THE WESTAIM CORPORATION

ANNUAL REPORT 2020

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

WESTAIM

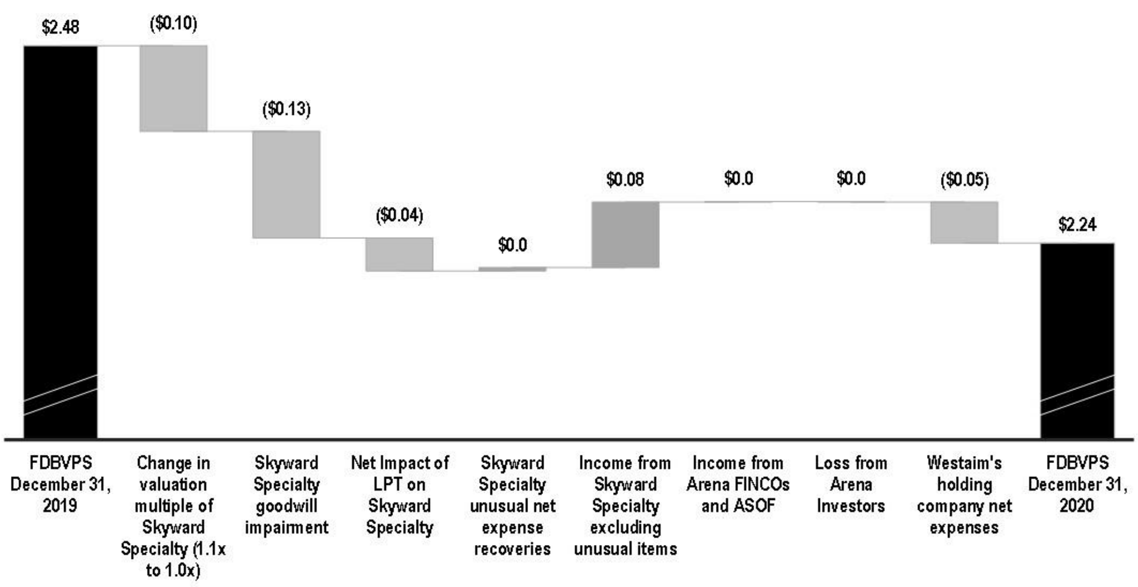
March 25, 2021

Dear Fellow Shareholders,

We are mindful that the COVID-19 pandemic continues to inflict significant health and economic concerns and that monetary and fiscal authorities throughout the world continue to coordinate aggressive stimulus programs to revive economic growth. The financial volatility of the past year has been ruthless to the vulnerable and rewarding to the prepared. Importantly, as we shared with you during our September 22, 2020 Investor Day, Westaim was prepared and very fortunate that all of our partners and employees have remained healthy. We are also fortunate that Skyward Specialty Insurance Group, Inc. ("Skyward Specialty") and Arena Investors, LP ("Arena Investors") executed their respective business continuity plans admirably and were able to prosper and grow in such a challenging period, certainly well above our tempered expectations from last March. It would be negligent of me not to repeat the Westaim's board's sincere appreciation and gratitude to all of our Skyward Specialty and Arena Investors' partners, and their families, for their extraordinary efforts in this arduous environment.

2020 was a year of repositioning, growth, and operating profitability for The Westaim Corporation ("Westaim" or the "Company"). We believe both Skyward Specialty and Arena Investors achieved material improvements and growth in their operating businesses that were not reflected in Westaim's December 31, 2020 book value measurement. To provide greater insight into their collective progress, we have highlighted a few specific milestones and data points in their respective sections below. However, in addition to the notes below, Westaim will commence publishing on a quarterly basis an "Investor Presentation", to be released alongside quarterly earnings to provide shareholders greater insight into Westaim with a specific focus on Skyward Specialty and Arena Investors' operating performance, material accomplishments and strategic direction. Our first Investor Presentation was posted on our website today – March 25, 2021 – hopefully you find it helpful in understanding our business better.

In keeping with years past, we have stated that one way to measure Westaim's performance over time is the growth in fully diluted book value per share ("FDBVPS"). As of December 31, 2020, our FDBVPS was $2.24, a decline of 9.7% from $2.48 as at December 31, 2019. This $0.24 per share decline largely reflects non-cash charges taken during the year. Given the uncertain market environment, in Q1 2020 Westaim reflected a reduction in Skyward Specialty's "fair value" valuation multiple to 1.0x Adjusted Book Value (from 1.1x at December 31, 2019) which represented $14.9 million or $0.10 per share of the decline, and a Q4 2020 non-cash impairment of Skyward Specialty's goodwill and intangible assets of $19.4 million (after-tax) which represented $0.13 per share of the decrease. Holding company expenses and our share of the impact of the LPT at Skyward Specialty were more than offset by our 44.5% interest in Skyward Specialty's 2020 net income excluding unusual items of $17.9 million for the year.



As a reminder, the following chart shows FDBVPS and Westaim's share price quarterly since Q2 2014, the commencement of the Skyward Specialty acquisition.

	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
2020 - Q1 (5)	2.31	3.26	1.23	1.74
2020 - Q2 (6)	2.32	3.15	1.52	2.07
2020 - Q3 (7)	2.33	3.10	1.71	2.28
2020 - Q4 (8)	2.24	2.85	1.95	2.49
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%
FY 2020	-9.7%	-11.4%	-4.2%	-6.0%
CAGR since Q2 2014	1.8%	4.6%	-6.4%	-3.8%

Notes:

(1) Closed equity capital raise to complete Skyward Specialty 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; Skyward Specialty completes restructuring of its claims department.

(4) Valuation of Skyward Specialty increased from 1.0x ABVPS to 1.1x ABVPS at December 31, 2017.

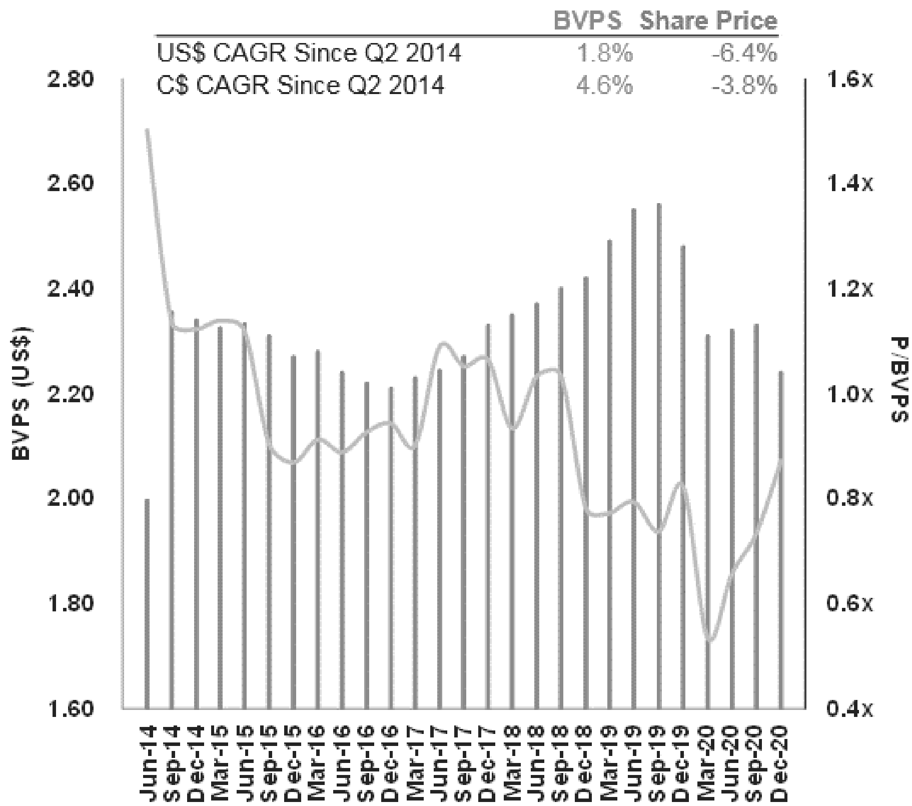
(5) Valuation of Skyward Specialty decreased from 1.1x ABVPS to 1.0x ABVPS at March 31, 2020.

(6) Westaim completes additional investment in Skyward Specialty; Skyward Specialty appoints Andrew Robinson as new Chief Executive Officer.

(7) Arena FINCOs completes $45 million note offering.

(8) HIIG changes name to Skyward Specialty Insurance Group Inc.; Impact of ($0.13) per share from Skyward Specialty goodwill impairment.

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



Skyward Specialty:

In 2014, Westaim acquired a 44.2% look-through ownership of Skyward Specialty (44.5% at December 31, 2020), a Houston-based specialty property and casualty insurer that today employs a team of 357 across 12 offices. In the past two years, the insurance industry has experienced very favourable pricing conditions. We have utilized this positive environment to proactively transition our specialty insurer with the goal of becoming a top-quartile performer in all elements of its business. Great companies have outstanding leadership, and after a thorough search, the Skyward Specialty board welcomed Andrew Robinson as CEO effective May 2020. Andrew's infectious message was unmistakable and simple – "rule our niche". Skyward Specialty's strategy is to dominate in daily excellence where it chooses to compete and do so by retaining and expanding the best talent, utilizing proven technology to drive superior underwriting results and operating efficiency, and sustaining its creative and entrepreneurial culture to deliver top quartile returns and growth in book value consistently.

In Q1, Skyward Specialty completed a Loss Portfolio Transfer ("LPT") transaction to mitigate the potential impact of prior period adverse loss and loss adjustment expense development of reserves for specific divisions, primarily related to 2017 and prior policy years. As noted in last year's letter and as shown in the 2020 book value per share chart above, the LPT transaction resulted in an after-tax charge of $34.3 million, with Westaim recognizing this expense in its valuation of Skyward Specialty as of December 31, 2019.

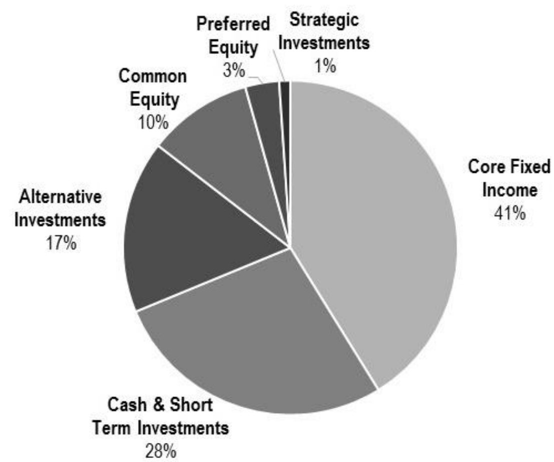
In Q2, Skyward Specialty completed a $100 million rights offering to existing shareholders, with Westaim participating for our pro-rata share of $44.0 million. Contemporaneously with the rights offering, we welcomed independent directors Jim Hays and Don Larson to the Skyward Specialty board. Jim and Don have been tremendous additions to the board, and we highlighted their collective industry experience and success in Westaim's September 22, 2020 Investor Day presentation. Andrew's incisive early action drove rate increases across business lines, targeted growth to Skyward Specialty's best business segments while eliminating or re-underwriting underperforming lines. In keeping with his "rule your niche" declaration, Skyward Specialty welcomed "A" quality industry leaders in Claims, Actuarial, Analytics, Specialty Lines, HR, Surety, Construction, and Healthcare. These actions, coupled with a clearly defined, disciplined, transparent, and data-driven underwriting process, resulted in the August 2020 AM Best rating being confirmed at A- , with the outlook moved from negative to stable.

On November 17, 2020 the rebranding of the company to "Skyward Specialty Insurance Group, Inc." was launched to reflect its renewed strategic focus, revised direction and inclusive and collaborative culture. We would encourage you to visit their website www.skywardinsurance.com and if so inclined, to follow on LinkedIn www.linkedin.com/company/skywardspecialty/ to experience Skyward Specialty's messaging first hand and to keep current on their activities. Connect with Andrew Robinson on LinkedIn at www.linkedin.com/in/andrewsrobinson.

In Q4, Skyward Specialty completed its extensive annual review of its goodwill and intangible assets, concluding with a non-cash goodwill impairment charge of $43.7 million net of tax relating to three business lines, its Hospitality, Exterminator Pro and Accident & Health divisions. With the completion of the rights offering, the LPT, strengthening of reserves, strong claims management, and current underwriting margins, we believe that Skyward Specialty's balance sheet and mix of business are well-positioned to achieve its top quartile operating objectives.

Specifically, a few key performance indicators for fiscal 2020:

- **Gross written premiums** were $873.6 million compared to $878.3 million for the year ended December 31, 2019, a decline of 1%. Immediately upon his hiring in May 2020, Andrew quickly re-positioned Skyward Specialty's business to include ten core specialty business lines, resulting in gross written premium declining in Q2 (2%) and Q3 (18%). With this restructuring largely complete, Skyward Specialty returned to growth, recording an increase in gross written premiums of 6% in Q4 2020. Underwriting actions taken by management have positioned Skyward Specialty to lead the market in select businesses which are experiencing favourable industry pricing, which is reflected in Skyward Specialty's pure renewal rate (not adjusting for exposure) increase of approximately 10% for the year ended December 31, 2020.
- **Net written premiums** were $413.3 million compared to $421.7 million for the year ended December 31, 2019, a decline of 2%.
- **Underwriting performance** as measured by Skyward Specialty's combined ratios (exclusive of the impact of the LPT and other unusual items outlined in our MD&A), was 96.2% for the full year, improving each quarter since Andrew's arrival. Importantly, given actions taken, it is our belief that Skyward Specialty's reserve position became stronger through the year and is well positioned moving into 2021.
- Skyward Specialty's **Investment Portfolio** ended 2020 at $765 million and generated approximately $15 million pre-tax of investment income in 2020 while maintaining a short duration (ending 2020 at approximately 2 years) and carrying a high cash position of 28%. The portfolio ended the year with a tax-equivalent yield of approximately 2.7%, and given the high cash balance, was well positioned to take advantage of any increase in interest rates. The December 31, 2020 asset allocation is as follows:



* Skyward Specialty allocated approximately $25 million to preferred equities in Q4 2020 that was largely in cash as at December 31, 2020, but was expected to be fully invested early in 2021.

- **Net Income** after-tax was a loss of $71.7 million compared to income of $32.2 million for the year ended December 31, 2019. Adjusting for the goodwill impairment of $43.7 million after-tax, net impact of the LPT of $47.2 million and other unusual items, adjusted net income was $17.9 million for fiscal 2020.
- **In January 2021, Skyward Specialty completed a Strategic Acquisition** of Aegis Surety and the simultaneous sale of its XPro (solutions for the Pest Control industry) business. Aegis Surety was combined into Skyward Specialty's existing surety business increasing the size and scale of this business and improving its competitive position. The economics of this transaction are expected to be attractive to Skyward Specialty. This acquisition underscores Skyward Specialty's commitment to "rule our niche" by establishing a robust and defensible leadership position within this attractive specialty market.

Arena:

Westaim's investment in Arena is primarily comprised of two separate investments: (i) Arena Investors is a global investment manager of credit-oriented opportunities, providing financial solutions and services to business communities throughout the world; and (ii) Arena FINCO's, representing Westaim's proprietary capital that is primarily invested in Arena's core investment strategy and at times, provides for the strategic development of Arena Investors and as lead investor in Arena's product offerings, to help grow and build the business.

Arena FINCOs:

Westaim's proprietary capital was $163.0 million as of December 31, 2020, compared to $205.8 million as of December 31, 2019. In Q1, $34.8 million was returned to Westaim primarily to provide capital for Westaim to participate in our pro-rata share (44.0%) of Skyward Specialty's $100 million Rights Offering. Also in Q1, Arena FINCOs elected to strategically participate in the launch of the Arena Special Opportunities Partners Fund I ("ASOP I"), Arena Investors' closed-end, drawdown fund. Arena FINCOs provided $28 million of seed capital to this fund by transferring several of its existing positions to allow the fund to hit the ground running and immediately be in a position to generate investment returns for ASOP I's initial investors, including Skyward Specialty. Why was participating in this fund launch strategic for Westaim? On December 1, 2020, Arena Investors closed ASOP I to new investors raising $519 million of total assets under management ("AUM") for the firm. ASOP I represented a key strategic turning point for Arena Investors' capital raising efforts, and added substantial value to Westaim's investment in Arena Investors, as fee-paying AUM grows and the resulting operating leverage is realized.

In addition, on September 29, 2020, one of the Arena FINCOs completed a private placement of $45 million of 6.75% senior secured notes due September 30, 2025. This "A" rated bond was an important milestone, as it provides non-recourse leverage to the Arena FINCOs' portfolio. This modest financial leverage is expected to accelerate Arena Investors' ability to provide attractive, consistent returns for Westaim. Putting this Senior Note in place is also expected to facilitate the ability of Arena Investors to access appropriate, intelligent leverage for other pools of capital in its portfolio, a key element of providing target performance to its investors.

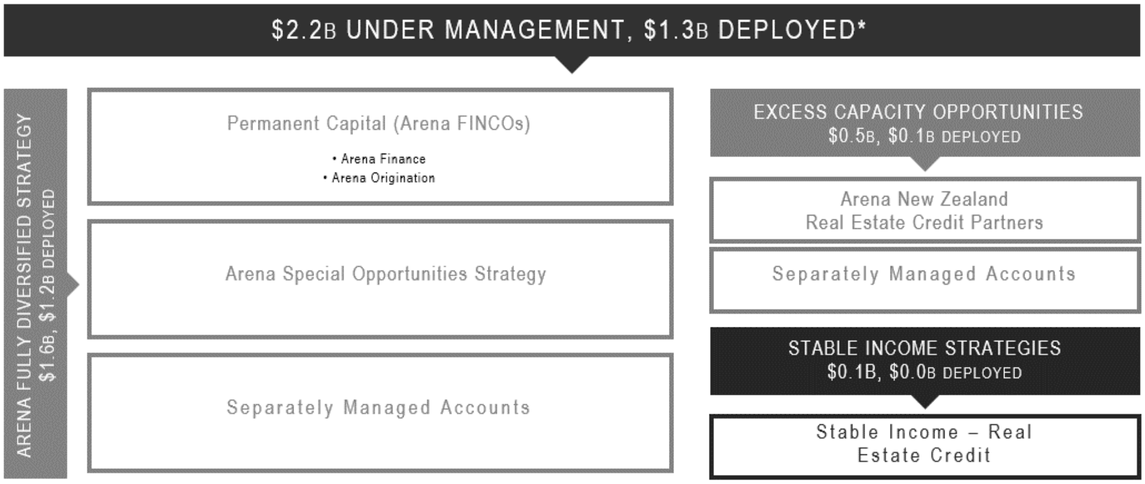
The strategic transactions noted above resulted in performance of the Arena FINCOs being lower than in years past (or the return Westaim experienced on its investment in ASOF of 6.9%) as new credit flow was temporarily disrupted, existing positions became slightly larger thereby creating enhanced volatility and, at times, we carried a significant cash position generating minimal returns. We should note, following the September 29, 2020 closing of the $45 million senior secured private placement, Arena FINCOs' investing allocation resumed to a steady state and as such, we expect to be fully invested (including the Senior Note proceeds) in early 2021.

Arena Investors:

Arena Investors is a global institutional asset manager that "originates" credit-oriented investments to provide highly diversified and uncorrelated returns. In many ways, we view Arena Investors as a "non-bank bank", as they provide credit to borrowers who own quality assets that for specific reasons, are unable to access traditional financing. Over the past five years, Arena Investors has developed into a global platform with an experienced team of 60+ supported by proprietary systems and processes, and a clearly defined infrastructure to execute and administer a diversified asset-backed credit portfolio, and in doing so, Arena has demonstrated a measurable alpha investment skill set. The challenging and disruptive markets of 2020 highlighted the depth of Arena's sourcing capabilities, diversity and underwriting discipline maintaining relatively consistent performance of uncorrelated and attractive risk-adjusted returns. You may recall Arena Investors' CEO and CIO Dan Zwirn's message of last March when world markets dramatically declined, echoing this stoic discipline:

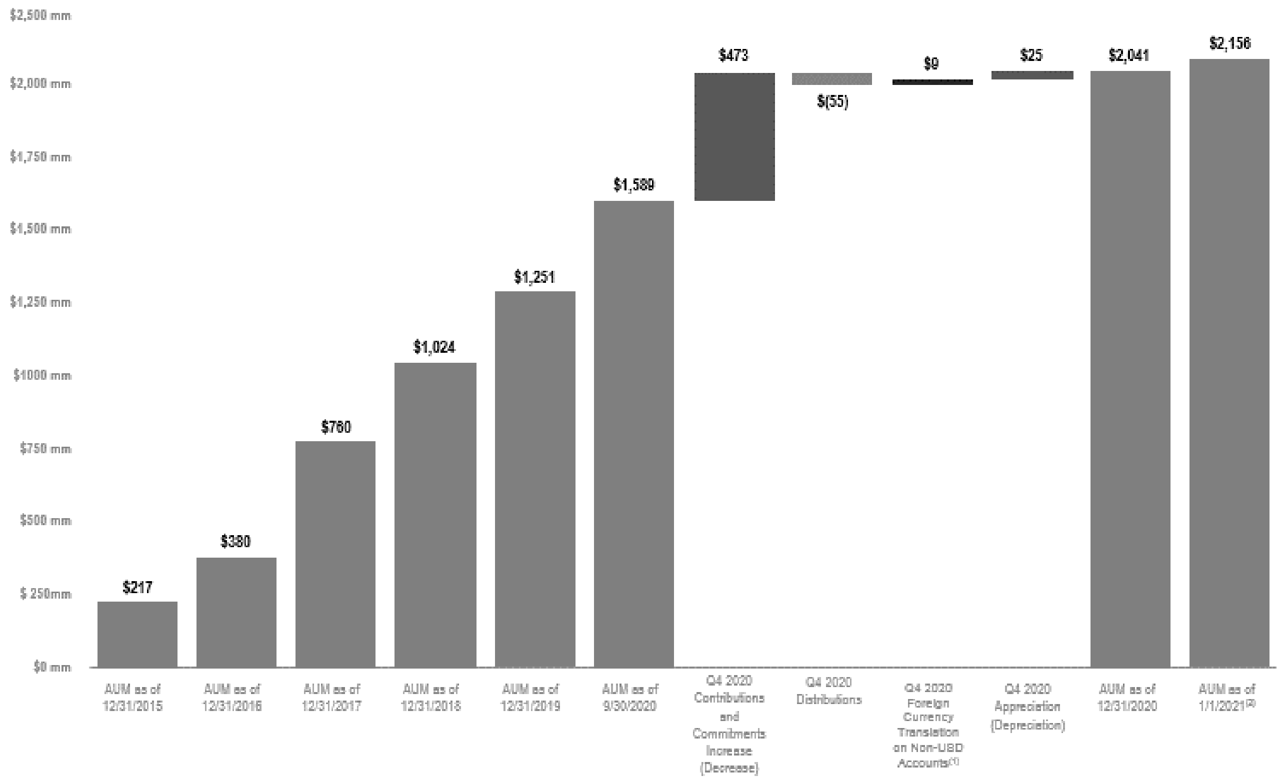
"**To be clear, we have no view on whether Coronavirus will be the event that leads investors to appropriately reprice risk, or whether the monetary authorities will again prevail in bailing out the current situation and alleviating fears, supporting the next upswing and continuing to delay the inevitable. Rather, we continue to rigorously attempt to minimize your exposure to the economic cycle, as well as the parochial or capricious whims of monetary authorities, who seek to manipulate or delay asset price discovery, both in individual investments, and for the portfolio as a whole. We continue to feel well positioned with our diversified portfolio and our upcoming pipeline of investments, as we find opportunities to provide liquidity in small sizes, protected by highly understandable and liquidable assets, and with short duration and structures that leave us with optionality."**

On December 31, 2020 Arena Investors committed AUM was $2.0 billion ($2.2 billion as at January 1, 2021) compared to $1.3 billion as of December 31, 2019. AUM includes the $519 million closing of the ASOP I and Arena Special Opportunities Partners (Cayman) Fund I, both being closed-end offerings of Arena Investors' core strategy and a "rated" offering class of this fund for insurance companies. It also includes the second offering of Arena's New Zealand Real Estate Fund II ("Kiwi Build") at $265 million.



* The assets under management includes employee capital, co-invest, and capital committed but not yet deployed (except where noted) as of January 1, 2021.

Arena's committed AUM has grown at a compound annual rate of approximately 57% from December 2015 through December 2020. As noted earlier, the primary growth during 2020 was due to increased commitments for the Arena Closed-End Funds. The additional increase reflects the performance-related appreciation of Arena's core strategy and excess capacity funds.



1. Foreign currency fluctuations on NAV for accounts reported in currencies other than USD.
2. AUM includes undrawn commitment for closed-end, SMA, and New Zealand Real Estate Credit Partners I and II Funds.

Since inception in August 2015, Arena Investors had deployed more than $2.5 billion in over 200 privately negotiated transactions where at year-end 2020, Arena had exited 109 (totalling $898 million at inception) with a realized gross IRR of approximately 18% where five negative positions comprising $23 million produced a net loss of approximately $4 million[1]. In contrast, the remaining 104 positions, comprising $875 million, generated approximately $153 million in profits.

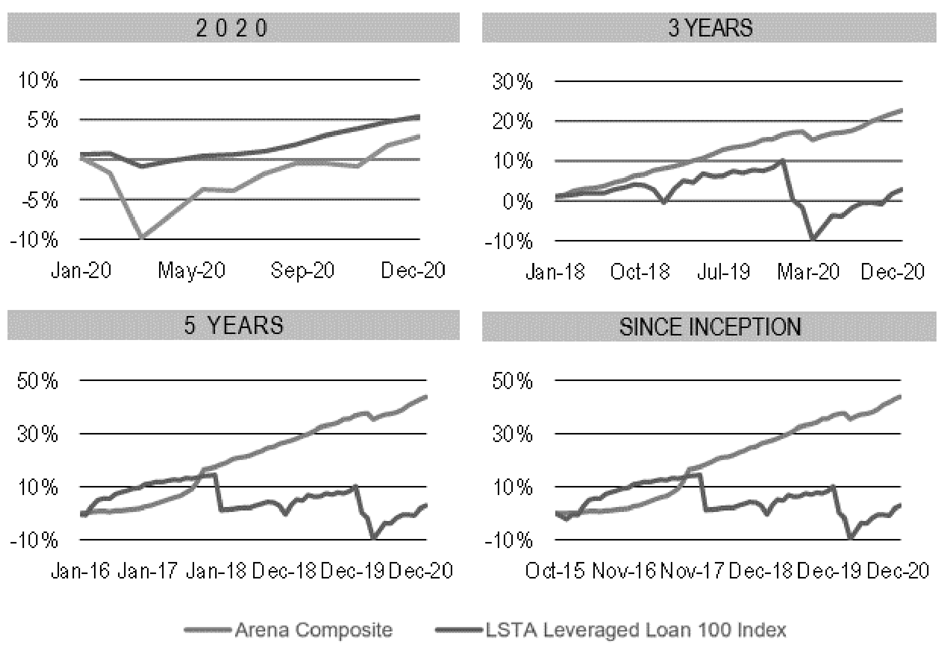
Summary of Exited Holdings Since Arena's Launch in October 2015					
# Positions	Top Attachment Point	Closing LTV	Coupon	Gross Underwritten IRR at Inception[(2)]	Average Loan Term (Years)[(3)]
109	4%	52%	12.2%	15.6%	1.5

1. One of those positions only being a loss because FX exposure was unhedged in one of our client's separately managed accounts (at their instruction), though that investment was FX hedged (and a positive performer) in our other vehicles.
2. Underwritten IRRs: Investment-level gross underwritten IRR represents the internal rate of return prior to or at the time of making the initial investment as reflected in and supported by loan agreements, including, but not limited to, note purchase agreements and origination agreements. The underwritten IRR is one of many metrics considered by Arena prior to investment and is not typically updated after the initial funding date. The underwritten IRR may be presented as a single percentage or a range. Such gross IRRs are estimated and do not take into account any entity level management fees, incentive allocation and/or any other associated fees, all of which may significantly reduce the net return received attributable to any investment. These underwritten IRRs are not a proxy for investment performance for any strategy or fund. The underwritten IRRs disclosed herein are being presented for the purpose of providing insight into the investment objectives of Arena, detailing anticipated risk and reward characteristics in order to facilitate comparisons with other investments and for establishing a benchmark for future evaluation of Arena's strategy. The IRRs are also being presented because financially sophisticated investors may find this information useful in determining where Arena's strategies may fit within their investment portfolios. The IRRs included in this presentation are not intended, and must not be regarded, as a representation, warranty or prediction that any Arena vehicles will achieve any particular return with respect to any particular investment opportunity or for a particular time period, or that Arena and its investors will not incur losses. In evaluating these IRRs, it should be noted that (a) there can be no assurance that Arena will be able to source and consummate investments of the type it is seeking to make and (b) the assumptions underlying the IRRs may prove not to be accurate or not materialize. There can be no assurance that the objective of the investment shown can be met or that substantial losses will be avoided.
3. Average loan term refers to the weighted average time between the funding date and exit date in years.

Arena Investors' performance was recognized in 2020 by their peers resulting in the firm winning four industry awards. Inclusive of 2020, Arena performance (based on a full fee schedule of 2% management fee and 20% incentive fee inclusive of cash drag) has been recognized with ten industry awards. Awards won in 2020 include:

- Alt Credit Fund Intelligence US Award, "Best Distressed Credit/Special Situations"
- Pension Bridge Institutional Asset Management Award, "Private Debt Strategy of the Year"
- Alt Credit Fund Intelligence US Performance Award, "Special Situations Manager of the Year"
- Hedgeweek US Award, "Best Multi-Strategy Hedge Fund"

Awards listed are based on factors including, but not limited to, investment returns and assets under management, as provided by Arena Investors. Other factors such as investment discipline and selection, portfolio management, performance record, stability of investment team, investor relations and back-office infrastructure are also considered in certain cases. Awards may be judged by a panel of industry executives or through a more general voting process. For each award's specific selection criteria, see the corresponding firm's website. Some nominations include an associated awards ceremony for which Arena Investors compensates the award provider to sponsor the event.



1. This composite is comprised of one onshore open-ended fund and one offshore open-ended fund, which commenced operations on October 1, 2015 and March 1, 2016, respectively. For the period from March 1, 2016 until September 30, 2018, the offshore fund received an expense subsidy for monthly expenses in excess of 0.10% of NAV. Time-weighted monthly returns are calculated net of annual management fees of 2%, 0.5% asset servicing expense and an incentive fee of 20%, which represent the standard fees charged to Fund investors. All returns are based on the reinvestment of principal, interest and dividends received by the composite. Cumulative returns are not annualized. The LSTA Leveraged Loan 100 Index are presented gross of any expenses or fees. Past performance is not indicative of future performance. Actual results may vary.

With fee-paying AUM increasing, Arena Investors' management and incentive fee revenue continues to grow. Simultaneously, our fixed operating expenses are primarily stable, given that the bulk of the platform has now largely been built. In 2020 Arena's net incentive fees were $4.0 million vs. $4.4 million in 2019, though with growth in AUM, Arena Investors net income was roughly the same as 2019. With recurring revenue close to exceeding recurring expenses, Arena is now reaching an inflection point, where future growth achieved through fund performance, increased AUM, and improved fee schedules is expected to drive significant operating leverage.

Arena Investors' operating results:

(dollars in millions)	**Q4 2020**	**Q4 2019**	**FY 2020**	**FY 2019**
Recurring Income				
Management / Servicing Fees	$5.9	$4.9	$20.7	$18.7
Other Income	0.1	0.1	0.3	0.3
Recurring Income	**$6.0**	**$5.0**	**$21.0**	**$19.0**
Operating Expenses	(6.0)	(6.0)	(24.0)	(22.5)
Fee Related Earnings (Loss)	**($0.0)**	**($1.0)**	**($3.0)**	**($3.5)**
Incentive Income				
Incentive Fees	$4.2	$2.4	$7.8	$9.6
Incentive Fee Compensation[1]	(1.1)	(1.5)	(3.8)	(5.2)
Net Incentive Fees	**$3.1**	**$0.9**	**$4.0**	**$4.4**
Net Income				
EBITDA	**$3.1**	**($0.1)**	**$1.0**	**$0.9**
Depreciation	(0.0)	(0.0)	(0.1)	(0.1)
Interest Expense	(0.3)	(0.3)	(1.1)	(1.0)
Net Income (Loss)	**$2.8**	**($0.4)**	**($0.2)**	**($0.2)**

1. Arena is under no contractual obligation (past or future) to pay Incentive Fees earned to employees.

Once again, we would like to remind you of Westaim's strong alignment with Arena's management team. Upon the commencement of profit distributions from Arena Investors, Arena Investors management has committed to utilizing 25% of their first $100 million of distributions to acquire Westaim common shares in the open market. When that commitment is fulfilled, Arena Investors management is required to utilize 12.5% of their allocations to acquire Westaim common shares in the open market until they become a 19.9% owner of Westaim common shares. This is an aligned partnership for the long-term.

To keep current of ongoing activities at Arena, please visit Arena's website www.arenaco.com or follow on LinkedIn www.linkedin.com/company/arena-investors-lp/. Connect with Dan Zwirn on LinkedIn at www.linkedin.com/in/daniel-zwirn and on Twitter @dan_zwirn. His reading list is highly followed!

Westaim's Annual General Meeting and Investor Day will be held on **Wednesday, May 26 beginning at 9:00 am ET** virtually with a live video presentation (details to follow). As in past years, the schedule will include a business overview and discussion with management from Westaim, Arena Investors and Skyward Specialty, followed by a question and answer session. We look forward to your participation.

Respectfully,

CMacDonald

Cameron MacDonald
President and Chief Executive Officer

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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 consolidated financial statements including notes for the years ended December 31, 2020 and 2019 as set out on pages 48 to 71 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, 2020 and 2019 and is intended to enable the reader to assess the Company's results of operations for the three months and year ended December 31, 2020 and financial condition as at December 31, 2020. 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 25, 2021. Additional information relating to the Company is available on the System for Electronic Document Analysis and Retrieval ("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 reduced the number of businesses reported under the Arena FINCOs (hereinafter defined) and Arena Investors (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 Skyward Specialty Insurance Group Inc.
Select financial information concerning Skyward Specialty Insurance Group Inc. (formerly Houston International Insurance Group, Ltd. ("HIIG")) ("Skyward Specialty") (the "Skyward Specialty Financial Information") contained in this MD&A is audited and has been derived from the annual consolidated financial statements of Skyward Specialty for the years ended December 31, 2020 and 2019, which have been prepared in accordance with United States generally accepted accounting principles ("US GAAP"). Such statements are the responsibility of the management of Skyward Specialty. The Skyward Specialty Financial Information, including any Skyward Specialty 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 Skyward Specialty 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 Skyward Specialty Financial Information has been provided solely by Skyward Specialty. Although Westaim has no knowledge that would indicate that any of the Skyward Specialty 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 Skyward Specialty 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 Skyward Specialty 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 FINCOS and Arena Investors
Select financial information concerning the Arena FINCOs (as hereinafter defined) and Arena Investors (as hereinafter defined) (the "Arena Financial Information") contained in this MD&A is audited and has been derived from the annual financial statements of the Arena FINCOs and Arena Investors for the years ended December 31, 2020 and 2019 which have been prepared in accordance with either IFRS or US GAAP. Such statements are the responsibility of the management of the Arena FINCOs and Arena Investors. The Arena Financial Information, including any Arena FINCOs and Arena Investors 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 Financial Information into the Arena FINCOs and Arena Investors to simplify and improve the comparability of the results. Comparative figures have been reclassified to conform to the presentation of the current period.

The Arena Financial Information has been primarily provided by the management of the Arena FINCOs and Arena Investors. 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 FINCOs and Arena Investors 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 25, 2021 for its fiscal year ended December 31, 2020 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.

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

1. THE COMPANY

The Westaim Corporation (TSXV: WED) is a Canadian investment company specializing in providing long-term capital to businesses operating primarily within the global financial services industry. The Company invests, directly and indirectly, through acquisitions, joint ventures and other arrangements, with the objective of providing its shareholders with capital appreciation and real wealth preservation.

Westaim's strategy is to pursue investment opportunities with a focus towards the global financial services industry and grow shareholder value over the long term. The Company's principal investments consist of Skyward Specialty, the Arena FINCOs and Arena Investors. See discussion in Section 3, *Investments* of this MD&A for additional information on these investments.

2. OVERVIEW OF PERFORMANCE

Highlights	Three months ended December 31 2020	2019	Year ended December 31 2020	2019
Revenue and net change in unrealized value of investments	$ (9.9)	$ (9.9)	$ (26.0)	$ 19.4
Net expenses	(4.6)	(2.2)	(8.4)	(9.9)
Income tax expense	-	(0.9)	(0.1)	(0.9)
GAAP (Loss) profit and comprehensive (loss) income	$ (14.5)	$ (13.0)	$ (34.5)	$ 8.6
Adjusted profit and comprehensive income excluding unusual items[1]	$ 4.9	$ 3.6	$ 5.0	$ 25.2
GAAP (Loss) earnings per share – basic and diluted	$ (0.10)	$ (0.09)	$ (0.24)	$ 0.06
Adjusted earnings per share – diluted[1]	$ 0.03	$ 0.02	$ 0.03	$ 0.18
At December 31:				
Shareholders' equity	$ 320.5	$ 354.8	$ 320.5	$ 354.8
Number of common shares outstanding	143,186,718	143,186,718	143,186,718	143,186,718
Book value per fully diluted share - in US$ [1]	$ 2.24	$ 2.48	$ 2.24	$ 2.48
Book value per fully diluted share - in C$ [1]	$ 2.85	$ 3.22	$ 2.85	$ 3.22

[1] Non-GAAP measure. See Section 15, *Non-GAAP Measures* of this MD&A. Period end exchange rates: 1.27395 at December 31, 2020 and 1.29865 at December 31, 2019.

Three months ended December 31, 2020 and 2019

The Company reported a loss and comprehensive loss of $14.5 for the three months ended December 31, 2020 (2019 – $13.0).

Revenue and net change in unrealized value of investments for the three months ended December 31, 2020 of $(9.9) (2019 - $(9.9)) consisted of interest income of $0.3 (2019 - $0.4), dividend income paid to the Company from the Arena FINCOs (as hereinafter defined) of $nil (2019 - $3.8), advisory fees of $0.3 (2019 - $0.3), a decrease of $12.0 in the unrealized value of the Company's investments in private entities before dividends paid of $nil (2019 - a decrease in the unrealized value of $10.4 before dividends paid of $3.8), an increase in unrealized value of other investments of $0.1 (2019 - nominal) and the Company's share of profit of its associates (as hereinafter defined) of $1.4 (2019 - loss of $0.2).

Net expenses for the three months ended December 31, 2020 of $4.6 (2019 - $2.2) consisted of salaries and benefits of $1.1 (2019 - $1.0), general, administrative and other expenses of $0.2 (2019 - $0.1), professional fees of $0.4 (2019 - $0.2), site restoration expense of $0.6 (2019 - recovery of $1.4), share-based compensation expense of $0.7 (2019 - $0.8), a foreign exchange loss of $0.9 (2019 - $0.6), interest on preferred securities of $0.5 (2019 - $0.5) and an unrealized loss resulting from a change in the fair value of the vested Warrants (as hereinafter defined) of $0.2 (2019 - $0.4).

The Company reported income tax expense for the three months ended December 31, 2020 of $nil (2019 - $0.9).

Year ended December 31, 2020 and 2019

The Company reported a loss and comprehensive loss of $34.5 for the year ended December 31, 2020 (2019 - profit and comprehensive income of $8.6).

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

2. OVERVIEW OF PERFORMANCE (continued)

Revenue and net change in unrealized value of investments for the year ended December 31, 2020 of $(26.0) (2019 - $19.4) consisted of interest income of $1.2 (2019 - $2.1), dividend income paid to the Company from the Arena FINCOs (as hereinafter defined) of $22.7 (2019 - $4.7), advisory fees of $1.0 (2019 - $2.4), a decrease of $28.3 in the unrealized value of the Company's investments in private entities before dividends paid of $22.7 (2019 – an increase of $14.7 in the unrealized value of the Company's investment in private entities before dividends paid of $4.7), an increase in unrealized value of other investments of $0.2 (2019 - $0.2) and the Company's share of loss of its associates (as hereinafter defined) of $0.1 (2019 - nominal).

Net expenses for the year ended December 31, 2020 of $8.4 (2019 - $9.9) consisted of salaries and benefits of $3.8 (2019 - $3.7), general, administrative and other expenses of $0.8 (2019 - $1.0), professional fees of $1.3 (2019 - $1.0), site restoration expense of $0.7 (2019 - $0.3), share-based compensation expense of $0.3 (2019 - $1.5), a foreign exchange loss of $0.4 (2019 - $1.1), interest on preferred securities of $1.9 (2019 - $1.9) and an unrealized gain resulting from a change in the fair value of the vested Warrants (as hereinafter defined) of $0.8(2019 - $0.6).

The Company reported income tax expense for the year ended December 31, 2020 of $0.1 (2019 - $0.9).

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 Skyward Specialty, the Arena FINCOs and Arena Investors as follows:

	Place of establishment	Principal place of business	Ownership interest as at December 31, 2020	Ownership interest as at December 31, 2019
Investment in private entities:				
- Skyward Specialty	Delaware, U.S.	Texas, U.S.	44.5% owned by the Company	44.0% owned by the Company
- Arena FINCOs (as hereinafter defined)	Delaware, U.S.	New York, U.S.	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 [1]	51% beneficially owned the Company [1]

[1] Legal equity ownership is 100%, and beneficial ownership denotes profit percentage subject to change over time pursuant to the earn-in rights granted to Bernard Partners, LLC ("BP LLC") described below under "Investment in Arena Investors".

For additional information on the Company's corporate structure, see the Company's Annual Information Form dated March 25, 2021 for its fiscal year ended December 31, 2020 which is available on SEDAR at www.sedar.com.

Skyward Specialty

The Company owns a significant interest in Skyward Specialty, a U.S. based diversified specialty property & casualty insurance holding company that underwrites select property, casualty, surety, and accident and health insurance coverages through its insurance and reinsurance subsidiaries. The Company's investment in Skyward Specialty is recorded in investments in private entities under investments in the Company's consolidated financial statements.

Arena FINCOs

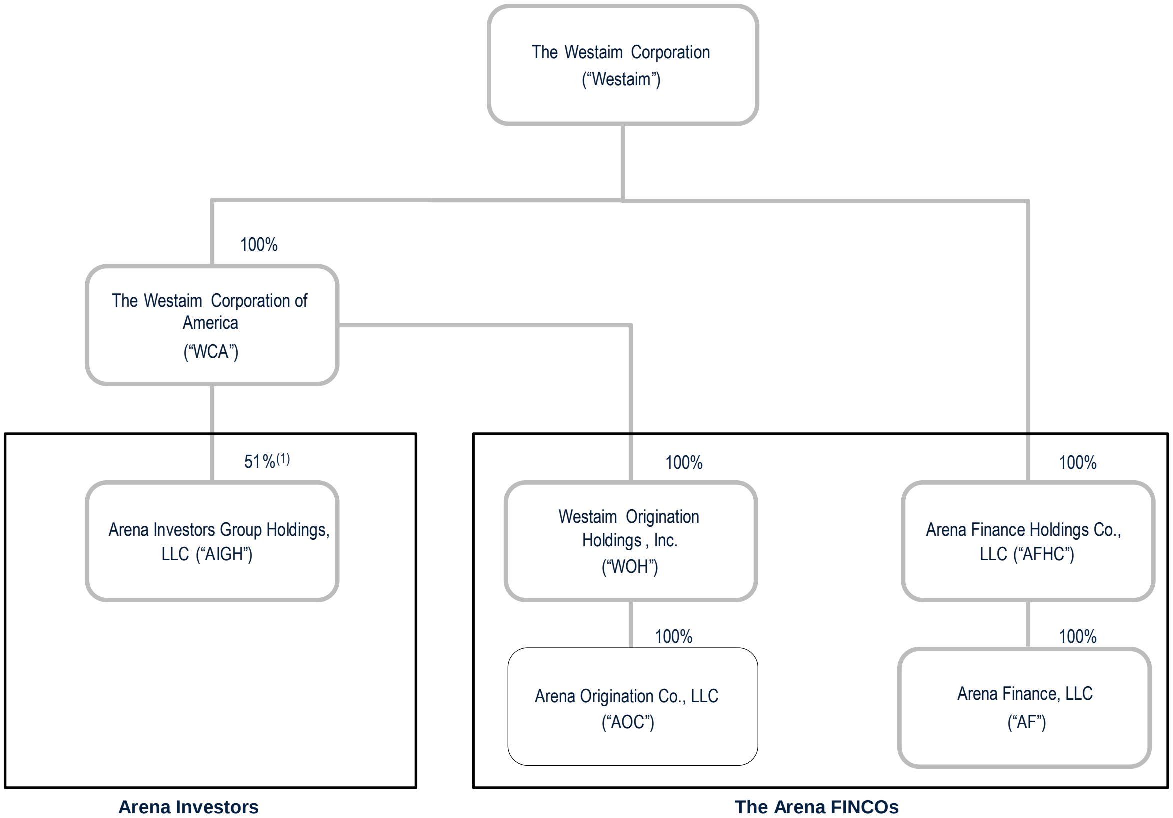
The Arena FINCOs include specialty finance companies that primarily purchase fundamentals-based, asset-oriented credit investments for their own account and a company that facilitates the origination of fundamentals-based, asset-oriented credit investments for its own account and/or possible future sale to specialty finance companies, clients of Arena Investors and/or other third parties. Fundamentals-based, asset-oriented credit investments refer to loans or credit arrangements which are generally secured by assets. Fundamentals-based, asset-oriented lenders and investors manage their risk and exposure by carefully assessing the value of the assets securing the loan or investment, receiving periodic and frequent reports on collateral value and the status of those assets, and tracking the financial performance of borrowers. The 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

Arena Investors Group Holdings, LLC (formerly Westaim Arena Holdings II, LLC) ("AIGH"), through its subsidiaries, operates as an investment manager offering clients access to fundamentals-based, asset-oriented credit investments. AIGH is the sole limited partner of Arena Investors, LP, a limited partnership established to carry on the third-party investment management business. 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.

3. INVESTMENTS (continued)

The following chart illustrates a simplified organizational structure of Arena Investors and the Arena FINCOs:



[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 Arena Investors".

For a detailed discussion of the business of the Arena Investors and the Arena FINCOs, see the Company's Annual Information Form dated March 25, 2021 for its fiscal year ended December 31, 2020 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 Skyward Specialty 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, 2020 and 2019, the Company used net asset value as the primary valuation technique. For a detailed description of the valuation of the Company's investments in private entities, see note 5 to the Company's audited annual consolidated financial statements for the years ended December 31, 2020 and 2019.

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

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

3. INVESTMENTS (continued)

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

Three months ended December 31, 2020	Opening Balance	Additions - Equity	Return of Capital	(Decrease)/ increase in unrealized value before dividends	Dividends paid	Ending Balance
Investments in private entities:						
- Skyward Specialty	$ 194.3	$ -	$ -	$ (13.5)	$ -	$ 180.8
- Arena FINCOs	169.4	-	(7.9)	1.5	-	163.0
	$363.7	$ -	$ (7.9)	$ (12.0)	$ -	$ 343.8

Three months ended December 31, 2019	Opening Balance	Additions - Equity	Repayment of term loan	(Decrease)/ increase in unrealized value before dividends	Dividends paid	Ending Balance
Investments in private entities:						
- Skyward Specialty	$ 178.1	$ -	$ -	$ (13.1)	$ -	$ 165.0
- Arena FINCOs	206.9	-	-	2.7	(3.8)	205.8
	$ 385.0	$ -	$ -	$ (10.4)	$ (3.8)	$ 370.8

Year ended December 31, 2020	Opening Balance	Additions - Equity	Return of Capital	Decrease in unrealized value before dividends	Dividends paid	Ending balance
Investments in private entities:						
- Skyward Specialty	$ 165.0	$ 44.0	$ -	$ (28.2)	$ -	$ 180.8
- Arena FINCOs	205.8	-	(20.0)	(0.1)	(22.7)	163.0
	$ 370.8	$ 44.0	$ (20.0)	$ (28.3)	$ (22.7)	$ 343.8

Year ended December 31, 2019	Opening Balance	Additions - Equity	Repayment of term loan	Increase in unrealized value before dividends	Dividends paid	Ending balance
Investments in private entities:						
- Skyward Specialty	$ 162.1	$ -	$ -	$ 2.9	$ -	$ 165.0
- Arena FINCOs	198.7	10.0	(10.0)	11.8	(4.7)	205.8
	$ 360.8	$ 10.0	$ (10.0)	$ 14.7	$ (4.7)	$ 370.8

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

	Three months ended December 31 2020	Three months ended December 31 2019	Year ended December 31 2020	Year ended December 31 2019
Investment in Arena Investors				
Opening balance	$ 10.8	$ 12.5	$ 12.3	$ 10.6
Additions – Revolving loan from the Company	8.0	-	8.0	1.7
The Company's share of gain (loss)	1.4	(0.2)	(0.1)	-
Ending balance	$ 20.2	$ 12.3	$ 20.2	$ 12.3

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

3. INVESTMENTS (continued)

A. Investment in Skyward Specialty

The Company's investment in Skyward Specialty consists of the following:

	Three months ended December 31, 2020				Three months ended December 31, 2019		
	Opening Balance	Additions - Equity	Decrease in unrealized value of investment	Ending Balance	Opening Balance	Decrease in unrealized value of investment	Ending balance
Investment in Skyward Specialty:							
HIIG Partnership-Company's share of Skyward Specialty common shares[1]	$ 93.6	$ -	$ (7.4)	$ 86.2	$177.4	$ (13.1)	164.3
HIIG Partnership-Company's share of other partnership assets	0.5	-	-	0.5	0.7	-	0.7
Skyward Specialty convertible preferred shares held by the Company	100.2	-	(6.1)	94.1	-	-	-
	$ 194.3	$ -	$ (13.5)	$ 180.8	$ 178.1	$ (13.1)	$ 165.0

[1] The Company's share of Skyward Specialty common shares held by the HIIG Partnership

	Year ended December 31, 2020				Year ended December 31, 2019		
	Opening Balance	Additions - Equity	(Decrease) increase in unrealized value of investment	Ending Balance	Opening Balance	Increase (decrease) in unrealized value of investment	Ending balance
Investment in Skyward Specialty:							
HIIG Partnership-Company's share of Skyward Specialty common shares[1]	$ 164.3	$ -	$ (78.1)	$ 86.2	$161.3	$ 3.0	164.3
HIIG Partnership-Company's share of other partnership assets	0.7	-	(0.2)	0.5	0.8	(0.1)	0.7
Skyward Specialty convertible preferred shares held by the Company	-	44.0	50.1	94.1	-	-	-
	$ 165.0	$ 44.0	$ (28.2)	$ 180.8	$ 162.1	$ 2.9	$ 165.0

[1] The Company's share of Skyward Specialty common shares held by the HIIG Partnership

At December 31, 2020, the Company owned approximately 62.0% of the HIIG Partnership and the HIIG Partnership held Skyward Specialty common shares representing approximately 34.3% of the total fully diluted Skyward Specialty common shares outstanding. As a result, Westaim's look-through interest in common shares through the HIIG Partnership was 21.3%.

The convertible preferred shares of Skyward Specialty were acquired by Westaim on April 20, 2020, as Skyward Specialty completed a rights offering that resulted in gross proceeds of $100.0 to Skyward Specialty. As part of the rights offering, Westaim purchased $44.0 of the Skyward Specialty preferred shares offered. The convertible preferred shares were initially convertible into Skyward Specialty common shares based on a conversion price equal to $1.74 per share. The conversion price is subject to adjustments from time to time based on the occurrence of certain events up to December 31, 2021. At December 31, 2020, the adjustments, if effective, would result in a conversion price of approximately $1.38 per share. The fair value of Westaim's ownership of the Skyward Specialty convertible preferred shares was $94.1.

The Company's interest in the HIIG Partnership, combined with its direct ownership of the Skyward Specialty preferred shares, which were convertible into Skyward Specialty common shares representing 23.2% of the fully diluted Skyward Specialty common shares outstanding, resulted in a 44.5% look-through interest in Skyward Specialty as at December 31, 2020 (December 31, 2019 – 44.0%).

At December 31, 2020, based on the Company's control of the HIIG Partnership, and its ownership of preferred shares, the Company held a 57.5% voting interest in Skyward Specialty.

(i) Fair Value

The investment in Skyward Specialty is accounted for at FVTPL. In valuing Skyward Specialty's fully diluted common shares, using a multiple of net asset value as the primary valuation technique, fair value was determined to be 1.0x the adjusted stockholders' equity of Skyward Specialty as at December 31, 2020 (December 31, 2019 - 1.1x). See Note 5, *Investment in Skyward Specialty* in the Notes to the Financial Statements.

The fair value of the Company's investment in Skyward Specialty was determined to be $180.8 at December 31, 2020 and $165.0 at December 31, 2019.

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

3. INVESTMENTS (continued)

The Company recorded a decrease in unrealized value on its investment in Skyward Specialty of $13.5 and $28.2 in the three months and year ended December 31, 2020, respectively, and a decrease in unrealized value of $13.1 and an increase in unrealized value of $2.9 in the three months and year ended December 31, 2019, respectively.

The Company's share of Skyward Specialty's net comprehensive income excluding unusual items was $5.9 and $11.3 in the three months and year ended December 31, 2020, respectively and $3.5 and $19.5 in the three months and year ended December 31, 2019, respectively.

The following chart illustrates the Company's share of the material changes in the valuation of Skyward Specialty:

Investment in Skyward Specialty	Three months ended December 31 2020	Three months ended December 31 2019	Year ended December 31 2020	Year ended December 31 2019
Opening Balance	$ 194.3	$ 178.1	$ 165.0	$ 162.1
Additional equity contribution	-	-	44.0	-
Net comprehensive income excluding unusual items	5.9	3.5	11.4	19.6
Change in HIIG Partnership other assets	-	-	(0.1)	(0.1)
The Company's share of net comprehensive income excluding unusual items	5.9	3.5	11.3	19.5
Unusual items:				
Impact of LPT net of tax	(1.6)	(16.6)	(5.7)	(16.6)
Other unusual net expense recoveries net of tax	1.6	-	0.5	-
Goodwill impairment net of tax	(19.4)	-	(19.4)	-
Change in valuation multiple (1.1x to 1.0x)	-	-	(14.9)	-
The Company's share of unusual items	(19.4)	(16.6)	(39.5)	(16.6)
Total (decrease) increase in unrealized value of investment	(13.5)	(13.1)	(28.2)	2.9
Ending Balance	$ 180.8	$ 165.0	$ 180.8	$ 165.0

In the second quarter of 2020, Skyward Specialty closed a Loss Portfolio Transfer agreement ("LPT") that provides reinsurance protection of approximately $127.4 above Skyward Specialty's net ceded claim reserves, primarily related to 2017 and prior policy years, subject to co-participation payments required from Skyward Specialty above specific amounts. As identified in the chart above, the impact of the LPT net of tax on the Company's investment in Skyward Specialty for the three months and year ended December 31, 2020 was a decrease of $1.6 and $5 .7, respectively. The net impact of the LPT on the Company's investment was a decrease of $16.6 in each of the three months and year ended December 31, 2019.

(ii) Select Financial Information of Skyward Specialty for the years ended December 31, 2020 and 2019

The Company considers certain financial results of Skyward Specialty to be important measures for investors in assessing the Company's financial position and performance. In particular, premium volumes provide a measure of Skyward Specialty's growth; "Loss ratio" (calculated by dividing net loss and Loss Adjustment Expenses ("LAE") by net earned premiums), "Expense ratio" (calculated by dividing the sum of: net policy acquisition expenses, operating expenses, less commission and fee income, by net earned premiums), and "Combined ratio excluding LPT" (calculated by the sum of Loss ratio and Expense ratio excluding the charge of the LPT and the adverse development on prior years' claims reserves subject to the LPT) provide measures of Skyward Specialty's underwriting profitability; "Net income (loss)" provides a measure of Skyward Specialty's overall profitability; and "Stockholders' equity" and "Tangible stockholders' equity" (calculated by total stockholders' equity, adjusted for stock notes receivable, less goodwill and intangible assets) are measures that are generally used by investors to determine the value of insurance companies.

Set out in the tables below are certain Skyward Specialty Financial Information derived from the audited annual consolidated financial statements of Skyward Specialty for the years ended December 31, 2020 and 2019, which have been prepared in accordance with US GAAP and non-GAAP measures. Such statements are the responsibility of the management of Skyward Specialty. Readers are cautioned that the Skyward Specialty 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.

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

3. INVESTMENTS (continued)

Skyward Specialty Condensed Consolidated Balance Sheets

	December 31, 2020		December 31, 2019	
Assets				
Investment portfolio	$	764.8	$	711.7
Cash and restricted cash		112.0		86.0
Insurance related assets		949.1		812.0
Deferred tax asset		41.1		24.2
Goodwill and intangible assets		86.2		142.9
Total assets	$	1,953.2	$	1,776.8
Liabilities				
Insurance related liabilities	$	1,430.1	$	1,244.4
Notes payable		50.0		83.8
Trust preferred securities		78.4		78.4
Total liabilities	$	1,558.5	$	1,406.6
Stockholders' equity				
Stockholders' equity	$	405.5	$	373.7
Stock notes receivable		(10.8)		(3.5)
Total stockholders' equity	$	394.7	$	370.2
Total liabilities and stockholders' equity	$	1,953.2	$	1,776.8
Tangible stockholders' equity	$	319.3	$	230.8

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

3. INVESTMENTS (continued)

Skyward Specialty Condensed Consolidated Statement of (Loss) Earnings and Comprehensive (Loss) Income

	Three months ended December 31 2020	Three months ended December 31 2019	Year ended December 31 2020	Year ended December 31 2019
Gross written premium	$ 196.4	$ 185.3	$ 873.6	$ 878.3
Net written premium	102.6	90.3	413.3	421.7
Net earned premium	101.6	111.6	396.3	385.1
Commission and fee income	1.2	1.1	6.4	5.1
Less: Losses and LAE excluding LPT[1]	(67.8)	(82.0)	(276.6)	(281.1)
Less: Policy acquisition costs	(8.5)	(7.5)	(26.7)	(24.1)
Less: Operating expenses[2]	(21.9)	(19.8)	(84.6)	(78.9)
Underwriting result excluding LPT[1,2]	**4.6**	**3.4**	**14.8**	**6.1**
Net investment income	4.3	5.1	14.8	20.2
Net realized and unrealized gains	9.0	3.3	-	22.2
Investment income	13.3	8.4	14.8	42.4
Interest expense	(1.2)	(2.1)	(5.5)	(6.8)
Amortization expense	(0.2)	(0.5)	(1.5)	(1.8)
Income before taxes excluding unusual items	16.5	9.2	22.6	39.9
Income tax expense	3.6	1.3	4.7	7.7
Net income excluding unusual items	**12.9**	**7.9**	**17.9**	**32.2**
Impact of LPT net of tax[3]	(3.6)	-	(47.2)	-
Unusual items net expense recoveries net of tax	3.6	-	1.3	-
Goodwill impairment net of tax	(43.7)	-	(43.7)	-
Net (loss) income	**(30.8)**	**7.9**	**(71.7)**	**32.2**
Total other comprehensive income	0.4	(0.7)	7.0	8.0
Comprehensive (loss) income	$ (30.4)	$ 7.2	$ (64.7)	$ 40.2
Other Select Financial Information				
Loss ratio[1]	66.7%	73.4%	69.8%	73.0%
Expense ratio	28.8%	23.5%	26.4%	25.4%
Combined ratio excluding LPT[1]	95.5%	96.9%	96.2%	98.4%

[1] Excludes adverse development on prior years' claims reserves subject to the LPT of $9.0 and $49.0 for the three months and year ended December 31, 2020, respectively.
[2] Excludes other unusual net expense recoveries of $4.5 ($3.6 after tax) and $1.7 ($1.3 after tax) for the three months and year ended December 31, 2020, respectively.
[3] The impact of LPT net of tax of $3.6 includes adverse development on prior years' claims reserves subject to the LPT of $9.0 less recoveries from the LPT reinsurer of $4.5 and less an income tax recovery of $0.9 for the three months ended December 31, 2020. The impact of LPT net of tax of $47.2 includes the initial cost of the LPT of $43.5 plus adverse development on prior years' claims reserves subject to the LPT of $49.0 less recoveries from the LPT reinsurer of $32.7 and less an income tax recovery of $12.6 for the year ended December 31, 2020.

Gross written premiums - Gross written premiums were $196.4 for the three months ended December 31, 2020 compared to $185.3 for the three months ended December 31, 2019, an increase of 6.0%, and $873.6 for the year ended December 31, 2020 compared to $878.3 for the year ended December 31, 2019, a decrease of 0.5%. The current quarter and full year gross written premiums were primarily impacted by growth in targeted specialty businesses offset by underwriting actions to reduce premium and exposure in some businesses including the continued run-off of monoline workers' compensation and lawyers and insurance agent professional liability which began in the second quarter of 2020.

Net written premiums - Net written premiums were $102.6 for the three months ended December 31, 2020 compared to $90.3 for the three months ended December 31, 2019, an increase of 13.6%, and $413.3 for the year ended December 31, 2020 compared to $421.7 for the year ended December 31, 2019, a decrease of 2.0%. The current quarter net written premiums were impacted by the growth in gross written premiums and higher retentions. For the year ended December 31, 2020, net written premiums were impacted by the decline in gross written premiums and the cost of additional reinsurance for the period.

Net earned premiums - Net earned premiums were $101.6 for the three months ended December 31, 2020 compared to $111.6 for the three months ended December 31, 2019, a decrease of 9.0%, and $396.3 for the year ended December 31, 2020 compared to $385.1 for the year ended December 31, 2019, an increase of 2.9%. The current quarter decrease in net earned premiums was due to Skyward Specialty's net written premium changes over the past 24 months. Premiums are reported as revenue over the term of the written policy thereby delaying when the net written premiums are reported as net earned premium revenue.

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

3. INVESTMENTS (continued)

Losses and LAE excluding LPT – In the three months and year ended December 31, 2020, Skyward Specialty's Loss Ratio was 66.7% and 69.8% respectively, excluding claims subject to the LPT compared to the three months and year ended December 31, 2019 of 73.4% and 73.0%, respectively. Catastrophes and prior years' claims development not subject to the LPT impacted the Loss Ratio as illustrated in the chart below. Underwriting actions and rate increases have resulted in the Loss Ratios improving compared to the same period in 2019 for the three months ended December 31, 2020 of 66.0% versus 73.4% and for the year ended December 31, 2020 of 68.6% versus 69.4% excluding catastrophes and prior years' development.

	Three months ended December 31				Year ended December 31			
	2020		2019		2020		2019	
Losses and LAE	$ 67.8	66.7%	$ 82.0	73.4%	$ 276.6	69.8%	$ 281.1	73.0%
Catastrophes	0.8	0.7%	-	-	4.2	1.1%	-	-
Prior years' development	-	-	-	-	0.5	0.1%	13.9	3.6%
Losses and LAE excluding catastrophes and prior years' development	$ 67.0	66.0%	$ 82.0	73.4%	$ 271.9	68.6%	$ 267.2	69.4%

Operating results (net income excluding unusual items; all amounts net of income tax) - The net income excluding unusual items was $12.9 for the three months ended December 31, 2020 compared to net income of $7.9 for the three months ended December 31, 2019. The improvement of $5.0 was the result of increased investment income of $3.9 and a higher underwriting result of $0.9. The combined ratio excluding LPT improved to 95.5% from 96.9% for the three months ended December 31, 2020 and 2019, respectively. For the year ended December 31, 2020, Skyward Specialty had a net income excluding unusual items of $17.9 compared to $32.2 for the year ended December 31, 2019. The decrease of $14.3 was primarily from lower investment income of $21.8 offset by a higher underwriting result of $6.9. The higher underwriting result was reflected by the improvement in the combined ratio excluding LPT of 96.2% from 98.4% for the years ended December 31, 2020 and 2019, respectively.

Net (loss) income (all amounts net of income tax) - The operating result of Skyward Specialty was a net loss of $30.8 for the three months ended December 31, 2020 compared to net income of $7.9 for the three months ended December 31, 2019. For the year ended December 31, 2020, Skyward Specialty had a net loss of $71.7 compared to net income of $32.2 for the year ended December 31, 2019. The decrease of $38.7 in net income for the three months ended December 31, 2020 was primarily attributable the goodwill impairment of $43.7 and the impact of the LPT of $3.6 offset by the improvement in net income excluding unusual items of $5.0 described above and other unusual net expense recoveries of $3.6. The decrease of $103.9 in net income for the year ended December 31, 2020 from the comparable period in 2019 was primarily attributable to the impact of the goodwill impairment of $43.7, the impact of the LPT of $47.2, and lower investment income of $21.8 offset by an increase in the underwriting result excluding LPT of $6.9 and other unusual net expense recoveries of $1.3.

Stockholders' equity - Skyward Specialty stockholders' equity increased to $394.7 at December 31, 2020 from $370.2 at December 31, 2019. The increase of $24.5 resulted from the proceeds of Skyward Specialty's rights offering for convertible preferred shares of $100.0, offset by a net comprehensive loss for the period of $64.7, an increase in the stockholder notes receivables of $7.3, and the net redemption of outstanding common and preferred shares of $3.5.

B. INVESTMENT IN THE ARENA FINCOs

The Arena FINCOs invest 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 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.

3. INVESTMENTS (continued)

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.

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 their assessment of the fair market value of the investment at the time of purchase.

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 $10.0 at December 31, 2018. On April 1, 2019, the Company converted the Arena FINCOs Term Loan of $10.0 into additional common shares of WOH.

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 their investments.

The Arena FINCOs paid cash dividends to Westaim in the amount of $nil and $22.7 and paid a return of capital of $7.9 and $20.0 in the three months and year ended December 31, 2020, respectively. Arena FINCOs paid cash dividends to Westaim in the amount of $3.8 and $4.7 in each of the three months and year ended December 31, 2019. No return of capital was paid the three months and year ended December 31, 2019. These result in a decrease in the Company's carrying value of the Arena FINCOs.

Accounting for the Arena FINCOs

The Company's investment in the Arena FINCOs is accounted for at FVTPL and are included in investments in private entities. 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, 2020, in the amount of $163.0 approximated the fair value of the Company's investments in the Arena FINCOs. See Note 5, *Investments in the Arena FINCOs* in the Notes to the Financial Statements.

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

3. INVESTMENTS (continued)

The fair value of the Company's investment in the Arena FINCOs was determined to be $163.0 and $205.8 at December 31, 2020 and 2019, respectively.

The Company recorded an increase in the unrealized value of its investments in the Arena FINCOs of $1.5 before the return of capital to the Company of $7.9 and a decrease in the unrealized value of its investments of $0.1 before dividends paid to the Company of $22.7 and the return of capital to the Company of $20.0 in the three months and year ended December 31, 2020, respectively in the consolidated statements of (loss) profit and comprehensive (loss) income. The Company recorded an increase in the unrealized value of its investment in the Arena FINCOs of $2.7 before dividends paid to the Company of $3.8 and an increase in the unrealized value of investments of $11.8 before dividends paid to the Company of $4.7 in the three months and year ended December 31, 2019, respectively in the consolidated statements of (loss) profit and comprehensive (loss) income. There was no capital returned to the Company in each of the three months and year ended December 31, 2019.

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 audited and has been derived from the financial statements of WOH, AOC, AFHC and the consolidated financial statements of AF and its subsidiaries for the three months and years ended December 31, 2020 and 2019, which have been prepared in accordance with IFRS or US GAAP. AOC financial statements and AF consolidated financial 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:

	December 31, 2020		December 31, 2019	
(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	$ 21.4	13.1%	$ 8.6	4.2%
Due from brokers, net	(5.5)	(3.3)%	1.6	0.8%
Investments:				
Loans / Private assets	145.9	89.5%	167.6	81.4%
Other Securities	34.4	21.1%	21.5	10.4%
Total investments	180.3	110.6%	189.1	91.8%
Senior secured notes payable	(43.4)	(26.6)%	-	-
Other net assets	10.2	6.2%	6.5	3.2%
Net assets of the Arena FINCOs	$ 163.0	100.0%	$ 205.8	100.0%

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.

On September 29, 2020, Arena Finance II, LLC, one of the Arena FINCOs, secured a private placement of $45 of 6.75% senior secured notes to improve net returns by leveraging invested assets. The net proceeds received from these notes will be used by the Arena FINCOs in accordance with their investment objectives.

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

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

3. INVESTMENTS (continued)

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

	Three months ended December 31		Year ended December 31	
	2020	2019[1]	2020	2019[1]
Net operating results of the Arena FINCOs:				
Investment income	$ 0.2	$ 5.2	$ 5.6	$ 18.5
Net (losses) gains on investments	3.5	(0.6)	0.6	3.9
Interest expense	(0.9)	-	(0.9)	(0.7)
Net investment income	2.8	4.6	5.3	21.7
Operating expenses:				
Management and asset servicing fees	(1.0)	(1.3)	(4.2)	(5.0)
Incentive fees	(0.1)	(0.3)	(0.2)	(1.5)
Other operating expenses	(0.1)	(0.3)	(0.7)	(1.5)
	1.6	2.7	0.2	13.7
Arena FINCOs holding companies' expenses:				
Advisory fees paid to the Company	(0.1)	-	(0.2)	(1.3)
Interest expense on the Arena FINCOs term loan paid to the Company	-	-	-	(0.2)
Other expenses	-	-	(0.1)	-
Income tax expense	-	-	-	(0.4)
	(0.1)	-	(0.3)	(1.9)
Net operating results of the Arena FINCOs	$ 1.5	$ 2.7	$ (0.1)	$ 11.8

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

The Net Return on the investment portfolios of the Arena FINCOs was 0.9% and was nominal for the three months and year ended December 31, 2020, respectively, and 1.3% and 7.0% for the three months and year ended December 31, 2019, 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:

	Three months ended December 31		Year ended December 31	
	2020	2019	2020	2019
Opening balance	$ 169.4	$ 206.9	$ 205.8	$ 198.7
Return of capital to the Company	(7.9)	-	(20.0)	-
Unrealized gain (loss) before dividends	1.5	2.7	(0.1)	11.8
Dividends paid to the Company	-	(3.8)	(22.7)	(4.7)
Ending balance	$ 163.0	$ 205.8	$ 163.0	205.8

C. INVESTMENT IN 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.

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.

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

3. INVESTMENTS (continued)

Arena Investors has established U.S. onshore funds, Arena Special Opportunities Fund, LP ("ASOF LP") and Arena Special Opportunities Partners I, LP and offshore funds, Arena Special Opportunities Fund (Cayman), LP, Arena Special Opportunities Fund (Cayman 2), LLC and Arena Special Opportunities Partners (Cayman) I, LP, 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, 2020, Arena Investors had committed AUM of approximately $2.0 billion. The committed AUM included the net assets of the Arena FINCOs of approximately $163. As of December 31, 2019, Arena Investors had committed AUM of approximately $1.3 billion. The committed AUM included the net assets of the Arena FINCOs of approximately $206.

Rights Granted to BP LLC

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

Accounting for Arena Investors

The Company has a revolving loan facility to the associates (the "Arena Investors' Revolving Loan") with a limit of $35.0 at December 31, 2020. Arena Investors had drawn down the loan facility by $28.0 at December 31, 2020 (December 31, 2019 - $20.0). See Note 5, *Investments in the Associates* in the Notes to the Financial Statements.

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 $20.2 and $12.3 at December 31, 2020 and 2019, respectively. The total of the Company's 51% share of profit of $1.4 and a share of loss of $0.1 for the three months and year ended December 31, 2020, respectively, and share of loss of $0.2 and was nominal for the three months and year ended December 31, 2019, respectively, was reported under "Net results of investments" in the consolidated statements of (loss) profit and comprehensive (loss) 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 audited and has been derived from the financial statements of AIGH for the three months and year ended December 31, 2020 and 2019, which have been prepared in accordance with US GAAP. Such statements are the responsibility of the management of Arena Investors. Management of the Company concluded that any reconciling items to IFRS are not material.

Select financial information of Arena Investors is as follows:

Statement of Financial Position

	December 31, 2020	December 31, 2019
Cash and cash equivalents	$ 1.0	$ 1.6
Restricted cash	13.9	6.5
Arena Investors' Revolving Loan from the Company	(28.0)	(20.0)
Other net liabilities	(2.5)	(3.5)
Net liabilities	$ (15.6)	$ (15.4)
Company's share	$ (7.8)	$ (7.7)
Arena Investors' Revolving Loan from the Company	28.0	20.0
Carrying amount of the Company's investment in associates	$ 20.2	$ 12.3

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

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

3. INVESTMENTS (continued)

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

	Three months ended December 31		Year ended December 31	
	2020	2019	2020	2019
Management and asset servicing fees	$ 5.9	$ 4.9	$ 20.7	$ 18.7
Incentive fees	4.2	2.4	7.8	9.6
Net gains on investments	0.1	0.1	0.3	0.3
Total revenue	10.2	7.4	28.8	28.6
Salaries and benefits	(4.9)	(5.4)	(21.7)	(20.6)
Professional fees	(1.4)	(1.1)	(3.3)	(3.7)
General, administration and other expenses	(0.8)	(1.2)	(2.9)	(3.5)
Interest expense on the Revolving Loan from the Company	(0.3)	(0.2)	(1.1)	(1.0)
Total expenses	(7.4)	(7.9)	(29.0)	(28.8)
Profit (loss) and comprehensive income (loss)	$ 2.8	$ (0.5)	$ (0.2)	$ (0.2)
Company's share of profit (loss) of associates (51%)	$ 1.4	$ (0.2)	$ (0.1)	$ -

The management, asset servicing and incentive fees were generated from the various segregated client accounts and managed funds of Arena Investors.

D. INVESTMENT IN ASOF LP

The Company's investment in ASOF LP, a fund managed by Arena Investors, LP, with a fair value of $2.9 at December 31, 2020 and $2.7 at December 31, 2019 is included in investments in the consolidated statements of financial position. The Company's increase in unrealized value on its investment in ASOF LP was $0.1 and $0.2 in the three months and year ended December 31, 2020, respectively, and the increase in unrealized value was nominal and $0.2 in the three months and year ended December 31, 2019, respectively.

4. FINANCING

Preferred Securities

On June 2, 2017, the Company closed the sale to Fairfax of 5,000,000 Preferred Securities for C$50.0. The Preferred Securities are repayable on demand upon a change of control of Westaim and the liability is recorded at the principal amount in the consolidated statements of financial position. The C$ 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, 2020 of $39.2 (December 31, 2019 - $38.5). See Note 7, *Preferred Securities* in the Notes to the Financial Statements.

Canadian Dollar Currency Forward Contracts

On December 20, 2018, the Company entered into a one year Canadian dollar currency forward contract to purchase C$35 and during 2020, the Company entered into four 90 day Canadian dollar currency forward contracts to purchase C$40 each. The impact was to primarily offset Canadian dollar currency gains or losses on the Company's underlying Canadian dollar currency liabilities, including the currency exposure arising from the Preferred Securities. See Note 8, *Canadian Dollar Currency Forward Contracts* in the Notes to the Financial Statements.

The Company has not designated these Canadian dollar currency forward contracts as accounting hedges.

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 (December 31, 2019 - $3.0) as security. The security shall remain in effect for the duration of the outstanding Canadian dollar currency forward contract.

Derivative Warrant Liability

In conjunction with the purchase by Fairfax of C$50.0 in Preferred Securities on June 2, 2017, Westaim issued to Fairfax 14,285,715 Warrants, with 14,285,715 Warrants having vested on June 2, 2017. 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, 2020, a liability of $1.0 (December 31, 2019 - $1.9) representing the estimated fair value of the vested Warrants had been accrued in the consolidated statements of financial position. See Note 9, *Derivative Warrant Liability* in the Notes to the Financial Statements.

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

5. ANALYSIS OF FINANCIAL RESULTS

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

	Three months ended December 31		Year ended December 31	
	2020	2019	2020	2019
Revenue				
Interest income	$ 0.3	$ 0.4	$ 1.2	$ 2.1
Dividend income from investments in private entities	-	3.8	22.7	4.7
Fee income	0.3	0.3	1.0	2.4
	$ 0.6	$ 4.5	$ 24.9	$ 9.2
Net results of investments	(10.5)	(14.4)	(50.9)	10.2
Net expenses				
Salaries and benefits	(1.1)	(1.0)	(3.8)	(3.7)
General, administrative and other	(0.2)	(0.1)	(0.8)	(1.0)
Professional fees	(0.4)	(0.2)	(1.3)	(1.0)
Site restoration (expense) recovery	(0.6)	1.4	(0.7)	(0.3)
Share-based compensation expense	(0.7)	(0.8)	(0.3)	(1.5)
Foreign exchange loss	(0.9)	(0.6)	(0.4)	(1.1)
Interest on preferred securities	(0.5)	(0.5)	(1.9)	(1.9)
Derivative warrant (loss) gain	(0.2)	(0.4)	0.8	0.6
	$ (4.6)	$ (2.2)	$ (8.4)	$ (9.9)
Income tax expense	-	(0.9)	(0.1)	(0.9)
GAAP (Loss) profit and comprehensive (loss) income	$ (14.5)	$ (13.0)	$ (34.5)	$ 8.6
Adjusted profit and comprehensive income excluding unusual items[1]	$ 4.9	$ 3.6	$ 5.0	$ 25.2

[1] Non-GAAP measure. See Section 15, *Non-GAAP Measures* of this MD&A.

5.1 Revenue

In the three months ended December 31, 2020, the Company earned interest on loans made to the Arena FINCOs and Arena Investors of $0.3 (2019 - $0.2) and dividends from the Arena FINCOs of $nil (2019 - $3.8). In the same period, the Company earned advisory fees from Skyward Specialty of $0.1 (2019 - $0.1) and from the Arena FINCOs and Arena Investors of $0.2 (2019 - $0.2).

In the year ended December 31, 2020, the Company earned interest on loans made to the Arena FINCOs and Arena Investors of $1.1 (2019 - $1.9) and dividends from the Arena FINCOs of $22.7 (2019 - $4.7). In the same period, the Company earned advisory fees from Skyward Specialty of $0.5 (2019 - $0.8) and from the Arena FINCOs and Arena Investors of $0.5 (2019 - $1.6).

5.2 Net Results of Investments

In the three months ended December 31, 2020, the net results of investments consisted of a decrease in the unrealized value of the Company's investments in private entities of $12.0 before dividends paid of $nil (2019 – a decrease in the unrealized value of $10.4 before dividends paid of $3.8), an increase in the unrealized value of other investments of $0.1 (2019 - nominal), and the Company's share of profit from its investment in associates of $1.4 (2019 – share of loss of $0.2).

In the year ended December 31, 2020, the net results of investments consisted of a decrease in the unrealized value of the Company's investments in private entities of $28.3 before dividends paid of $22.7 (2019 - increase in the unrealized value of $14.7 before dividends paid of $4.7), an increase in the unrealized value of other investments of $0.2 (2019 - $0.2), and the Company's share of loss from its investment in associates of $0.1 (2019 – nominal).

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

5. ANALYSIS OF FINANCIAL RESULTS (continued)

Investments in Private Entities

The Company's investments in private entities are accounted for at FVTPL. In the three months ended December 31, 2020, the Company recorded a decrease in unrealized value of $13.5 on its investment in Skyward Specialty (2019 - $13.1), and an increase in unrealized value of $1.5 before dividends paid of $nil on its investment in the Arena FINCOs (2019 – an increase of $2.7 before dividends paid of $3.8).

In the year ended December 31, 2020, the Company recorded a decrease in unrealized value of $28.2 on its investment in Skyward Specialty (2019 – an increase in unrealized value of $2.9), and a decrease in unrealized value of $0.1 before dividends paid of $22.7 on its investment in the Arena FINCOs (2019 – an increase in unrealized value of $11.8 before dividends paid of $4.7).

Investment in Associates

The Company's investment in associates is accounted for using the equity method. In the three months ended December 31, 2020, the associates earned management and asset servicing fees of $5.9 (2019 - $4.9), incentive fees of $4.2 (2019 - $2.4), net gains on investment of $0.1 (2019 - $0.1) offset by salaries and benefits of $4.9 (2019 - $5.4), professional fees of $1.4 (2019 - $1.1), general, administrative and other expenses of $0.8 (2019 - $1.2), and interest expense on the Revolving Loan from the Company of $0.3 (2019 - $0.2) resulting in a gain of $2.8 (2019 – loss of $0.5).

In the year ended December 31, 2020, the associates earned management and asset servicing fees of $20.7 (2019 - $18.7), incentive fees of $7.8 (2019 - $9.6), net gains on investment of $0.3 (2019 - $0.3) offset by salaries and benefits of $21.7 (2019 - $20.6), professional fees of $3.3 (2019 - $3.7), general, administrative and other expenses of $2.9 (2019 - $3.5), and interest expense on the Revolving Loan from the Company of $1.1 (2019 - $1.0) resulting in a loss of $0.2 (2019 - $0.2).

The total of the Company's 51% share of profit of the associates amounted to $1.4 and a share of loss of $0.1 in the three months and year ended December 31, 2020, respectively and its share of loss of the associates amounted to $0.2 and was nominal in the three months and year ended December 31, 2019, respectively.

5.3 *Expenses*

Salaries and benefits in the three months and year ended December 31, 2020 were comparable to the corresponding period in the prior year.

General, administrative and other expenses decreased by $0.2 in the year ended December 31, 2020 when compared to the corresponding period in the prior year resulting from decreased travel and office related expenses.

Professional fees increased by $0.3 in the year ended December 31, 2020 when compared to the corresponding period in the prior year due to increased fees resulting from higher tax consultation and preparation fees.

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 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. Variations in the Company's site restoration provision expense from period to period are generally attributed to changes in the estimates of future expenditures used to arrive at the site restoration provision. Reimbursements are recorded when received.

Changes in share-based compensation expense from period to period result from the vesting of RSUs, the issuance of DSUs in lieu of director fees, as well as movement in the Company's share price which affects the per unit valuation of outstanding RSUs and DSUs. Share-based compensation expense in the three months and year ended December 31, 2020 also included compensation expense for stock options of $nil (2019 - $0.3) and $0.2 (2019 - $1.0), respectively. See Section 8, *Liquidity and Capital Resources* of this MD&A for additional information on the Company's share-based compensation plans.

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

6. ANALYSIS OF FINANCIAL POSITION

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, 2020 and 2019:

	Three months ended December 31		Year ended December 31	
	2020	2019	2020	2019
Foreign exchange gains (losses) relating to:				
- site restoration provision	$ (0.2)	$ (0.1)	$ (0.1)	$ (0.2)
- liabilities for RSUs and DSUs	(0.3)	(0.1)	-	(0.3)
- Preferred securities	(1.6)	(0.8)	(0.7)	(1.9)
- Arena FINCOs Demand Loan receivable	-	-	-	0.3
- derivative warrant liability	-	-	0.1	(0.1)
- Canadian dollar currency forward contracts	1.3	0.5	0.4	1.3
- other	(0.1)	(0.1)	(0.1)	(0.2)
	$ (0.9)	$ (0.6)	$ (0.4)	$ (1.1)

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

	December 31, 2020	December 31, 2019
Assets		
Cash	$ 8.7	$ 22.2
Income tax receivable	0.1	0.4
Other assets	1.6	2.3
Investments	366.9	385.8
	$ 377.3	$ 410.7
Liabilities		
Accounts payable and accrued liabilities	$ 11.0	$ 10.7
Income tax payable	0.3	0.4
Preferred securities	39.2	38.5
Derivative warrant liability	1.0	1.9
Site restoration provision	4.9	4.1
Deferred tax liability	0.4	0.3
	56.8	55.9
Shareholders' equity	320.5	354.8
Total liabilities and shareholders' equity	$ 377.3	$ 410.7

6.1 Cash

At December 31, 2020, the Company had cash of $8.7 compared to $22.2 at December 31, 2019. At December 31, 2020 and 2019, cash consisted of cash on deposit, including restricted cash on deposit of $3.0.

6.2 Income Tax Receivable

At December 31, 2020, the Company had an income tax receivable due from the United States federal tax authority of $0.1 (December 31, 2019 - $0.4).

6.3 Other Assets

Other assets were $1.6 and $2.3 at December 31, 2020 and 2019, respectively. Other assets at December 31, 2020 included receivables from related parties, primarily Arena FINCOs of $0.8 (December 31, 2019 - $1.1), right of use asset of $0.5 (December 31, 2019 - $0.6), fair value of Canadian dollar currency forward contract of $nil (December 31, 2019 - $0.3) and other receivables of $0.3 (December 31, 2019 - $0.3).

6. ANALYSIS OF FINANCIAL POSITION (continued)

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 (loss) profit and comprehensive (loss) 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 (loss) profit and comprehensive (loss) income.

The right of use asset for office premises was $0.5 and $0.6 at December 31, 2020 and 2019, respectively. The depreciation on the right of use asset was nominal and $0.1 in the three months and year ended December 31, 2020, respectively (2019 - $nil).

The lease liability for office premises was $0.5 and $0.6 at December 31, 2020 and 2019, respectively. The lease payments were nominal and $0.1 in the three months and year ended December 31, 2020, respectively (2019 - $nil) and the interest expense on the lease liability was nominal in each of the three months and year ended December 31, 2020 (2019 - nominal). The Company recorded a nominal foreign exchange gain and a nominal foreign exchange loss relating to the lease liability in the three months and year ended December 31, 2020, respectively (2019 – nominal).

Depreciation expense for the capital assets was nominal in each of the three months and year ended December 31, 2020 and 2019.

6.4 Investments

Investments in Private Entities

The Company's investments in private entities consist of its investments in Skyward Specialty and the Arena FINCOs, which are accounted for at FVTPL. The fair values of Skyward Specialty and the Arena FINCOs at December 31, 2020 were determined to be $180.8 and $163.0, respectively (December 31, 2019 - $165.0 and $205.8, 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 associates at December 31, 2020 was $20.2 (December 31, 2019 - $12.3). 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, 2020 was determined to be $2.9 (December 31, 2019 - $2.7). See discussion in Section 3, *Investments* of this MD&A.

6.5 Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities were $11.0 and $10.7 at December 31, 2020 and 2019, respectively. Accounts payable and accrued liabilities at December 31, 2020 included liabilities related to accrued employee bonuses of $1.8 (December 31, 2019 - $1.7), RSUs of $5.9 (December 31, 2019 - $6.2), DSUs of $1.7 (December 31, 2019 - $1.3), lease liability of $0.5 (December 31, 2019 - $0.6), interest accrued on the Preferred Securities of $0.5 (December 31, 2019 - $0.5), and other accrued liabilities of $0.6 (December 31, 2019 - $0.4). 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.

6.6 Income Tax Payable

At December 31, 2020, the Company had an income tax payable due to the United States federal tax authority of $0.3 (December 31, 2019 - $0.4).

6.7 Preferred Securities

The C$50.0 principal amount of the Preferred Securities was converted to US$ at the period end exchange rate, resulting in a carrying amount of the Preferred Securities at December 31, 2020 of $39.2 (December 31, 2019 - $38.5). See discussion in Section 4, *Financing* of this MD&A.

6.8 Derivative Warrant Liability

At December 31, 2020, a liability of $1.0 (December 31, 2019 - $1.9) 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.

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

6. ANALYSIS OF FINANCIAL POSITION (continued)

6.9 Site Restoration Provision

The site restoration provision of $4.9 at December 31, 2020 (December 31, 2019 - $4.1) relates to future site restoration costs associated with soil and groundwater reclamation and remediation costs relating to industrial sites previously owned by the Company. See discussion in Section 5, *Analysis of Financial Results* of this MD&A.

6.10 Shareholders' Equity

The details of shareholders' equity are as follows:

	December 31, 2020	December 31, 2019
Common shares	$ 382.2	$ 382.2
Contributed surplus	17.7	17.5
Accumulated other comprehensive loss	(2.2)	(2.2)
Deficit	(77.2)	(42.7)
Shareholders' equity	$ 320.5	$ 354.8

Common Shares

The Company had 143,186,718 common shares outstanding at December 31, 2020 and 2019.

Contributed Surplus

The Company had $17.7 in contributed surplus at December 31, 2020 (December 31, 2019 - $17.5). The increase in contributed surplus of $0.2 resulted from compensation expense relating to stock options in the year ended December 31, 2020.

Accumulated Other Comprehensive Loss

Accumulated other comprehensive loss of $2.2 at December 31, 2020 and 2019 comprised cumulative exchange differences from currency translation as a result of a change in presentation currency from the C$ to the US$ on August 31, 2015.

Deficit

The increase in deficit of $34.5 from December 31, 2019 to December 31, 2020 is due to the loss for the year ended December 31, 2020.

7. OUTLOOK

The Company is closely monitoring the impact of COVID-19 on the Company, including both Skyward Specialty and Arena. COVID-19 was declared a global pandemic by the World Health Organization on March 11, 2020. To date, the pandemic has not had a material financial impact on the Company, including Skyward Specialty or Arena. However, the impact of the pandemic and any resulting economic impact are rapidly evolving. It is possible that COVID-19, the measures taken by governments affected and the resulting economic effect, may have an impact on the Company in the future.

With the Arena Investors' platform largely built (product suite, geographies, IT systems, investment capability), its 60+ professionals are poised to deploy committed capital, continue to increase AUM and demonstrate operating leverage to grow its earnings entering 2021.

Generally, the US property and casualty insurance market has shifted to a cycle of increasing insurance rates and improved underwriting terms after several years of poor underwriting results in the industry. Exiting 2020, Skyward Specialty is well positioned to take advantage of the hard insurance market and accelerate its profitable growth and return on equity. Through 2020, Skyward has raised capital, acquired key talent, executed on underwriting actions to optimize its product mix, entered an LPT agreement to help minimize the impact of prior years' claims development, and has an AM Best rating "A-" with a Stable Outlook. Skyward Specialty's objective to build a top quartile specialty insurer continued with the closing of the acquisition of Aegis Surety in early 2021.

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 to the Company's shareholders over the long term.

8. LIQUIDITY AND CAPITAL RESOURCES

Capital Management Objectives

The Company's capital currently consists of 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, 2020 and 2019, the Company had 143,186,718 common shares outstanding, with a stated capital of $382.2.

There were no Class A or Class B preferred shares outstanding at December 31, 2020 and 2019.

Dividends

No dividends were paid in the years ended December 31, 2020 and 2019.

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, 2020 and 2019, the Company had 10,428,337 stock options outstanding.

The Company also had 3,034,261 RSUs outstanding at December 31, 2020 and 2019. 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, 2020, 855,228 DSUs were vested and outstanding (December 31, 2019 – 642,779 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, 2020 and 2019, no DSUs were exercised.

At December 31, 2020, accounts payable and accrued liabilities included amounts related to outstanding RSUs of $5.9 (December 31, 2019 - $6.2) and outstanding DSUs of $1.7 (December 31, 2019 - $1.3).

See Note 13, *Share-based Compensation* in the Notes to the Financial Statements.

Market for Securities

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

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

8. LIQUIDITY AND CAPITAL RESOURCES (continued)

Cash Flow Objectives

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

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

December 31, 2020	One year or less	One to five years	No specific date / later than five years	Total
Financial assets:				
Cash	$ 8.7	$ -	$ -	$ 8.7
Income tax receivable	0.1	-	-	0.1
Other assets (excluding capital assets)	1.1	-	-	1.1
Investments	-	28.0	338.9	366.9
Total financial assets	9.9	28.0	338.9	376.8
Financial obligations:				
Accounts payable and accrued liabilities (excluding lease liabilities)	2.9	-	7.6	10.5
Income tax payable	0.3	-	-	0.3
Preferred securities	-	-	39.2	39.2
Site restoration provision	-	-	4.9	4.9
Deferred tax liability	-	0.4	-	0.4
Total financial obligations	3.2	0.4	51.7	55.3
Financial assets net of financial obligations	$ 6.7	$ 27.6	$ 287.2	$ 321.5

December 31, 2019	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	-	-	1.7
Investments	-	20.0	365.8	385.8
Total financial assets	24.3	20.0	365.8	410.1
Financial obligations:				
Accounts payable and accrued liabilities (excluding lease liabilities)	2.6	-	7.5	10.1
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	0.3	50.1	53.4
Financial assets net of financial obligations	$ 21.3	$ 19.7	$ 315.7	$ 356.7

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.

See Note 14, *Related Party Transactions* in the Notes to the Financial Statements.

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

10. CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS

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

Management used net asset value as the primary valuation technique in determining the fair value of the Company's investments in private entities at December 31, 2020. Management determined that this valuation technique produced the best indicator of the fair value of the investments in Skyward Specialty and the Arena FINCOs at December 31, 2020. The significant unobservable inputs used in the valuation of Skyward Specialty and the Arena FINCOs at December 31, 2020 were the equity of each of the entities at December 31, 2020 and the multiple applied. For a detailed description of the valuation of the Company's investments in private entities, see note 5 to the Company's audited annual consolidated financial statements for the years ended December 31, 2020 and 2019. Due to the inherent uncertainty of valuation, management's estimated values may differ significantly from the values that would have been used had an active market for the investment existed, and the differences could be material.

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

Other key estimates include the Company's provision for site restoration, fair value of share-based compensation, and unrecognized deferred tax assets. Details of these items are disclosed in note 10, note 13 and note 15, respectively, to the Company's audited annual consolidated financial statements for the years ended December 31, 2020 and 2019.

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, 2020 and 2019

At December 31, 2020, there were no new pronouncements that impacted the Company.

12. QUARTERLY FINANCIAL INFORMATION

	Q4 2020	Q3 2020	Q2 2020	Q1 2020	Q4 2019	Q3 2019	Q2 2019	Q1 2019
Revenue	$ 0.6	$ 0.5	$ 0.5	$ 23.3	$ 4.5	$ 2.1	$ 1.2	$ 1.4
(Decrease) increase in unrealized value of investments, less dividends	(10.5)	3.5	3.2	(47.1)	(14.4)	2.7	10.1	11.8
Net (expenses) recovery of expenses	(4.6)	(3.4)	(3.7)	3.3	(2.2)	(1.1)	(3.5)	(3.1)
Income tax expense	-	-	(0.1)	-	(0.9)	-	-	-
(Loss) profit and comprehensive (loss) income	$ (14.5)	$ 0.6	$ (0.1)	$ (20.5)	$ (13.0)	$ 3.7	$ 7.8	$ 10.1

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 Skyward Specialty, the Arena FINCOs and Arena Investors. 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 25, 2021 for its fiscal year ended December 31, 2020 which is available on SEDAR at www.sedar.com.

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

14. ADDITIONAL ARENA FINCOs' INVESTMENT SCHEDULES

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

Investments by Strategy						**December 31, 2020**
	Number of positions	Cost	Fair value	Percentage of investments at fair value	% Debt investments	% Equity investments
Corporate Private Credit	21	$ 46.9	$ 46.2	25.6%	10.6%	15.0%
Real Estate Private Credit and Real Estate Assets	27	49.8	49.9	27.7%	23.1%	4.6%
Commercial and Industrial Assets	17	26.9	30.8	17.1%	9.4%	7.7%
Structured Finance	2	4.9	5.2	2.9%	2.9%	-
Consumer Assets	10	17.8	13.8	7.6%	7.6%	-
Other Securities	81	35.9	34.4	19.1%	11.7%	7.4%
	158	$ 182.2	$ 180.3	100.0%	65.3%	34.7%

Investments by Strategy						**December 31, 2019**
	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 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	**December 31, 2020**			**December 31, 2019**		
	Cost	Fair value	Percentage of investments at fair value	Cost	Fair value	Percentage of investments at fair value
Loans / Private Assets						
North America	$ 103.4	$ 102.6	56.9%	$ 137.7	$ 142.5	75.4%
Europe	15.5	14.9	8.3%	15.7	18.0	9.5%
Asia/Pacific	27.1	28.2	15.6%	6.0	6.6	3.5%
Latin America	0.3	0.2	0.1%	0.6	0.5	0.2%
	146.3	145.9	80.9%	160.0	167.6	88.6%
Other Securities [1]						
North America	20.8	23.9	13.2%	11.7	10.7	5.7%
Europe	7.2	5.2	2.9%	7.5	5.8	3.1%
Asia/Pacific	4.2	2.9	1.6%	3.3	2.8	1.4%
Latin America	0.6	0.5	0.3%	-	-	-
Other	3.1	1.9	1.1%	3.1	2.2	1.2%
	35.9	34.4	19.1%	25.6	21.5	11.4%
	$ 182.2	$ 180.3	100.0%	$ 185.6	$ 189.1	100.0%

[1] Net of short positions.

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

14. ADDITIONAL ARENA FINCOs' INVESTMENT SCHEDULES (continued)

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

Investments by Industry	December 31, 2020			December 31, 2019		
	Cost	Fair value	Percentage of investments at fair value	Cost	Fair value	Percentage of investments at fair value
Loans / Private Assets						
Corporate Private Credit						
Business Services	$ 14.6	$ 15.3	8.5%	$ 17.1	$ 17.5	9.3%
Financial Services	0.8	0.8	0.4%	1.8	1.8	0.9%
Healthcare Services	0.1	0.1	0.1%	6.7	6.8	3.6%
Oil and Gas (1)	17.9	17.6	9.8%	16.9	18.6	9.8%
Other Assets	12.9	11.8	6.5%	12.1	13.1	6.9%
Retail	0.6	0.6	0.3%	4.1	4.1	2.2%
	46.9	46.2	25.6%	58.7	61.9	32.7%
Real Estate Private Credit and Real Estate Assets						
Commercial	3.0	1.8	1.0%	2.0	1.6	0.9%
Hospitality	3.8	3.9	2.2%	8.4	9.6	5.0%
Land - Commercial Development	6.8	6.2	3.4%	5.2	5.2	2.8%
Land - Multi-Family Development	4.9	5.6	3.1%	5.3	5.4	2.9%
Land - Single-Family Development	22.3	23.3	13.0%	1.3	1.4	0.7%
Mixed Use	1.2	1.2	0.7%	-	-	-
Residential	7.7	7.8	4.2%	7.8	8.0	4.2%
Storage	0.1	0.1	0.1%	0.3	0.3	0.2%
	49.8	49.9	27.7%	30.3	31.5	16.7%
Commercial and Industrial Assets						
Lease/Equipment	2.6	4.7	2.6%	5.2	7.7	4.0%
Oil and Gas	-	-	-	0.7	0.8	0.4%
Other Assets	24.3	26.1	14.5%	37.1	38.8	20.5%
	26.9	30.8	17.1%	43.0	47.3	24.9%
Structured Finance						
Other Assets	4.9	5.2	2.9%	4.4	4.4	2.4%
	4.9	5.2	2.9%	4.4	4.4	2.4%
Consumer Assets						
Consumer	17.8	13.8	7.6%	23.6	22.5	11.9%
	17.8	13.8	7.6%	23.6	22.5	11.9%
Total Loans / Private Assets	146.3	145.9	80.9%	160.0	167.6	88.6%
Other Securities (2)						
Consumer Products	6.3	4.6	2.5%	4.6	2.0	1.0%
Diversified	6.8	7.7	4.3%	-	-	-
Financial Services	0.9	1.1	0.6%	1.7	1.7	0.9%
Foreign Exchange Forwards	-	(1.5)	(0.8)%	-	(0.2)	(0.1)%
Healthcare Services	2.8	3.1	1.7%	0.2	0.3	0.1%
Hospitality	0.7	0.7	0.4%	-	-	-
Industrial	3.1	2.6	1.4%	3.2	2.8	1.5%
Information Technology	1.9	2.2	1.2%	1.6	1.7	0.9%
Mining	0.1	0.1	0.1%	-	-	-
Oil and Gas	1.4	0.6	0.4%	3.9	3.6	1.9%
Other Assets	3.2	3.3	1.8%	-	-	-
Real Estate	0.3	0.4	0.2%	3.1	3.2	1.7%
Telecommunications	8.4	9.5	5.3%	6.1	5.2	2.8%
Utilities	-	-	-	1.2	1.2	0.7%
	35.9	34.4	19.1%	25.6	21.5	11.4%
	$ 182.2	$ 180.3	100.0%	$ 185.6	$ 189.1	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 positions.

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

14. ADDITIONAL ARENA FINCOs' INVESTMENT SCHEDULES (continued)

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

Details of Loan and Private Asset Positions — **December 31, 2020**

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	$13.9	$ 12.9	$ 11.8	Europe	Equity	n/a [4]	n/a [4]
CPC-3349	Business Services	4.3	4.1	5.0	Asia/Pacific	Second Lien	12.00%	115.0%
CPC-3198	Oil and Gas	3.8	3.8	5.0	North America	Hard Asset	n/a [4]	n/a [4]
CPC-3677	Business Services	3.4	3.4	4.3	North America	First Lien	10.25%	39.0%
CPC-3222	Oil and Gas	4.6	4.7	4.1	North America	Hard Asset	n/a [4]	n/a [4]
CPC-3083	Business Services	4.0	4.0	3.6	North America	Equity	n/a [4]	n/a [4]
CPC-5325	Oil and Gas	2.0	2.2	2.2	North America	First Lien	12.00%	18.4%
CPC-3199EQ	Oil and Gas	2.3	2.3	1.8	North America	Equity	n/a [4]	n/a [4]
CPC-4108	Oil and Gas	1.6	1.6	1.6	North America	First Lien	11.84%	41.1%
CPC-4985	Oil and Gas	1.3	1.3	1.4	North America	First Lien	10.00%	27.7%
CPC-5143	Oil and Gas	0.8	0.8	0.8	North America	First Lien	12.00%	28.0%
CPC-2397	Financial Services	0.8	0.8	0.8	North America	Equity	n/a [4]	n/a [4]
CPC-5830	Business Services	0.8	0.7	0.7	Europe	First Lien	10.00%	3.5%
CPC-6254TLB	Business Services	0.7	0.6	0.7	North America	First Lien	10.25%	39.0%
CPC-5027	Retail	0.6	0.6	0.6	North America	First Lien	9.24%	89.0%
CPC-2170	Oil and Gas	1.7	1.0	0.5	North America	First Lien	3.50%	100.0%
CPC-5914	Business Services	0.4	0.4	0.4	Europe	First Lien	10.34%	3.0%
CPC-5834	Business Services	0.3	0.3	0.3	Europe	First Lien	12.34%	14.0%
CPC-1010	Oil and Gas	0.2	0.2	0.2	North America	First Lien	14.00%	43.0%
CPC-5856	Business Services	0.2	0.2	0.2	Europe	First Lien	11.34%	5.0%
CPC-4248	Healthcare Services	0.1	0.1	0.1	North America	First Lien	9.40%	49.8%
CPC-5889	Business Services	0.1	0.1	0.1	North America	First Lien	22.00%	85.9%
CPC-3349EQY	Business Services	0.8	0.8	-	Asia/Pacific	Equity	n/a [6]	n/a [4]
Subtotal / Weighted average %		48.7	46.9	46.2			11.01%	56.0%
Real Estate Private Credit and Real Estate Assets								
REPC-6054	Land -Single-Family Development	12.2	11.4	11.6	Asia/Pacific	First Mortgage	10.00%	74.0%
REPC-5754	Land -Single-Family Development	6.6	6.0	6.4	Asia/Pacific	First Mortgage	11.00%	70.0%
REPC-1068S4	Residential	3.7	3.7	3.7	North America	First Mortgage [5]	11.00%	72.0%
REPC-2683	Land -Multi-Family Development	2.5	2.6	3.3	North America	Real Property	n/a [4]	n/a [4]
REPC-2277	Land -Commercial Development	3.1	3.1	3.2	North America	First Mortgage	15.00%	65.0%
REPC-6194	Land -Single-Family Development	3.4	3.0	3.0	Asia/Pacific	First Mortgage	9.00%	69.0%
REPC-4220	Residential	2.2	2.2	2.1	North America	First Mortgage	12.00%	83.0%
REPC-5840	Land -Multi-Family Development	1.9	1.9	1.9	North America	First Mortgage	9.50%	75.0%
REPC-6053	Land -Single-Family Development	1.8	1.6	1.9	Asia/Pacific	First Mortgage	5.40%	70.0%
REPC-5591	Land -Commercial Development	1.6	1.6	1.6	North America	First Mortgage	13.50%	59.0%
REPC-1207	Hospitality	1.1	1.0	1.5	Europe	Real Property	n/a [4]	n/a [4]
REPC-2592	Land -Commercial Development	1.9	1.9	1.3	North America	First Mortgage	10.50%	115.0%
REPC-5993	Mixed-Use	1.5	1.2	1.2	North America	First Mortgage	12.00%	46.0%
REPC-1942	Commercial	2.3	2.3	1.1	North America	Real Property	n/a [4]	n/a [4]
REPC-5616	Residential	1.0	1.0	1.1	North America	First Mortgage	9.50%	60.0%
REPC-2497	Hospitality	0.8	0.8	0.8	North America	Real Property	n/a [4]	n/a [4]
REPC-2560	Hospitality	1.0	1.0	0.8	North America	First Mortgage	8.89%	117.0%
REPC-2214	Hospitality	1.0	1.0	0.8	North America	Real Property	n/a [4]	n/a [4]
REPC-6057	Commercial	0.7	0.7	0.7	North America	Real Property	9.50%	60.0%
REPC-4134	Residential	0.6	0.6	0.6	North America	First Mortgage	9.83%	58.0%
REPC-4698	Land -Multi-Family Development	0.4	0.4	0.4	North America	First Mortgage	11.50%	54.0%
REPC-4111	Residential	0.2	0.2	0.3	North America	First Mortgage	9.25%	68.0%
REPC-5476	Land -Single-Family Development	0.3	0.2	0.3	Asia/Pacific	First Mortgage	11.50%	77.0%
REPC-5967	Land -Single-Family Development	0.1	0.1	0.1	North America	First Mortgage	10.00%	42.0%
REPC-4316	Self Storage	0.1	0.1	0.1	North America	First Mortgage	9.00%	62.0%
REPC-1047	Land -Commercial Development	0.1	0.1	0.1	North America	First Mortgage	15.00%	53.0%
REPC-1015	Land -Commercial Development	0.2	0.1	-	North America	Real Property	n/a [4]	n/a [4]
Subtotal / Weighted average %		52.3	49.8	49.9			10.59%	72.1%

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

14. ADDITIONAL ARENA FINCOs' INVESTMENT SCHEDULES (continued)

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, 2020**

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-3045	Other assets	*4.4*	4.4	6.1	North America	Asset Pool	n/a (6)	55.0%
CI-1800	Other assets	*5.4*	5.4	5.6	North America	First Lien	14.00%	78.0%
CI-2651	Other assets	*4.0*	4.3	4.2	North America	Hard Asset	n/a (4)	n/a (4)
CI-6006	Other assets	*2.9*	3.2	3.3	North America	First Lien	14.30%	85.0%
CI-1999EQY	Other assets	*2.8*	3.1	3.0	North America	Equity	n/a (4)	n/a (4)
CI-2201	Lease/Equipment	0.8	0.8	2.4	North America	Hard Asset	n/a (4)	n/a (4)
CI-3978	Lease/Equipment	1.7	1.8	2.3	North America	Hard Asset	n/a (4)	n/a (4)
CI-2686	Other assets	1.6	1.6	1.6	North America	Equity	n/a (4)	n/a (4)
CI-2064	Other assets	0.4	0.4	0.7	North America	First Lien	15.00%	80.0%
CI-2000	Other assets	0.5	0.5	0.5	North America	Equity	n/a (4)	n/a (4)
CI-5011	Other assets	0.3	0.3	0.4	North America	First Lien	12.00%	18.0%
CI-1035	Other assets	0.4	0.4	0.3	North America	First Lien	9.90%	100.0%
CI-1520	Other assets	0.2	0.2	0.2	North America	First Lien	n/a (4)	48.0%
CI-5001	Other assets	-	-	0.1	North America	First Lien	13.20%	52.0%
CI-5372	Other assets	0.1	0.1	0.1	Latin America	First Lien	18.00%	77.0%
CI-1999	Other assets	0.1	0.1	-	North America	First Lien	n/a (7)	n/a (7)
CI-2808	Other assets	0.1	0.1	-	North America	Equity	n/a (4)	n/a (4)
CI-1018	Other assets	0.2	0.2	-	North America	First Lien	9.26%	100.0%
Subtotal / Weighted average %		25.9	26.9	30.8			14.01%	69.7%
Structured Finance								
SF-2239	Other assets	4.8	4.8	5.1	North America	**First Lien**	n/a (8)	8.0%
SF-5396	Other assets	0.1	0.1	0.1	North America	**First Lien**	15.00%	77.0%
Subtotal / Weighted average %		4.9	4.9	5.2			15.00%	9.5%
Consumer Assets								
CA-4946	Consumer	4.0	4.0	4.0	North America	First Lien	15.00%	87.0%
CA-4718	Consumer	1.3	1.3	1.7	North America	Asset Pool	n/a (9)	n/a (9)
CA-3595	Consumer	1.6	1.6	1.7	North America	First Lien	15.50%	81.0%
CA-1052F	Consumer	2.6	2.6	1.5	North America	First Lien	15.66%	116.0%
CA-1788AS3	Consumer	2.5	2.5	1.2	North America	First Lien	n/a (10)	83.0%
CA-4727	Consumer	0.9	0.9	1.0	North America	First Lien	29.00%	66.0%
CA-1788/1933	Consumer	0.6	0.6	0.8	North America	First Lien	n/a (10)	83.0%
CA-1933A	Consumer	0.8	0.8	0.7	North America	First Lien	n/a (10)	83.0%
CA-1934	Consumer	0.2	0.2	0.3	North America	First Lien	n/a (10)	83.0%
CA-2199	Consumer	0.1	0.1	0.3	North America	First Lien	12.00%	26.0%
CA-2729	Consumer	0.7	0.7	0.2	North America	First Lien	n/a (8)	269.0%
CA-5060	Consumer	0.1	0.2	0.2	North America	Asset Pool	25.00%	64.0%
CA-2762	Consumer	0.2	0.2	0.1	Latin America	Asset Pool	n/a (9)	n/a (9)
CA-2373	Consumer	0.3	0.3	0.1	North America	Asset Pool	n/a (9)	n/a (9)
CA-1052S	Consumer	1.5	1.4	-	North America	First Lien	15.66%	116.0%
CA-1788A	Consumer	0.4	0.4	-	North America	First Lien	n/a (10)	83.0%
Subtotal / Weighted average %		17.8	17.8	13.8			16.92%	88.6%
Total / Weighted average %		$ 149.6	$ 146.3	$ 145.9			11.93%	67.1%

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, 2020. 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, 2020.
4 Investment is not a loan. Metric is not applicable.
5 Denotes subordinate position within the structure.
6 Investment represents an unsecured credit pool purchase with no stated interest rate.
7 Investment is a maturity default where the Arena FINCOs and its partners acquired the borrower in bankruptcy.
8 Investment with no stated coupon rate.
9 Investment represents a credit pool purchase with no stated interest rate.
10 Interest not accrued on loans purchased as non-performing.

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

14. ADDITIONAL ARENA FINCOs' INVESTMENT SCHEDULES (continued)

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

Details of Loan and Private Asset Positions								**December 31, 2019**
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 (4)	n/a (4)
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(6)	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 (4)	n/a (4)
CPC-3349EQY	Business Services	1.2	0.8	0.6	Asia/Pacific	Equity	n/a (4)	n/a (4)
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 (4)	n/a (4)
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 (4)	n/a (4)
Subtotal / Weighted average %		60.2	58.7	61.9			11.28%	66.9%

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

14. ADDITIONAL ARENA FINCOs' INVESTMENT SCHEDULES (continued)

Details of Loan and Private Asset Positions (continued)								**December 31, 2019**
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 [4]	n/a [4]
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 [7]	n/a [7]
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 [4]	n/a [4]
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 [4]	n/a [4]
Subtotal / Weighted average %		32.4	30.3	31.5			11.78%	65.9%

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

14. ADDITIONAL ARENA FINCOs' INVESTMENT SCHEDULES (continued)

Details of Loan and Private Asset Positions (continued) — **December 31, 2019**

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 (8)	66.3%
CI-2651	Other assets	4.0	4.3	4.3	North America	Hard Asset	n/a (4)	n/a (4)
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 (4)	n/a (4)
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 (4)	n/a (4)
CI-1520	Other assets	1.9	1.9	1.9	North America	First Lien	n/a (9)	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% (10)
CI-2203	Lease/Equipment	0.4	0.4	0.7	North America	Hard Asset	n/a (4)	n/a (4)
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 (4)	n/a (4)
CI-4091	Other assets	0.4	0.4	0.4	Asia/Pacific	Asset Pool	n/a (8)	49.0%
CI-1716	Lease/Equipment	-	-	0.4	North America	Hard Asset	n/a (4)	n/a (4)
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 (11)
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 (12)	n/a (12)
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			14.74%	53.9%
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 (13)	54.0%
Subtotal / Weighted average %		4.4	4.4	4.4			16.00%	68.4%

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

14. ADDITIONAL ARENA FINCOs' INVESTMENT SCHEDULES (continued)

Details of Loan and Private Asset Positions (continued)								**December 31, 2019**
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 (14)	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 (14)	82.0%
CA-2139	Consumer	1.0	1.1	0.9	North America	First Lien	n/a (14)	100.0%
CA-1788/1933	Consumer	0.6	0.6	0.8	North America	First Lien	n/a (14)	82.0%
CA-1933A	Consumer	0.8	0.8	0.7	North America	First Lien	n/a (14)	82.0%
CA-2762	Consumer	0.6	0.6	0.5	Latin America	Asset Pool	n/a (15)	n/a (15)
CA-2373	Consumer	0.2	0.2	0.5	North America	First Lien	n/a (13)	52.0%
CA-2729	Consumer	0.8	0.8	0.4	North America	First Lien	n/a (13)	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 (14)	82.0%
CA-1934	Consumer	0.2	0.2	0.2	North America	First Lien	n/a (14)	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			13.32%	66.0%

1 Principal represents the total funding commitment of a loan which, if applicable, is inclusive of any unfunded portion of the commitment at the end of the reporting period. Where a loan is issued at a discount, the cost amount includes the accreted discount as of the end of the reporting period. A loan may also be acquired at a cost lower than the par value of the principal outstanding.
2 Some investments bear interest at a rate that may be determined by reference to London Interbank Offered Rate ("LIBOR") or Prime which reset daily, monthly, quarterly, or semi-annually and may be subject to a floor. For each, the Company has provided the current contractual interest rate in effect at December 31, 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 The first lien term loan is primed by a debtor-in-possession loan, of which the Arena FINCOs is a participant.
7 Investment is directly held property acquired when the Arena FINCOs and its partners foreclosed upon a related loan.
8 Investment represents a credit pool purchase with no stated interest rate.
9 Investment in litigation claim proceeds with no stated coupon rate.
10 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.
11 Investment is a maturity default where the Arena FINCOs and its partners acquired the borrower in bankruptcy.
12 Investment is remaining profit participation on a repaid off loan.
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.

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

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:

	December 31, 2020	September 30, 2020	June 30, 2020	December 31, 2019
Book value (in US$):				
Shareholders' equity per IFRS	$ 320.5	$ 335.0	$ 334.3	$ 354.8
Adjustments:				
RSU liability [1]	5.9	5.2	4.6	6.2
Derivative warrant liability [2]	1.0	0.8	0.4	1.9
	$ 327.4	$ 341.0	$ 339.3	$ 362.9
Number of common shares:				
Number of common shares outstanding	143,186,718	143,186,718	143,186,718	143,186,718
Adjustments for assumed exercise of:				
Outstanding RSUs [1]	3,034,261	3,034,261	3,034,261	3,034,261
Adjusted number of common shares[3]	146,220,979	146,220,979	146,220,979	146,220,979
Book value per share - in US$	$ 2.24	$ 2.33	$ 2.32	$ 2.48
Book value per share - in C$ [4]	$ 2.85	$ 3.10	$ 3.15	$ 3.22
Westaim TSXV closing share price - in C$	$ 2.49	$ 2.28	$ 2.07	$ 2.65

1 See note 13 to the Company's audited consolidated financial statements for the years ended December 31, 2020 and 2019. 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 9 to the Company's audited consolidated financial statements for the years ended December 31, 2020 and 2019. 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 were not included in the adjusted number of common shares as none of them were in-the-money at December 31, 2020, September 30, 2020, June 30, 2020 and December 31, 2019.

3 See note 13 to the Company's audited consolidated financial statements for the years ended December 31, 2020 and 2019. No adjustments were made for options at December 31, 2020, September 30, 2020, June 30, 2020 and December 31, 2019 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.

4 Book value per share converted from US$ to C$ at period end exchange rates. Period end exchange rates: 1.27395 at December 31, 2020, 1.33125 at September 30, 2020, 1.35865 at June 30, 2020 and 1.29865 at December 31, 2019.

(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 other operating expenses of the Arena FINCOs divided by average carrying values for the Arena FINCOs, for the period.

(c) Adjusted profit and comprehensive income, and adjusted earnings per share – diluted, excluding unusual items

Adjusted profit and comprehensive income excluding unusual items is computed as the GAAP (loss) profit and comprehensive (loss) income less the net impact of unusual items. Management has presented "adjusted profit and comprehensive income excluding unusual items" and "adjusted earnings per share – diluted" to reflect the Company's share of the results of the regular operations of the Company's investments.

Adjusted earnings per share – diluted, excluding unusual items is computed as the adjusted profit and comprehensive income excluding unusual items on a diluted basis divided by the weighted average number of common shares outstanding on a diluted basis.

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

15. NON-GAAP MEASURES (continued)

The table below provides the reconciliation of the Company's GAAP (loss) profit and comprehensive (loss) income to the Company's adjusted profit and comprehensive income excluding unusual items:

	Three months ended December 31 2020	Three months ended December 31 2019	Year ended December 31 2020	Year ended December 31 2019
The Company's GAAP (loss) profit and comprehensive (loss) income	$ (14.5)	$ (13.0)	$ (34.5)	$ 8.6
The Company's share of Skyward Specialty unusual items[1]:				
Impact of LPT net of tax	(1.6)	(16.6)	(5.7)	(16.6)
Other unusual net expense recoveries net of tax	1.6	-	0.5	-
Goodwill impairment net of tax	(19.4)	-	(19.4)	-
Change in valuation multiple (1.1x to 1.0x)	-	-	(14.9)	-
Total of the Company's share of unusual items	(19.4)	(16.6)	(39.5)	(16.6)
The Company's adjusted profit and comprehensive income excluding unusual items	$ 4.9	$ 3.6	$ 5.0	$ 25.2

[1] The Company's share of Skyward Specialty unusual items are described in section 3A: Investment in Skyward Specialty

The adjusted earnings per share – diluted, excluding unusual items are as follows:

	Three months ended December 31 2020	Three months ended December 31 2019	Year ended December 31 2020	Year ended December 31 2019
Adjusted profit and comprehensive income excluding unusual items	$ 4.9	$ 3.6	$ 5.0	$ 25.2
Dilutive RSU (recovery) expense	-	-	(0.3)	0.5
Adjusted profit and comprehensive income excluding unusual items on a diluted basis	$ 4.9	$ 3.6	$ 4.7	$ 25.7
Weighted average number of common shares outstanding	143,186,718	143,186,718	143,186,718	143,186,718
Dilutive impact of RSUs	-	-	3,034,261	3,034,261
Weighted average number of common shares outstanding on a diluted basis	143,186,718	143,186,718	146,220,979	146,220,979
Adjusted earnings per share – diluted, excluding unusual items	$ 0.03	$ 0.02	$ 0.03	$ 0.18

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 Skyward Specialty, the Arena FINCOs and Arena Investors; expectations regarding the Company's assets and liabilities; the Company's ability to retain key employees; management's belief that its estimates for determining the valuation of the Company's assets and liabilities are appropriate; the Company's views regarding potential future remediation costs; the effect of changes to interpretations of tax legislation on income tax provisions in future periods; and the Company's determination that the adoption of new accounting standards will not have a material impact on its consolidated financial statements.

These statements are based on current expectations that are subject to risks, uncertainties and assumptions and the Company can give no assurance that these expectations are correct. By their nature, these statements are subject to inherent risks and uncertainties that may be general or specific. A variety of material factors, many of which are beyond the Company's control, may affect the operations, financial position, performance and results of the Company and its business, and could cause actual results to differ materially from the expectations expressed in any of these forward-looking statements.

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

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; Skyward Specialty'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 Skyward Specialty'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 Skyward Specialty insures; Skyward Specialty's reliance on brokers and third parties to sell its products to clients; the effect of intense competition and/or industry consolidation; Skyward Specialty's ability to accurately assess underwriting risk; the effect of risk retentions on Skyward Specialty's risk exposure; Skyward Specialty's ability to alleviate risk through reinsurance; dependence by Skyward Specialty on key employees; the effect of litigation and regulatory actions; Skyward Specialty's ability to successfully manage credit risk (including credit risk related to the financial health of reinsurers); Skyward Specialty's ability to compete against larger more well-established competitors; unfavourable capital market developments or other factors which may affect the investments of Skyward Specialty; Skyward Specialty's ability to maintain its financial strength and issuer credit ratings; Skyward Specialty's ability to obtain additional funding; Skyward Specialty's ability to successfully pursue its acquisition strategy; Skyward Specialty's possible exposure to goodwill or intangible asset impairment in connection with its acquisitions; Skyward Specialty's ability to receive dividends from its subsidiaries; Skyward Specialty's reliance on information technology and telecommunications systems; dependence by Skyward Specialty 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.

WESTAIM

March 25, 2021

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
President and Chief Executive Officer

Glenn G. MacNeil
Chief Financial Officer

Deloitte.

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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, 2020 and 2019, and the consolidated statements of (loss) profit and comprehensive (loss) 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, 2020 and 2019, 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 Thomas Wewior.

Deloitte LLP

Chartered Professional Accountants
Licensed Public Accountants
March 25, 2021

The Westaim Corporation
Consolidated Statements of Financial Position

(thousands of United States dollars)	December 31 2020	December 31 2019
ASSETS		
Cash	$ 8,741	$ 22,240
Income tax receivable (note 15)	64	427
Other assets (note 4)	1,637	2,298
Investments (note 5)	366,911	385,784
	$ 377,353	$ 410,749
LIABILITIES		
Accounts payable and accrued liabilities (note 6)	$ 10,994	$ 10,770
Income tax payable (note 15)	337	387
Preferred securities (note 7)	39,248	38,502
Derivative warrant liability (note 9)	1,026	1,921
Site restoration provision (note 10)	4,864	4,097
Deferred tax liability (note 15)	362	399
	56,831	56,076
Commitments and contingent liabilities (note 11)		
SHAREHOLDERS' EQUITY		
Share capital (note 12)	382,182	382,182
Contributed surplus (note 13)	17,735	17,486
Accumulated other comprehensive loss (note 2o)	(2,227)	(2,227)
Deficit	(77,168)	(42,768)
	320,522	354,673
	$ 377,353	$ 410,749

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

Approved on behalf of the Board

Ian W. Delaney
Director

John W. Gildner
Director

The Westaim Corporation

Consolidated Statements of (Loss) Profit and Comprehensive (Loss) Income

(thousands of United States dollars except share and per share data)	Year Ended December 31 2020	2019
Revenue		
Interest income (note 14)	$ 1,172	$ 2,071
Dividend income from investments in private entities (note 5 and 14)	22,733	4,698
Fee income (note 14)	950	2,404
	24,855	9,173
Net results of investments		
(Decrease) increase in unrealized value of investments in private entities, less dividends (note 5)	(50,965)	9,960
Share of loss from investment in associates (note 5)	(103)	(86)
Increase in unrealized value of other investments (note 5)	188	239
	(50,880)	10,113
Net expenses		
Salaries and benefits	3,767	3,674
General, administrative and other	771	948
Professional fees	1,241	1,024
Site restoration expense (note 10)	681	348
Share-based compensation expense (note 13)	352	1,418
Foreign exchange loss	379	1,070
Interest on preferred securities (note 7)	1,864	1,899
Derivative warrant gain (note 9)	(795)	(557)
	8,260	9,824
(Loss) income before income tax	(34,285)	9,462
Income tax expense (note 15)	(115)	(938)
(Loss) profit and comprehensive (loss) income	$ (34,400)	$ 8,524
(Loss) earnings per share (note 16)		
Basic and diluted	$ (0.24)	$ 0.06
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, 2020 (thousands of United States dollars)	Share Capital	Contributed Surplus	Accumulated Other Comprehensive Loss	Deficit	Total Equity
Balance at January 1, 2020	$ 382,182	$ 17,486	$ (2,227)	$ (42,768)	$ 354,673
Stock option plan expense (note 13)	-	249	-	-	249
Loss and comprehensive loss	-	-	-	(34,400)	(34,400)
Balance at December 31, 2020	$ 382,182	$ 17,735	$ (2,227)	$ (77,168)	$ 320,522

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 13)	-	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

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 2020	2019
Operating activities		
(Loss) profit	$ (34,400)	$ 8,524
Decrease (increase) in unrealized value of investments in private entities, less dividends (note 5)	50,965	(9,960)
Share of loss from investment in associates (note 5)	103	86
Increase in unrealized value of other investments (note 5)	(188)	(239)
Share-based compensation expense (note 13)	352	1,418
Site restoration provision (note 10)	681	348
Site restoration net payments	-	(49)
Depreciation and amortization	154	49
Unrealized foreign exchange loss	990	1,484
Derivative warrant gain (note 9)	(795)	(557)
Change in net income tax receivable and deferred tax liabilty (note 15)	276	359
Net change in other non-cash balances		
Other assets	298	(1,115)
Accounts payable and accrued liabilities	106	997
Cash provided from operating activities	18,542	1,345
Investing activities		
Purchase of investments in private entities (note 5)	(44,004)	-
Loans made to subsidiaries (note 3)	-	(3,789)
Repayment of loans made to subsidiaries (note 3)	-	18,601
Purchase of capital assets	(34)	(3)
Loans made to associates (note 5)	(8,000)	(1,750)
Return of capital from investments in private entities (note 5)	19,997	-
Cash (used in) provided from investing activities	(32,041)	13,059
Net (decrease) increase in cash	(13,499)	14,404
Cash, beginning of year	22,240	7,836
Cash, end of year	$ 8,741	$ 22,240
Supplemental disclosure of cash flow information:		
Interest paid	$ 1,856	$ 1,876

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 25, 2021.

These consolidated financial statements include the accounts of Westaim and its wholly-owned subsidiaries, 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 Skyward Specialty Insurance Group Inc. (formerly Houston International Insurance Group, Ltd. ("HIIG")) ("Skyward Specialty"), Arena FINCOs (as defined in note 5) and Arena Investors (as defined in note 5). 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 Skyward Specialty (including Westaim HIIG Limited Partnership (the "HIIG Partnership")), and the Arena FINCOs (as defined in note 5).

The financial statements of entities controlled by Westaim which provide investment-related services are consolidated. These entities consist of its wholly-owned subsidiaries, 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 IAS 28 "*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 (as defined in note 5), and is reported under investments in the consolidated statements of financial position, with the Company's share of (loss) profit and comprehensive (loss) income of the associates reported under "Net results of investments" in the consolidated statements of (loss) profit and comprehensive (loss) 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 5 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 (loss) profit and comprehensive (loss) 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 (loss) profit and comprehensive (loss) income.

(f) Revenue recognition

Investment income includes interest income and dividend income. Interest income is recognized on an accrual basis and dividend income is recognized on the ex-dividend date. Advisory and management fees are recorded as fee income 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, 2020, the Company's cash consisted of cash on deposit, including restricted cash on deposit of $3,000 (December 31, 2019 - $3,000) (see note 8).

(h) Capital assets

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

(i) 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, 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, and iii) the Company has the right to operate the identified asset or the Company designed the identified asset in a way that predetermines how and for what purpose the identified asset will be used.

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 increases and decreases arising from changes in fair values including the impact of dividends and/or distributions being recorded in the consolidated statements of (loss) profit and comprehensive (loss) 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 loss and other comprehensive loss of the associates and any dividends and/or distributions received from the associates.

Investment in Arena Special Opportunities Fund, LP ("ASOF LP") (as defined in Note 5), is classified as FVTPL and is 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 (loss) profit and comprehensive (loss) income. Current tax is based on taxable income in countries where the Company operates which differs from (loss) profit and comprehensive (loss) income because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible.

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

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

2 Summary of Significant Accounting Policies (continued)

(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 (loss) profit and comprehensive (loss) 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 estimated future restoration expenditures.

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 13. The value attributed to stock options at issuance are recognized in income as an expense over the period from the issue date to the vesting date with a corresponding increase in contributed surplus. Any consideration paid by stock option holders for the purchase of stock is credited to share capital.

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

(q) (Loss) earnings per share

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

Diluted (loss) earnings per share is calculated by dividing (loss) 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 (loss) earnings per share.

3 Loans Receivable

On June 9, 2017, the Company used the proceeds from the Fairfax Financing (as defined in note 7) to loan Canadian dollars (“C$”) 50,000 to the Arena FINCOs (as defined in note 5) (the “Arena FINCOs Demand Loan”) on market terms. The Arena FINCOs Demand Loan was denominated in C$, 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. The Arena FINCOs Demand Loan was repaid in 2019.

At December 31, 2020 and 2019, the carrying amount of the Arena FINCOs Demand Loan, which was recorded under loans receivable in the consolidated statements of financial position at fair value, totaled $nil.

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

3 Loans Receivable (continued)

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 (loss) profit and comprehensive (loss) income. The Company recorded a foreign exchange gain relating to the Arena FINCOs Demand Loan of $nil and $313 for the years ended December 31, 2020 and 2019, respectively.

Interest on the Arena FINCOs Demand Loan earned and received by the Company totaled $nil and $680 for the years ended December 31, 2020 and 2019, respectively, and was included in interest income in the consolidated statements of (loss) profit and comprehensive (loss) income.

4 Other Assets

Other assets consist of the following:

	December 31, 2020	December 31, 2019
Capital assets	$ 42	$ 36
Right of use asset (a)	494	620
Receivables from related parties (b)	830	1,119
Canadian dollar currency forward contract receivable (note 8)	-	244
Accounts receivable and other	271	279
	$ 1,637	$ 2,298

(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, in accordance with IFRS 16, 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 (loss) profit and comprehensive (loss) income. Each lease payment reduces the lease liability and the accretion of the lease liability is recorded as interest expense included under general, administrative and other in the consolidated statements of (loss) profit and comprehensive (loss) income.

The right of use asset recorded for the office premises was $494 and $620 at December 31, 2020 and 2019, respectively. The depreciation on the right of use asset was $126 and $11 for the years ended December 31, 2020 and 2019, respectively.

The lease liability recorded for the office premises was $541 and $645 at December 31, 2020 and 2019, respectively. The lease payments were $121 and the interest expense on the lease liability was $9 for the year ended December 31, 2020. The lease payments were $nil and the interest expense on the lease liability was $1 for the year ended December 31, 2019. The Company recorded a foreign exchange loss relating to the lease liability of $8 and $13 in the years ended December 31, 2020 and 2019, respectively.

(b) Receivables from related parties totaled $830 and $1,119 at December 31, 2020 and 2019 and included certain expenses paid by the Company on behalf of Arena FINCOS, Arena Investors and Skyward Specialty from time to time which are subject to reimbursement.

5 Investments

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

	December 31, 2020	December 31, 2019
Investments in private entities	$ 343,845	$ 370,803
Investment in associates	20,170	12,273
Investment in ASOF LP	2,896	2,708
	$ 366,911	$ 385,784

The Company's principal investments consist of its investment in Skyward Specialty, Arena FINCOs and Arena Investors. Investments in private entities are measured at FVTPL and investment in associates is accounted for using the equity method.

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

5 Investments (continued)

	Place of establishment	Principal place of business	Ownership interest as at December 31, 2020	Ownership interest as at December 31, 2019
Investments in private entities:				
- Skyward Specialty	Delaware, U.S.	Texas, U.S.	44.5% owned by the Company[1]	44.0% owned by the Company[1]
- Arena FINCOs (as hereinafter defined)	Delaware, U.S.	New York, U.S.	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 [2]	51% beneficially owned by the Company [2]

[1] As at December 31, 2020, the Company owned 44.5% of Skyward Specialty's preferred shares which are convertible into Skyward Specialty common shares representing 23.2% of the fully diluted Skyward Specialty common shares. The Company also owned 21.3% of the Skyward Specialty fully diluted common shares through the HIIG Partnership which is established and operates in Ontario, Canada. Accordingly, the Company's total look-through ownership interest in Skyward Specialty is 44.5%. At December 31, 2019, the Company owned 44.0% in look through interest in Skyward Specialty common shares through the HIIG Partnership. Based on the Company's control of the HIIG Partnership, and its ownership of preferred shares, at December 31, 2020, the Company held a 57.5% voting interest in Skyward Specialty.

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

Skyward Specialty

The Company's investment in Skyward Specialty is recorded as an investment in private entities and is measured at FVTPL in the Company's consolidated financial statements. See "Investments in Private Entities" below for a further description of the Company's investment in Skyward Specialty.

Arena FINCOs

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

Arena Investors Group Holdings, LLC (formerly Westaim Arena Holdings II, LLC ("WAHII")) ("AIGH"), through its subsidiaries, operates as a US based investment manager offering third-party clients access to fundamentals-based, asset-oriented credit investments that aim to deliver attractive yields with low volatility. AIGH is the sole limited partner of Arena Investors, LP, a limited partnership established under the laws of Delaware to provide investment services to third-party clients and Arena FINCOs. 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.

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 (loss) profit and comprehensive (loss) income.

The table below summarizes the fair value hierarchy under which the Company's investments in private entities are valued. Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities. Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs). Inputs are considered 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, 2020	Fair value	Level 1	Level 2	Level 3
Investments in private entities:				
- Skyward Specialty	$ 180,776	-	-	$ 180,776
- Arena FINCOs	163,069	-	-	163,069
	$ 343,845	$ -	$ -	$ 343,845

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

5 Investments (continued)

As at December 31, 2019	Fair value	Level 1	Level 2	Level 3
Investments in private entities:				
- Skyward Specialty	$ 164,953	-	-	$ 164,953
- Arena FINCOs	205,850	-	-	205,850
	$ 370,803	$ -	$ -	$ 370,803

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

	Year ended December 31, 2020					
	Opening balance	Additions - Equity	Return of capital	Decrease in unrealized value before dividends	Dividends paid	Ending Balance
Investments in private entities:						
- Skyward Specialty	$ 164,953	$ 44,004	$ -	$ (28,181)	$ -	$ 180,776
- Arena FINCOs	205,850	-	(19,997)	(51)	(22,733)	163,069
	$ 370,803	$ 44,004	$ (19,997)	$ (28,232)	$ (22,733)	$ 343,845

	Year ended December 31, 2019					
	Opening balance	Additions - Equity	Repayment of term loan	Increase in unrealized value before dividends	Dividends Paid	Ending Balance
Investments in private entities:						
- Skyward Specialty	$ 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

There were no transfers among Levels 1, 2 and 3 during the years ended December 31, 2020 and 2019.

Investment in Skyward Specialty

At December 31, 2020, the Company's $180,776 valuation of its investment in Skyward Specialty consisted of the aggregate fair value of: (i) Skyward Specialty convertible preferred shares held directly by the Company of $94,077, (ii) its share of the Skyward Specialty common shares held by the HIIG Partnership of $86,177, and (iii) its share of the other net assets of the HIIG Partnership of $522. At December 31, 2019, the Company's $164,953 valuation of its investment in Skyward Specialty consisted of the aggregate fair value of: (i) its share of the Skyward Specialty common shares held by the HIIG Partnership of $164,294, and (ii) its share of the other net assets of the HIIG Partnership of $659.

The convertible preferred shares of Skyward Specialty were acquired by Westaim on April 20, 2020 as Skyward Specialty completed a rights offering that resulted in total gross proceeds of $100,000 to Skyward Specialty. As part of the rights offering, Westaim purchased $44,004 of the Skyward Specialty convertible preferred shares offered. The convertible preferred shares were initially convertible into Skyward Specialty common shares based on a conversion price equal to $1.74 per share. The conversion price is subject to adjustments from time to time based on the occurrence of certain events up to December 31, 2021. At December 31, 2020, the adjustments, if effective, would result in a conversion price of $1.38 per share. The Company's direct ownership of the Skyward Specialty preferred shares, which are convertible into Skyward Specialty common shares represented 23.2% of the fully diluted Skyward Specialty common shares outstanding.

At December 31 2020, the Company owned approximately 62.0% of the HIIG Partnership and the HIIG Partnership held Skyward Specialty common shares representing approximately 34.3% of the total fully diluted Skyward Specialty common shares outstanding. As a result, Westaim's look-through interest in common shares through the HIIG Partnership was 21.3%.

The Company's direct ownership of the Skyward Specialty preferred shares, combined with its interest in the HIIG Partnership, resulted in a 44.5% look-through interest in Skyward Specialty as at December 31, 2020 (December 31, 2019 – 44.0%).

The Company, through HIIG GP, entered into a management services agreement with Skyward Specialty (the "Skyward Specialty MSA"), whereby HIIG GP was entitled to receive from Skyward Specialty an advisory fee of $1,000 annually to July 31, 2019. Effective August 1, 2019, the Skyward Specialty MSA was amended such that HIIG GP is entitled to receive from Skyward Specialty an advisory fee of $500 annually.

5 Investments (continued)

FVTPL

The investment in Skyward Specialty is accounted for at FVTPL. The fair value of the Company's investment in Skyward Specialty was determined to be $180,776 at December 31, 2020 and $164,953 at December 31, 2019.

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 Skyward Specialty at December 31, 2020. The fair value of the investment in Skyward Specialty at December 31, 2020 was derived from a valuation of the Skyward Specialty common shares and other net assets held by the HIIG Partnership, and the Skyward Specialty convertible preferred shares held by Westaim at December 31, 2020. 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 Skyward Specialty fully diluted common shares, management determined that using net asset value as the primary valuation technique produced the best indicator of the fair value of the Skyward Specialty fully diluted common shares as at December 31, 2020 and 2019, given that this is the valuation technique which a market participant would employ. The Skyward Specialty convertible preferred shares were valued at their common share equivalent on an as converted basis.

In valuing Skyward Specialty's fully diluted common shares, using a multiple of net asset value as the primary valuation technique, fair value was determined to be 1.0x to the adjusted stockholders' equity of Skyward Specialty at December 31, 2020 (December 31, 2019 - 1.1x). The adjusted stockholders' equity of Skyward Specialty as at December 31, 2020 reflects the Skyward Specialty stockholders' equity obtained from the audited financial statements of Skyward Specialty as at and for the year ended December 31, 2020 prepared in accordance with accounting principles generally accepted in the United States of America, adjusted for a reclassification of a stock notes receivable from employees relating to their purchase of Skyward Specialty common and convertible preferred shares. The adjusted stockholders' equity contained certain significant judgments and estimates made by management of Skyward Specialty including the provision for loss and loss adjustment expenses ("LAE"), the valuation of goodwill and intangible assets, and the valuation allowance recorded against deferred income tax assets.

As at December 31, 2019 and the two prior years, the Company had concluded that an appropriate valuation for Skyward Specialty was 1.1x Skyward Specialty's adjusted stockholders' equity. Due to market uncertainty, the Company felt it appropriate to reduce the fair value of Skyward Specialty to 1.0x adjusted stockholders' equity at March 31, 2020 and continuing to December 31, 2020 (1.1x at December 31, 2019) which resulted in an unrealized loss of $14,936 for the year ended December 31, 2020 to the Company solely due to this reduction in the valuation multiple.

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 Skyward Specialty at the end of each reporting period.

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The Company recorded a decrease in the unrealized value on its investment in Skyward Specialty of $28,181 in the year ended December 31, 2020 and an increase in the unrealized value of $2,835 in the year ended December 31, 2019.

In 2020, Skyward Specialty closed a Loss Portfolio Transfer ("LPT"), which provides reinsurance protection of approximately $127,400 above the net ceded claim reserves, primarily related to 2017 and prior policy years and is subject to co-participation payments required from Skyward Specialty above specific amounts. As at December 31, 2020, the LPT cost impact after tax was $47,240, which includes the initial cost of $43,476 plus the adverse development on prior years' claims reserves subject to the LPT of $49,013, less recoveries from the LPT reinsurer of $32,692 and less an income tax recovery, at a 21% tax rate, of $12,557. The Company recognized its' share of the impact of the initial cost of the LPT before tax charge of $43,476 (after tax - $34,346) in its valuation of Skyward Specialty at December 31, 2019 and the remainder in the year ended December 31, 2020. The impact of the LPT after tax to the Company's valuation of Skyward Specialty was a decrease of $5,732 and $16,625 in the years ending December 31, 2020 and 2019, respectively.

During Skyward Specialty's annual impairment assessment performed in 2020, it was determined that the fair value of goodwill on three reporting units were below carrying value prior to this goodwill impairment charge. Skyward Specialty recorded a goodwill impairment net of tax of $43,693 for the year ended December 31, 2020. The impact of the goodwill impairment after tax to the Company's valuation of Skyward Specialty was a decrease of $19,423 in the year ending December 31, 2020.

For purposes of assessing the sensitivity of Skyward Specialty stockholders' equity on the valuation of the Company's investment in Skyward Specialty, if Skyward Specialty stockholders' equity at December 31, 2020 was higher by $1,000, the fair value of the Company's investment in Skyward Specialty at December 31, 2020 would have increased by approximately $445 (December 31, 2019 - $484) and the change in the unrealized value of investments in private entities for the year ended December 31, 2020 would have increased by approximately $445 (for the year ended December 31, 2019 - $484). If Skyward Specialty stockholders' equity at December 31, 2020 was lower by $1,000, an opposite effect would have resulted.

5 Investments (continued)

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.

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 Westaim Origination Holdings Inc. ("WOH") and as a result the balance of the 7.25% term loan was $nil at December 31, 2020 (December 31, 2019 - $nil).

In 2020, the Arena FINCOs paid cash dividends to the Company in the amount of $22,733, and returned capital to the Company in the amount of $19,997, resulting in a decrease of $42,730 in the Company's carrying value of the Arena FINCOs at December 31, 2020. In 2019, the Arena FINCOs paid cash dividends to the Company in the amount of $4,581 and 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 at December 31, 2019.

<u>FVTPL</u>

The Company's investment in the Arena FINCOs is 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 $163,069 at December 31, 2020 and $205,850 at December 31, 2019.

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, 2020 in the amount of $163,069 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, 2020. This same valuation technique was used to determine the fair value of the Company's investment in the Arena FINCOs of $205,850 at December 31, 2019.

The significant unobservable inputs used in the valuation of the Arena FINCOs at December 31, 2020 were the aggregate equity of the Arena FINCOs at December 31, 2020 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, 2020, as described below (December 31, 2019 – 1.0x). 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.

5 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 a decrease in the unrealized value of its investment in the Arena FINCOs of $51 before dividends paid to the Company of $22,733 in the year ended December 31, 2020, in the consolidated statements of (loss) profit and comprehensive (loss) income. In addition, Arena FINCOs returned capital in the amount of $19,997 in the year ended December 31, 2020. The Company recorded an increase in the unrealized value of 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. There was no capital returned in the year ended December 31, 2019.

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 $nil and $859 in the years ended December 31, 2020 and 2019, 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, 2020 was higher by $1,000, the fair value of the Company's investment in the Arena FINCOs at December 31, 2020 would have increased by $1,000 (December 31, 2019 - $1,000) and the change in the unrealized value of the investments in private entities for the year ended December 31, 2020 would have increased by $1,000 (for the year ended December 31, 2019 - $1,000). If the equity of the Arena FINCOs at December 31, 2020 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)

5 Investments (continued)

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

	December 31, 2020	December 31, 2019
Financial information of associates:		
Assets	$ 36,091	$ 27,363
Liabilities	(51,695)	(42,765)
Net liabilities	$ (15,604)	$ (15,402)
Company's share	$ (7,830)	$ (7,727)
Arena Investors' Revolving Loan with the Company	28,000	20,000
Carrying amount of the Company's investment in associates	$ 20,170	$ 12,273

	Years ended December 31	
	2020	2019
Financial information of associates:		
Revenue	$ 28,810	$ 28,646
Operating expenses [1]	(29,012)	(28,813)
Loss and comprehensive loss	$ (202)	$ (167)
Company's share of loss of associates (51%)	$ (103)	$ (86)

[1] Includes interest expense on the Arena Investors' Revolving Loan granted by the Company of $1,064 and $1,018 in the years ended December 31, 2020 and 2019, respectively.

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

	Years ended December 31	
	2020	2019
Carrying amount of investment in associates:		
Opening balance	$ 12,273	$ 10,609
Company's share of loss of associates (51%)	(103)	(86)
Increase in Arena Investors' Revolving Loan with the Company	8,000	1,750
Ending balance	$ 20,170	$ 12,273

The Company has a revolving loan to the associates (the "Arena Investors' Revolving Loan") with a limit of $35,000 at December 31, 2020 (December 31, 2019 - $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 bore interest at a rate of 5.25% per annum, which was increased to 5.60% per annum, effective December 22, 2020. Arena Investors had drawn down the loan facility by $28,000 at December 31, 2020 and $20,000 at December 31, 2019. 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 $1,064 and $1,018 for the years ended December 31, 2020 and 2019, respectively, which, was reported under "Interest income" in the consolidated statements of (loss) profit and comprehensive (loss) income.

The total of the Company's 51% share of loss of the associates was $103 and $86 in the years ended December 31, 2020 and 2019, respectively, which, was reported under "Share of loss from investment in associates" in the consolidated statements of (loss) profit and comprehensive (loss) 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, 2020 and 2019, the fair value of the Company's interest in ASOF LP was determined by Arena Investors to be $2,896 and $2,708, respectively. The Company reported increases in the unrealized value of its investment in ASOF LP of $188 and $239 in the years ended December 31, 2020 and 2019, respectively, with respect to the investment in the consolidated statements of (loss) profit and comprehensive (loss) income.

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

6 Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities consist of the following:

	December 31, 2020	December 31, 2019
RSUs (note 13)	$ 5,931	$ 6,192
DSUs (note 13)	1,672	1,312
Lease liability (note 4)	541	645
Interest on Preferred Securities (note 7)	493	485
Canadian dollar currency forward contract payable (note 8)	11	-
Other accounts payable and accrued liabilities	2,346	2,136
Ending balance	$ 10,994	$ 10,770

7 Preferred Securities

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

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 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, 2020 and 2019.

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 (loss) profit and comprehensive (loss) income. The carrying amount of the Preferred Securities, which approximated fair value, was $39,248 and $38,502 at December 31, 2020 and 2019, respectively. The Company recorded unrealized foreign exchange losses relating to the Preferred Securities of $746 and $1,852 in the years ended December 31, 2020 and 2019, respectively.

Interest expense on the Preferred Securities amounted to $1,864 and $1,899 in the years ended December 31, 2020 and 2019, respectively. Accrued interest expense was $493 and $485 at December 31, 2020 and 2019, respectively, and was reported under accounts payable and accrued liabilities in the consolidated statements of financial position.

8 Canadian Dollar Currency Forward Contracts

On December 20, 2018, the Company entered into a one year Canadian dollar currency forward contract to purchase C$35,000 and during 2020, the Company entered into four 90 day Canadian dollar currency forward contracts to purchase C$40,000 each. The impact was to primarily offset Canadian dollar currency gains or losses on the Company's underlying Canadian dollar currency liabilities, including the currency exposure arising from the Preferred Securities.

The Company has not designated these Canadian dollar currency forward contracts as accounting hedges.

Changes to the Canadian dollar currency forward contract (payable) receivable was as follows:

	Year ended December 31, 2020	Year ended December 31, 2019
Canadian dollar currency forward contract receivable (payable), opening balance	$ 244	$ (630)
Change in unrealized Canadian dollar currency on hedge – gain	370	1,272
Realized Canadian dollar currency – gain	(625)	(398)
Canadian dollar currency forward contract (payable) receivable, closing balance	$ (11)	$ 244

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

8 Canadian Dollar Currency Forward Contracts (continued)

A Canadian dollar currency forward contract payable was accrued in the amount of $11 at December 31, 2020 and was recorded under accounts payable and accrued liabilities in the consolidated statements of financial position and a Canadian dollar currency forward contract receivable was accrued in the amount of $244 at December 31, 2019, and was recorded under other assets in the consolidated statements of financial position. The net Canadian dollar currency relating to the forward contracts was a gain of $370 and $1,272 for the years ended December 31, 2020 and 2019, respectively, and was reported under foreign exchange in the consolidated statements of (loss) profit and comprehensive (loss) 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, 2019 - $3,000) as security. The security shall remain in effect for the duration of the outstanding Canadian dollar currency forward contract.

9 Derivative Warrant Liability

In connection with the Preferred Securities (see note 7), Westaim issued to Fairfax 14,285,715 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. 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 (loss) profit and comprehensive (loss) income. Subsequent changes in fair value of the vested Warrants are reported in the consolidated statements of (loss) profit and comprehensive (loss) income for the period in which they arise.

Changes to the derivative warrant liability are as follows:

	Year ended December 31, 2020	Year ended December 31, 2019
Opening balance	$ 1,921	$ 2,382
Change in fair value – gain	(795)	(557)
Unrealized foreign exchange - (gain) loss	(100)	96
Ending balance	$ 1,026	$ 1,921

The Company recognized unrealized gains resulting from a change in the fair value of the vested Warrants of $795 and $557 in the years ended December 31, 2020 and 2019, respectively. The Company also recorded an unrealized foreign exchange gain with respect to the vested Warrants of $100 and an unrealized loss of $96 in the years ended December 31, 2020 and 2019, under foreign exchange in the consolidated statements of (loss) profit and comprehensive (loss) income. At December 31, 2020 and 2019, a liability of $1,026 and $1,921, respectively, had been recognized with respect to the vested Warrants in the consolidated statements of financial position.

The fair value liability of the vested Warrants at December 31, 2020 of $1,026 (December 31, 2019 - $1,921) was estimated using the Monte Carlo pricing model assuming no dividends are paid on the Company's common shares, a risk-free interest rate of 0.17% (December 31, 2019 - 1.69%), an expiration date between January 1, 2021 and June 2, 2024 (December 31, 2019: January 1, 2020 and June 2, 2024), a volatility of the underlying common shares of the Company of 28.36% (December 31, 2019 – 23.23%), a closing price of the Company's common shares of C$2.49 (December 31, 2019 - C$2.65) and a strike price of C$3.50. The amounts computed according to the Monte Carlo pricing model may not be indicative of the actual values realized upon the exercise of the vested Warrants by Fairfax.

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

10 Site Restoration Provision

The Company has provided indemnifications to third parties with respect to future site restoration costs to be incurred on industrial sites formerly owned by the Company. The site restoration provision is based on periodic independent estimates of costs associated with soil and groundwater reclamation and remediation of these industrial sites. The ultimate environmental costs are uncertain as they are dependent on the future use of the land and future laws and regulations.

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

10 Site Restoration Provision (continued)

Changes to the site restoration provision are as follows:

	Year ended December 31, 2020	Year ended December 31, 2019
Opening balance	$ 4,097	$ 3,584
Changes due to:		
Indemnity payment for site restoration	-	(341)
Indemnity recovery for site restoration	-	292
Estimates of future expenditures	686	(839)
Present value adjustment	(5)	1,187
Unrealized foreign exchange loss	86	214
Ending balance	$ 4,864	$ 4,097

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 estimated future restoration costs.

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.

11 Commitments and Contingent Liabilities

(a) In connection with a Canadian dollar currency forward contract which the Company entered into on December 21, 2020, the Company has obtained a credit facility under which the Company has pledged cash on deposit of $3,000 (December 31, 2019 - $3,000) as security (see note 8).

(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, 2020, the Company had a total commitment of $1,114 for future occupancy cost payments including payments due not later than one year of $280 and payments due later than one year of $834. 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.

12 Share Capital

The Company's authorized share capital consists of an unlimited number of common shares with no par value, Class A preferred shares with no par value and Class B preferred shares with no par value.

At December 31, 2020 and 2019, 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, 2020 and 2019.

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, 2020 and 2019.

13 Share-based Compensation

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

The Option Plan is a "rolling plan" which provides that the aggregate number of common shares which may be reserved for issuance under the Option Plan is limited to not more than 10% of the aggregate number of common shares outstanding or 14,318,671 as at December 31, 2020. 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)

13 Share-based Compensation (continued)

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

	Year ended December 31, 2020		Year ended December 31, 2019	
	Number	Weighted Average Exercise Price	Number	Weighted Average Exercise Price
Opening balance	10,428,337	C$ 3.10	10,428,337	C$ 3.10
Granted	-	C$ -	-	C$ -
Ending balance	10,428,337	C$ 3.10	10,428,337	C$ 3.10
Options vested at end of period	10,428,337	C$ 3.10	9,156,670	C$ 3.10

As at December 31, 2020 Exercise prices	Number of stock options outstanding	Weighted Average Remaining Contractual Life (years)	Outstanding Weighted Average Exercise Price	Number of stock options vested	Vested Weighted Average Exercise Price
C$ 3.10	3,815,000	4.05	C$ 3.10	3,815,000	C$ 3.10
C$ 3.00	3,860,397	3.26	C$ 3.00	3,860,397	C$ 3.00
C$ 3.25	2,752,940	2.25	C$ 3.25	2,752,940	C$ 3.25
	10,428,337	3.28	C$ 3.10	10,428,337	C$ 3.10

As at December 31, 2019 Exercise prices	Number of stock options outstanding	Weighted Average Remaining Contractual Life (years)	Outstanding Weighted Average Exercise Price	Number of stock options vested	Vested 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

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, vested 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, vested 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 years ended December 31, 2020 and 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 $249 and $970 in the years ended December 31, 2020 and 2019, 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)

13 Share-based Compensation (continued)

Changes to the number of RSUs are as follows:

	Year ended December 31	
	2020	2019
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, 2020, 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, 2020, all of these RSUs had vested and none have been exercised.

There were 3,034,261 RSUs outstanding at December 31, 2020 and 2019. No RSUs were granted or exercised in the years ended December 31, 2020 and 2019.

Compensation expenses relating to RSUs, including the impact of the change in the market value of the Company's common shares was a recovery of $243 and an expense of $169 for the years ended December 31, 2020 and 2019, respectively. At December 31, 2020, a liability of $5,931 (December 31, 2019 - $6,192) 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	
	2020	2019
Opening balance	642,779	518,855
Granted	212,449	123,924
Ending balance	855,228	642,779

In the year ended December 31, 2020, 212,449 DSUs were issued in lieu of director fees of $343 and in the year ended December 31, 2019, 123,924 DSUs were issued in lieu of director fees of $244. No DSUs were exercised in the years ended December 31, 2020 and 2019.

Compensation expenses relating to DSUs, including the impact of the change in the market value of the Company's common shares was an expense of $346 and $279 in the years ended December 31, 2020 and 2019, respectively. At December 31, 2020, a liability of $1,672 (December 31, 2019 - $1,312) had been accrued with respect to outstanding DSUs in the consolidated statements of financial position.

14 Related Party Transactions

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

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

	Year ended December 31	
	2020	2019
Salaries and benefits[1]	$ 3,270	$ 3,186
Share-based compensation expense	354	1,401
Compensation expense	$ 3,624	$ 4,587

[1] Salaries and benefits include director fees paid in cash totaling $136 and $nil in the years ended December 31, 2020 and 2019, respectively.

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

14 Related Party Transactions (continued)

Fees paid to Hartford Consulting, Inc. ("Hartford"), a company owned by William R. Andrus, a director of Skyward Specialty, for insurance industry related consulting services were $75 and $136 in the years ended December 31, 2020 and 2019, respectively. Compensation relating to RSUs issued to Hartford was a recovery of $5 and an expense of $3 in the years ended December 31, 2020 and 2019, respectively, and the amounts were included in the consolidated statements of (loss) profit and comprehensive (loss) income under share-based compensation expense. At December 31, 2020, a liability of $115 (December 31, 2019 - $121) had been accrued in the consolidated statements of financial position with respect to outstanding RSUs held by Hartford.

On April 20, 2020, as part of a rights offering, Westaim purchased $44,004 million of Skyward Specialty convertible preferred shares.

The Company received a dividend from the Arena FINCOs in the amount of $22,733 and $4,698 in the years ended December 31, 2020 and 2019, respectively.

Arena FINCOs returned capital to the Company in the amount of $19,997 and $nil in the years ended December 31, 2020 and 2019, respectively.

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

	Year ended December 31 2020	2019
Related parties:		
Arena FINCOs Term Loan (note 5)	$ -	$ 179
Arena FINCOs Demand Loan (note 3 and 5)	-	680
Arena Investors Revolving Loan (note 5)	1,064	1,018
	$ 1,064	$ 1,877
Unrelated parties:		
Interest earned on bank balances	108	194
	$ 1,172	$ 2,071

The Company earned advisory fees of $500 and $791 from Skyward Specialty in the years ended December 31, 2020 and 2019, respectively, the Company earned advisory fees of $200 and $1,363 from the Arena FINCOs in the years ended December 31, 2020 and 2019, respectively and the Company earned advisory fees of $250 from Arena Investors in each of the years ended December 31, 2020 and 2019. Advisory fees are included in fee income in the consolidated statements of (loss) profit and comprehensive (loss) income.

15 Income Taxes

Income taxes are recognized for deferred income taxes attributed to estimated differences between the financial statement carrying values of assets and liabilities and their respective income tax bases. Deferred tax asset (liability) recognized in profit or loss are as follows:

	Year ended December 31 2020	2019
Unrealized loss (gain) on investments in private entities	$ 38	$ (862)
Difference between statutory and foreign tax credits	(1)	96
	$ 37	$ (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, 2020	December 31, 2019
Non-capital loss carry-forwards	$ 60,363	$ 38,612
Capital loss carry-forwards	5,485	5,380
Deductible temporary differences	16,675	11,138
Corporate minimum tax credits	349	342
Investment tax credits	2,166	2,758

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

15 Income Taxes (continued)

The unrecognized non-capital losses and investment tax credits will expire at various times to the end of 2040, as follows:

Non-capital losses by year of expiry:		
2027	$	2,225
2028		4,828
2029		7,102
2030		81
2031		198
2032		16,459
2033		3,006
2034		3,830
2035		2,003
2036		47
2037		10,236
2038		5,866
2039		2,916
2040		1,566
	$	60,363

Investment tax credits by year of expiry:		
2021	$	505
2022		254
2023		137
2024		312
2025		263
Beyond 2025		695
	$	2,166

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

	Year ended December 31	
	2020	2019
(Loss) profit before income tax	$ (34,285)	9,462
Statutory income tax rates	26.5%	26.5%
Income taxes at statutory income tax rates	(9,086)	2,507
Variations due to:		
Non-taxable portion of unrealized loss on investments in private entities	7,446	132
Tax losses allocated from the HIIG Partnership	(39)	(45)
Non-taxable items	(6,286)	(1,120)
Difference between statutory and foreign tax rates	28	(51)
Unrecognized temporary differences	119	(14)
Unrecognized tax losses	7,933	(471)
Income tax expense	$ 115	$ 938

At December 31, 2020, current income tax receivable from the Canadian federal tax authority of $nil (December 31, 2019 - $427) and from the United States tax authority of $64 (December 31, 2019 - $nil) and current income tax payable to the Canadian federal tax authority of $3 (December 31, 2019 - $nil) and United States federal tax authority of $334 (December 31, 2019 - $387) were recorded in the consolidated statements of financial position.

At December 31, 2020, a deferred tax liability for Canadian federal taxes of $6 (December 31, 2019 - $nil) and United States federal taxes of $356 (December 31, 2019 - $399) was recorded in the consolidated statements of financial position.

Income tax expense recorded in the consolidated statements of (loss) profit and comprehensive (loss) income was $115 and $938 in the years ended December 31, 2020 and 2019, respectively. Income tax expense consists of current Canadian tax expenses in the amount of $27 (2019 – recoveries of $132), current United States tax expenses of $125 (2019 - $304), deferred Canadian tax recoveries of $11 (2019 - $nil) and deferred United State tax recoveries of $26 (2019 – expenses of $766).

16 (Loss) Earnings per Share

The Company had 10,428,337 stock options, 3,034,261 RSUs and 14,285,715 Warrants outstanding at December 31, 2020 and 2019. The stock options and Warrants for the years ended December 31, 2020 and 2019 and the RSUs for the year ended December 31, 2020 were excluded in the calculation of diluted earnings (loss) per share as they were not dilutive. The RSUs for the year ended December 31, 2019 were included in the calculation of diluted earnings (loss) per share as they were dilutive.

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

16 (Loss) Earnings per Share (continued)

(Loss) earnings per share, basic and diluted, are as follows:

	Year ended December 31 2020	2019
Basic (loss) earnings per share:		
(Loss) profit	$ (34,400)	$ 8,524
Weighted average number of common shares outstanding	143,186,718	143,186,718
Basic (loss) earnings per share	$ (0.24)	$ 0.06
Diluted (loss) earnings per share:		
(Loss) profit	$ (34,400)	$ 8,524
Dilutive RSU expense	-	454
(Loss) profit on a diluted basis	$ (34,400)	$ 8.978
Weighted average number of common shares outstanding	143,186,718	143,186,718
Dilutive impact of RSUs	-	3,034,261
Weighted average number of common shares outstanding on a dilutive basis	146,186,718	146,220,979
Diluted (loss) earnings per share	$ (0.24)	$ 0.06

17 Capital Management

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

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

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

18 Financial Risk Management

The Company is exposed to a number of risks due to its business operations. The Company's consolidated statement of financial position at December 31, 2020 consists of short-term financial assets and financial liabilities with maturities of less than one year, 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.

<u>Credit risk</u>

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.

<u>Liquidity risk</u>

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

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

At December 31, 2020, the Company's short-term financial liabilities amounted to $3,187 (December 31, 2019 - $3,008), and the Company has access to cash and other resources to meet these financial obligations.

18 Financial Risk Management (continued)

Currency risk

The Company's C$ denominated monetary liabilities exceed C$ denominated monetary assets, including its C$40 million (December 2019 – C$40 million) foreign exchange forward contract. A 10% strengthening of the C$ against the US$ would have increased the foreign exchange loss for the year ended December 31, 2020 by approximately $1,590. A similar weakening of the C$ 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 Skyward Specialty 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 preferred shares of Skyward Specialty and investments in Skyward Specialty (through the HIIG Partnership) and the Arena FINCOs. 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.

SHAREHOLDER INFORMATION

BOARD OF DIRECTORS

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

Lead Director, The Westaim Corporation
President, Seeonee Inc.

Ian W. Delaney [3]

Executive Chair, The Westaim Corporation

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

Independent Businessman

J. Cameron MacDonald

President and Chief Executive Officer, The Westaim Corporation

Lisa Mazzocco[2,3,6]

Independent Consultant

Kevin E. Parker[1,3]

Managing Partner, Sustainable Insight Capital Management

Bruce V. Walter [1, 2, 3]

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

Numbers indicate the individual's committee membership:
1. *Member of the Audit Committee*
2. *Member of the Human Resources and Compensation Committee*
3. *Member of the Nominating and Corporate Governance Committee*
4. *Chair of the Audit Committee*
5. *Chair of the Human Resources and Compensation Committee*
6. *Chair of the Nominating and Corporate Governance Committee*

The Westaim Corporation Annual and Special Meeting of Shareholders
Wednesday May 26th, 2021 9:00 A.M. EDT

The Company will hold the Meeting in a virtual-only format, which will be conducted via live audiocast.

CORPORATE INFORMATION

Ian W. Delaney
Executive Chair

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, 2020 were 143,186,718

TRANSFER AGENT & REGISTRAR

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