an approximate 44.0% indirect ownership interest in HIIG.

Westaim controls the HIIG Partnership through its ownership of approximately 62.0% 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 71.0% of the issued and outstanding common shares of HIIG ("HIIG Shares") at December 31, 2019. 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 to July 31, 2019. The HIIG MSA was further amended such that HIIG GP is entitled to receive from HIIG an advisory fee of $500 annually effective August 1, 2019.

<u>FVTPL</u>

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 $164,953 at December 31, 2019 and $162,118 at December 31, 2018.

6 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 $164,953 at December 31, 2019. The fair value of the HIIG Partnership at December 31, 2019 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, 2019. 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, 2019 and 2018, given that this is the valuation technique which a market participant would employ.

On February 25, 2020 HIIG executed a commitment letter to enter into a loss portfolio transfer ("LPT") reinsurance agreement. Pursuant to the commitment letter, HIIG agreed to cede $118,800 of net claim reserves for certain divisions, primarily related to 2017 and prior policy years. The LPT provides reinsurance protection of approximately $127,400 above the net ceded claim reserves and is subject to co-participations at specified amounts. The LPT is expected to result in a pretax charge and after tax charge of approximately $43,500 and $34,400, respectively, in the first half of 2020. Completion of the transaction is subject to, among other things, regulatory approvals and satisfaction of various other customary closing conditions.

The significant unobservable inputs used in the valuation were the multiple applied and the adjusted book value of HIIG as at December 31, 2019. Management applied a multiple of 1.1x to the adjusted book value of HIIG at December 31, 2019 (December 31, 2018 - 1.1x). In determining the adjusted book value of HIIG, the after tax charge of the LPT was deducted from the book value of HIIG as at December 31, 2019. The adjusted book value of HIIG as at December 31, 2019 reflected 100% of HIIG stockholders' equity obtained from the audited financial statements of HIIG prepared in accordance with United States generally accepted accounting principles ("US GAAP"), adjusted for the after tax charge of the LPT and 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 $2,835 and $5,011 in the years ended December 31, 2019 and 2018, 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, 2019 was higher by $1,000, the fair value of the Company's investment in the HIIG Partnership at December 31, 2019 would have increased by approximately $484 (December 31, 2018 - $483) and the unrealized gain on investments in private entities for the year ended December 31, 2019 would have increased by approximately $484 (2018 - $483). If HIIG stockholders' equity at December 31, 2019 was lower by $1,000, an opposite effect would have resulted.

Investment in the Arena FINCOs

The Company owns a 100% interest in the Arena FINCOs and exercises control over the businesses of the Arena FINCOs.

Each of AOC and AFHC is governed by the terms of a limited liability company agreement, originally dated August 31, 2015, as amended from time to time, between Bernard Partners, LLC ("BP LLC"), a limited liability company controlled by certain members of the Arena Group management team, and a wholly-owned subsidiary of the Company setting forth the rights and obligations each of BP LLC and the Company (through its relevant subsidiary) as members of each of AOC and AFHC. Under each such agreement, BP LLC was issued Class M units which were 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 each of AOC and AFHC. The Class M units were to vest equally over 5 years from August 31, 2015 and carry escalating conversion prices in excess of the price paid by the Company for its investment in AOC and AFHC. On December 31, 2018, the Company, through AOC and AFHC redeemed all Class M units of each of AOC and AFHC outstanding for the aggregate "in the money" amount of $724 and this amount was recorded as a liability on the financial statements of the Arena FINCOs at December 31, 2018 and therefore reflected in their fair value. The liability of $724 was paid to BP LLC on March 27, 2019.

6 Investments (continued)

In connection with the capitalization of the Arena FINCOs, the Company granted a term loan (the “Arena FINCOs Term Loan”) with a balance of $10,000 outstanding at December 31, 2018. The Arena FINCOs Term Loan had a seven year term to August 31, 2022, was unsecured and carried interest at a rate of 7.25% per annum, with interest due on or before January 1 of each year during the term. On April 1, 2019, the Company converted the Arena FINCOs Term Loan of $10,000 into additional common shares of WOH and as a result the balance of the 7.25% term loan was $nil at December 31, 2019 (December 31, 2018 - $10,000).

On September 30, 2019, October 21, 2019 and November 13, 2019, the Arena FINCOs paid a cash dividend to the Company in the amount of $882, $1,799 and $1,900, respectively, and on October 1, 2019 Arena FINCOs issued a dividend in kind to the Company in the amount of $117, resulting in a decrease of $4,698 in the Company’s carrying value of the Arena FINCOs. No dividends were paid or issued in kind in 2018.

FVTPL

The Company’s investment in the Arena FINCOs are accounted for at FVTPL and are included in investments in private entities. The fair value of the Company’s investment in the Arena FINCOs was determined to be $205,850 at December 31, 2019 and $198,725 at December 31, 2018.

Management used net asset value as the primary valuation technique and determined that 100% (or 1.0x) of the equity of the Arena FINCOs at December 31, 2019 in the amount of $205,850 approximated the fair value of the Company’s investment in the Arena FINCOs. Management determined that the net asset value valuation technique produced the best indicator of the fair value of the Arena FINCOs at December 31, 2019. This same valuation technique was used to determine the fair value of the Company’s investment in the Arena FINCOs of $198,725 at December 31, 2018.

The significant unobservable inputs used in the valuation of the Arena FINCOs at December 31, 2019 were the aggregate equity of the Arena FINCOs at December 31, 2019 and the multiple applied. Management applied a multiple of 1.0x as the equity of each of the entities reflected the net assets of the respective entity which were carried at fair value at December 31, 2019, as described below. The equity contained certain significant judgments and estimates made by management of the Arena FINCOs, 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 the Arena FINCOs approximate their fair values due to the short maturity of these financial instruments. The Arena FINCOs 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 Arena FINCOs 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, which 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.

6 Investments (continued)

- 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.

- 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 Arena FINCOs 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 Arena FINCOs. 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 investment in the Arena FINCOs at the end of each reporting period.

The Company recorded unrealized gains on its investment in the Arena FINCOs of $11,823 before dividends paid to the Company of $4,698 in the year ended December 31, 2019 and unrealized gains on its investment in the Arena FINCOs of $12,454 in the year ended December 31, 2018. There were no dividends paid in the year ended December 31, 2018. The operating results of the Arena FINCOs includes interest expense on the Arena FINCOs Term Loan and the Arena FINCOs Demand Loan from the Company to the Arena FINCOs of $859 and $2,110 in the years ended December 31, 2019 and 2018, respectively.

For purposes of assessing the sensitivity of the equity of the Arena FINCOs on the valuation of the Company's investment in the Arena FINCOs, if the equity of the Arena FINCOs at December 31, 2019 was higher by $1,000, the fair value of the Company's investment in the Arena FINCOs at December 31, 2019 would have increased by $1,000 (December 31, 2018 - $1,000) and the unrealized gain on investments in private entities for the year ended December 31, 2019 would have increased by $1,000 (2018 - $1,000). If the equity of the Arena FINCOs at December 31, 2019 was lower by $1,000, an opposite effect would have resulted.

INVESTMENT IN ASSOCIATES

On August 31, 2015, agreements were entered into between the Company and BP LLC in respect of Arena Investors (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.

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

6 Investments (continued)

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

	December 31, 2019	December 31, 2018[1]
Financial information of associates:		
Assets	$ 27,363	$ 19,021
Liabilities	(42,765)	(34,255)
Net liabilities	$ (15,402)	$ (15,234)
Company's share	$ (7,727)	$ (7,641)
Arena Investors' Revolving Loan with the Company	20,000	18,250
Carrying amount of the Company's investment in associates	$ 12,273	$ 10,609

	Year ended December 31, 2019	Year ended December 31, 2018[1]
Financial information of associates:		
Revenue	$ 28,646	$ 21,343
Operating expenses [2]	(28,813)	(23,503)
Loss and comprehensive loss	$ (167)	$ (2,160)
Company's share of loss of associates (51%)	$ (86)	$ (1,101)

[1] Adjusted to conform to the presentation of the current year.
[2] Includes interest expense on the Arena Investors' Revolving Loan granted by the Company of $1,018 and $856 in the years ended December 31, 2019 and 2018, respectively.

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

	December 31, 2019	December 31, 2018
Carrying amount of investment in associates:		
Opening balance	$ 10,609	$ 7,960
Company's share of loss of associates (51%)	(86)	(1,101)
Addition - Arena Investors' Revolving Loan with the Company	1,750	3,750
Ending balance	$ 12,273	$ 10,609

On March 6, 2019, the Company amended the Arena Investors' Revolving Loan from the limit of $20,000 to $25,000 in order to continue funding growth initiatives and working capital needs of Arena Investors. The loan facility had a term of 36 months to December 21, 2020, which has been extended to March 31, 2023 and bears interest at a rate of 5.25% per annum. Arena Investors had drawn down the loan facility by $20,000 and $18,250 at December 31, 2019 and 2018, respectively. The loan facility is secured by all the assets of Arena Investors. The Company earned and received interest on the Arena Investors' Revolving Loan of $1,018 and $856 for the years ended December 31, 2019 and 2018 respectively and was reported under "Interest income" in the consolidated statements of profit and comprehensive income.

The total of the Company's 51% share of loss of the associates was $86 and $1,101 in the years ended December 31, 2019 and 2018, respectively, and was reported under "Share of loss from investment in associates" in the consolidated statements of profit and comprehensive income.

INVESTMENTS IN ASOF-LP

The Company's investments in ASOF LP, a fund managed by Arena Investors, LP, is classified at Level 3 of the fair value hierarchy and measured at FVTPL. At December 31, 2019 and 2018, the fair value of the Company's interest in ASOF LP was determined by Arena Investors to be $2,708 and $2,469, respectively. The Company reported unrealized gains of $239 and $214 in the years ended December 31, 2019 and 2018, respectively, with respect to the investment in the consolidated statements of profit and comprehensive income.

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

7 Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities consist of the following:

	December 31, 2019	December 31, 2018
RSUs (note 14)	$ 6,192	$ 5,738
DSUs (note 14)	1,312	981
Lease liability (note 5)	645	-
Interest on Preferred Securities (note 8)	485	462
Fair value of foreign exchange forward contract (note 9)	-	630
Other accounts payable and accrued liabilities	2,136	1,794
Ending balance	$ 10,770	$ 9,605

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 10) (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, 2019 and December 31, 2018.

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 $38,502 and $36,649 at December 31, 2019 and 2018, respectively. The Company recorded an unrealized foreign exchange loss relating to the Preferred Securities of $1,852 and an unrealized foreign exchange gain of $3,227 in the years ended December 31, 2019 and 2018, respectively.

Interest on the Preferred Securities amounted to $1,899 and $1,902 in the years ended December 31, 2019 and 2018, respectively. Accrued interest was $485 and $462 at December 31, 2019 and 2018, respectively, and was reported under accounts payable and accrued liabilities in the consolidated statements of financial position.

9 Foreign Currency Forward Contract

On December 21, 2017, the Company entered into a Canadian dollar currency forward contract to sell $15,840 and buy C$20,000 to manage the Canadian dollar currency exposures including the 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 Canadian dollar currency forward contract to sell $26,284 and buy C$35,000 to manage the Canadian dollar currency exposures including the currency exposure arising from the Preferred Securities. The contract matured on December 20, 2019 and resulted in a realized foreign exchange gain of $399. On December 20, 2019, the Company entered into a new Canadian dollar currency forward contract to sell $30,558 and buy C$40,000 to manage the Canadian dollar currency exposures including the 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 these Canadian dollar currency forward contracts as accounting hedges. A gain was accrued on the Canadian dollar currency forward contract in the amount of $244 at December 31, 2019 and was recorded under other assets in the consolidated statements of financial position. A loss was accrued on the Canadian dollar currency 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. The foreign exchange gain relating to the forward contract was $1,272 and the foreign exchange loss relating to the forward contract was $1,706 for the years ended December 31, 2019 and 2018, respectively, and was reported under foreign exchange in the consolidated statements of profit and comprehensive income. In connection with Canadian dollar currency 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 $3,000 (December 31, 2018 - $4,375) as security. The security shall remain in effect for the duration of the outstanding Canadian dollar currency forward contract.

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

10 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.

Changes to the derivative warrant liability are as follows:

	Year ended December 31, 2019	Year ended December 31, 2018
Opening balance	$ 2,382	$ 6,678
Change in fair value – (gain)	(557)	(3,812)
Unrealized foreign exchange - loss (gain)	96	(484)
Ending balance	$ 1,921	$ 2,382

The Company recognized unrealized gains resulting from a change in the fair value of the vested Warrants of $557 and $3,812 in the years ended December 31, 2019 and 2018, respectively. The Company also recorded an unrealized foreign exchange loss with respect to the vested Warrants of $96 and an unrealized gain of $484 in the years ended December 31, 2019 and 2018, respectively, under foreign exchange in the consolidated statements of profit and comprehensive income. At December 31, 2019 and 2018, a liability of $1,921 and $2,382, 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, 2019 of $1,921 (December 31, 2018 - $2,382) was estimated using the Monte Carlo pricing model assuming no dividends are paid on the common shares, a risk-free interest rate of 1.69% (December 31, 2018 - 1.87%), an expiration date between January 1, 2020 and June 2, 2024 (December 31, 2018: January 1, 2019 and June 2, 2024), a volatility of the underlying common shares of the Company of 23.23% (December 31, 2018 – 23.42%), a closing price of common shares of C$2.65 (December 31, 2018 - C$2.58) 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.

11 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, 2019	Year ended December 31, 2018
Opening balance	$ 3,584	$ 3,770
Changes due to:		
Indemnity payment for site restoration	(341)	-
Indemnity recovery for site restoration	292	-
Estimates of future expenditures	(839)	102
Present value adjustment	1,187	(3)
Unrealized foreign exchange loss (gain)	214	(285)
Ending balance	$ 4,097	$ 3,584

11 Site Restoration Provision (continued)

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.

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 adjusted for the present value of the estimated future restoration costs discounted using interest rates of high quality government bonds and inflation in relation to the estimated timing of cash outflows.

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

12 Commitments and Contingent Liabilities

(a) In connection with foreign exchange forward contract which the Company entered into on December 20, 2019, the Company has obtained a credit facility under which the Company has pledged cash on deposit of $3,000 (December 31, 2018 - $4,375) as security (see note 9).

(b) Effective, December 1, 2019, Westaim entered into a new operating lease for the office premises in Toronto expiring on November 30, 2024. At December 31, 2019, the Company had a total commitment of $1,367 for future occupancy cost payments including payments due not later than one year of $255 and payments due later than one year of $1,112. 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.

13 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, 2019 and 2018, 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, 2019 and 2018.

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, 2019 and 2018.

14 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, 2019. 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. As the DSUs are settled solely in cash, they are not included in the 10% limitation referred to above.

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.

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

14 Share-based Compensation (continued)

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

	Year ended December 31, 2019		Year ended December 31, 2018	
	Number	Weighted Average Exercise Price	Number	Weighted Average Exercise Price
Opening balance	10,428,337	C$ 3.10	6,613,337	C$ 3.10
Granted	-	C$ -	3,815,000	C$ 3.10
Ending balance	10,428,337	C$ 3.10	10,428,337	C$ 3.10
Options exercisable at end of period	9,156,670	C$ 3.10	5,680,558	C$ 3.10

As at December 31, 2019 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	5.05	C$ 3.10	2,543,333	C$ 3.10
C$ 3.00	3,860,397	4.26	C$ 3.00	3,860,397	C$ 3.00
C$ 3.25	2,752,940	3.25	C$ 3.25	2,752,940	C$ 3.25
	10,428,337	4.28	C$ 3.10	9,156,670	C$ 3.10

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

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. 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. These 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. These 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.

No options were granted or issued in the year ended December 31, 2019.

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 $970 and $2,344 in the years ended December 31, 2019 and 2018, respectively, with a corresponding increase to contributed surplus.

Restricted Share Units - RSUs vested on specific dates and became payable when vested with either cash or common shares of the Company, at the option of the holder.

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

14 Share-based Compensation (continued)

Changes to the number of RSUs are as follows:

	Year ended December 31	
	2019	2018
Opening balance	3,034,261	3,034,261
Exercised	-	-
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. These RSUs have a term of fifteen years from date of issue and at December 31, 2019, all of these RSUs had vested, of which 265,937 RSUs had been exercised and 2,109,063 RSUs were outstanding.

On April 1, 2016, an additional 925,198 RSUs were granted to certain officers and employees of the Company. These RSUs have a term of fifteen years from date of issue and at December 31, 2019, all of these RSUs had vested and none have been exercised.

There were 3,034,261 RSUs outstanding at December 31, 2019 and December 31, 2018. No RSUs were granted or exercised in the years ended December 31, 2019 and 2018.

Compensation expenses relating to RSUs, including the impact of the change in the market value of the Company's common shares was $169 and a recovery of $827 for the years ended December 31, 2019 and 2018, respectively. At December 31, 2019, a liability of $6,192 (December 31, 2018 - $5,738) had been accrued by the Company 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 solely 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	
	2019	2018
Opening balance	518,855	416,529
Granted	123,924	102,326
Ending balance	642,779	518,855

In the year ended December 31, 2019, 123,924 DSUs were issued in lieu of director fees of $244 and in the year ended December 31, 2018, 102,326 DSUs were issued in lieu of director fees of $228. No DSUs were exercised in the years ended December 31, 2019 and 2018.

Compensation expenses relating to DSUs, including the impact of the change in the market value of the Company's common shares was $279 and $40 in the years ended December 31, 2019 and 2018, respectively. At December 31, 2019, a liability of $1,312 (December 31, 2018 - $981) had been accrued with respect to outstanding DSUs in the consolidated statements of financial position.

15 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	
	2019	2018
Salaries and benefits	$ 3,186	$ 3,311
Share-based compensation	1,401	1,550
	$ 4,587	$ 4,861

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

15 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 were $136 and $138 in the years ended December 31, 2019 and 2018, respectively. Compensation relating to RSUs issued to the Consultant was an expense of $3 and a recovery of $23 for the years ended December 31, 2019 and 2018, respectively, and the amounts were included in the consolidated statements of profit and comprehensive income under share-based compensation expense. At December 31, 2019, a liability of $121 (December 31, 2018 - $112) had been accrued in the consolidated statements of financial position with respect to outstanding RSUs held by the Consultant.

The Company received a cash dividend from the Arena FINCOs in the amount of $4,581 and a dividend in kind in the amount of $117 in the year ended December 31, 2019. No dividends were received in 2018.

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

	Year ended December 31 2019	2018
Related parties:		
Arena FINCOs Term Loan (note 6)	$ 179	$ 725
Arena FINCOs Demand Loan (note 4 and 6)	680	1,385
Arena Investors Revolving Loan (note 6)	1,018	856
	$ 1,877	$ 2,966
Unrelated parties:		
Interest earned on bank balances	194	94
	$ 2,071	$ 3,060

The Company earned advisory fees of $791 and $1,000 from HIIG in the years ended December 31, 2019 and 2018, respectively and the Company earned advisory fees of $1,613 and $440 from the Arena Group in the years ended December 31, 2019 and 2018, respectively. 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 each of AOC and AFHC held by BP LLC were redeemed. Redemption payments in respect of the redemption of the M units of each of AOC and AFHC in the amount of $724, were paid to BP LLC on March 27, 2019.

16 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 2019	2018
Unrealized gain on investments in private entities	$ (862)	$ (2,314)
Non-capital loss carry-forwards	-	2,314
Difference between statutory and foreign tax credits	96	-
	$ (766)	$ -

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

	December 31, 2019	December 31, 2018
Non-capital loss carry-forwards	$ 38,612	$ 30,237
Capital loss carry-forwards	5,380	5,121
Deductible temporary differences	11,138	13,928
Corporate minimum tax credits	342	325
Investment tax credits	2,758	3,330

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

16 Income Taxes (continued)

The unrecognized non-capital losses and investment tax credits will expire at various times to the end of 2039, as follows:

Non-capital losses by year of expiry:		
2032	$	7,739
2033		2,949
2034		3,757
2035		1,988
2036		69
2037		10,200
2038		5,817
2039		6,093
	$	38,612

Investment tax credits by year of expiry:		
2020	$	634
2021		495
2022		249
2023		135
2024		306
Beyond 2025		939
	$	2,758

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	
	2019	2018
Profit before income tax	$ 9,462	$ 16,793
Statutory income tax rates	26.5%	26.5%
Income taxes at statutory income tax rates	2,507	4,450
Variations due to:		
Non-taxable portion of unrealized loss (gain) on investments in private entities	132	(2,314)
Tax losses allocated from the HIIG Partnership	(45)	(22)
Non-taxable items	(1,120)	(517)
Difference between statutory and foreign tax rates	(51)	22
Unrecognized temporary differences	(14)	(1,471)
Unrecognized tax losses	(471)	(148)
Income tax expense	$ 938	$ -

At December 31, 2019, a current income tax receivable from the Canadian federal tax authority of $427 and current income tax payables to the United States federal tax authority of $387 were recorded in the consolidated statements of financial position. At December 31, 2018, there was no current income tax receivable or payable recorded in the consolidated statements of financial position.

At December 31, 2019, a deferred income tax liability for United States federal taxes of $399 was recorded in the consolidated statements of financial position and at December 31, 2018, there was no deferred tax liability recorded in the consolidated statements of financial position.

Income tax expense recorded in the consolidated statements of profit and comprehensive income was $938 and $nil in the years ended December 31, 2019 and 2018, respectively. Income tax expense consists of current Canadian tax recoveries in the amount of $132 (2018 - $nil), current United State tax expenses of $304 (2018 - $nil) and deferred United State tax expenses of $766 (2018 - $nil).

17 Earnings per Share

The Company had 10,428,337 stock options, 3,034,261 RSUs and 14,285,715 Warrants outstanding at December 31, 2019 and 2018. The stock options and Warrants for the years ended December 31, 2019 and 2018 were excluded in the calculation of diluted earnings per share as they were not dilutive. The RSUs for the year ended December 31, 2019 and 2018 were included in the calculation of diluted earnings per share as they were dilutive.

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

17 Earnings per Share (continued)

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

	Year ended December 31 2019	2018[1]
Basic earnings per share:		
Profit	$ 8,524	$ 16,793
Weighted average number of common shares outstanding	143,186,718	143,186,718
Basic earnings per share	$ 0.06	$ 0.12
Diluted earnings per share:		
Profit	$ 8,524	$ 16,793
Dilutive RSU expense (recovery)	454	(1,416)
Profit on a diluted basis	$ 8,978	$ 15,377
Weighted average number of common shares outstanding	143,186,718	143,186,718
Dilutive impact of RSUs	3,034,264	2,963,557
Weighted average number of common shares outstanding on a dilutive basis	146,220,979	146,150,275
Diluted earnings per share	$ 0.06	$ 0.11

[1] Adjusted to conform to the presentation of the current year.

18 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.

19 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, 2019 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 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.

19 Financial Risk Management (continued)

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, 2019, the Company's short-term financial liabilities amounted to $3,008 (December 31, 2018 - $2,886), and the Company has access to cash and other resources to meet these financial obligations.

Currency risk

The Company's C$ denominated monetary liabilities exceed C$ denominated monetary assets, including its C$40 million (December 2018 – C$35 million) foreign exchange forward contract. A 10% strengthening of the C$ against the US$ would have increased the foreign exchange loss for the year ended December 31, 2019 by approximately $1,534. A similar weakening of the C$ 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 investment in HIIG (through the HIIG Partnership) and the Arena FINCOs 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 investment 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.

20 Subsequent Events

In the period subsequent to December 31, 2019, global financial markets have been experiencing significant volatility. During this period, in respect of the Company's investment in HIIG LP, declines in multiples of book value are observed for peer insurance companies, implying a decline in the multiple applied to the adjusted book value of HIIG. The value of HIIG's and the Arena FINCOs' investment portfolios could also be impacted as a result of the financial market volatility. Since these market conditions are continuing to fluctuate significantly, it is not possible to reliably estimate the length and severity of these developments and the impact on the financial results and condition of the Company and its investments in future periods. These market events are not representative of market conditions that existed as at the December 31, 2019 valuation date.

On March 19, 2020, the Company committed to invest $44 million into a $100 million HIIG's rights offering ("Rights Offering"), representing the Company's pro rata ownership of HIIG common shares ("HIIG Common Shares") through HIIG LP. Under the Rights Offering, existing holders of HIIG Common Shares, including HIIG LP unitholders, are entitled to subscribe for an aggregate of two million shares of Series A Convertible Preferred Stock (the "Preferred Shares") at $50 par value on a pro rata basis. The Rights Offering is expected to close during the first half of 2020 and is subject to customary closing conditions. In order to help fund the Company's Rights Offering commitment, the Company received cash distributions in January and early March totaling $35 million from the Arena FINCOs.

The Preferred Shares will initially be convertible into HIIG Common Shares based on a conversion price equal to $1.74 (the "Conversion Price"). Upon completion by HIIG of the LPT transaction, the Conversion Price will be reduced for the after-tax cost of the LPT transaction (on a per share basis) and will also be subject to adjustment from time to time based on the occurrence of certain events. In the event of any liquidation of HIIG, holders of the Preferred Shares will be entitled to receive in preference to the holders of the HIIG Common Shares an amount equal to the aggregate of the (i) the face value of each Preferred Share held plus (ii) the amount of any declared but unpaid dividends payable in respect of the HIIG Common Shares underlying such Preferred Shares. At all meetings of shareholders of HIIG holders of the Preferred Shares will be entitled to such number of votes as is equal to the total number of HIIG Common Shares (disregarding fractions) issuable upon the conversion in full of the Preferred Shares at the then applicable Conversion Price.

SHAREHOLDER INFORMATION

BOARD OF DIRECTORS

Stephen R. Cole [1, 2, 3, 5, 6]

Lead Director, The Westaim Corporation
President, Seeonee Inc.

J. Cameron MacDonald

President and Chief Executive Officer, The Westaim Corporation

Ian W. Delaney [3]

Executive Chairman, The Westaim Corporation

Bruce V. Walter [1, 2, 3]

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

John W. Gildner [1, 2, 3, 4]

Independent Businessman

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*

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

STOCK INFORMATION

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

Shares issued and outstanding at December 31, 2019 were 143,186,718

TRANSFER AGENT & REGISTRAR

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