THE WESTAIM CORPORATION

ANNUAL REPORT 2022

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Contents

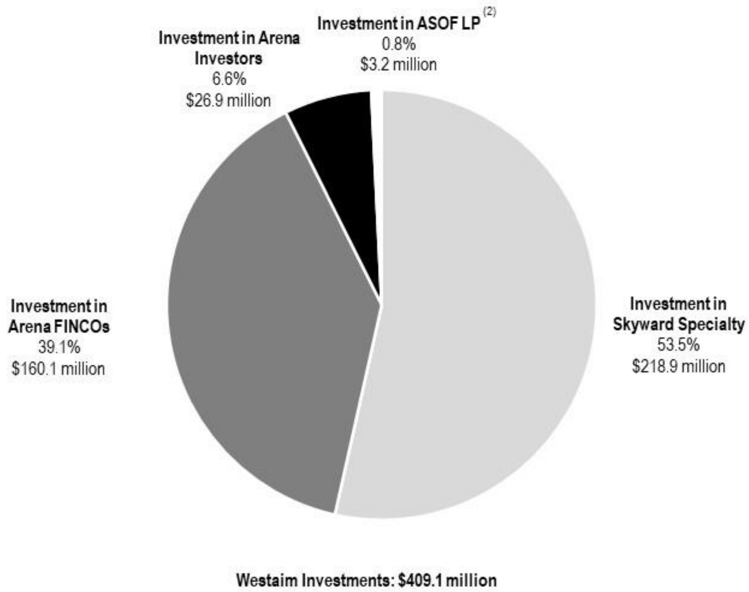
All currency amounts are in United States dollars, unless otherwise indicated.

March 30, 2023

Dear Fellow Shareholders,

Early in 2022, the economic evidence of escalating inflation awakened monetary authorities to raise interest rates and, in doing so, ignited significant volatility across global bond and equity markets. Within this financial turbulence, Westaim's two businesses, Arena (comprising Arena Investors, LP ("Arena Investors") and Arena FINCOs) and Skyward Specialty Insurance Group, Inc. ("Skyward Specialty") performed admirably.

By many measures 2022 was a transformative and pivotal year. Arena Investors continued to grow, achieve solid absolute (and relative) investment performance across all funds and increase their committed Assets Under Management ("AUM") to $3.5 billion. Likewise, Skyward Specialty enjoyed an extraordinary year within the backdrop of a favourable pricing environment, allowing the business to grow its revenues, profitability and return on invested capital significantly. Notably, in January 2023, Skyward Specialty completed an Initial Public Offering ("IPO") on the National Association of Securities Dealers Automated Quotations ("NASDAQ") exchange. Management believes the collective actions of both businesses and their resulting achievements in 2022 have materially increased Westaim's earning power and in turn its intrinsic valuation.

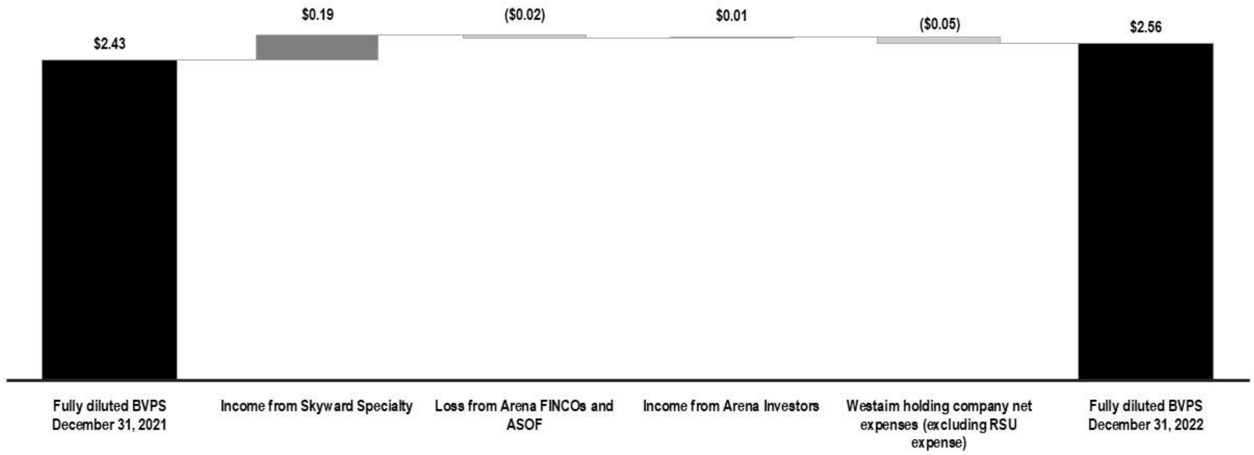


For the year ended December 31, 2022, Westaim reported a GAAP[3] profit and comprehensive income of $18.0 million (GAAP diluted earnings per share of $0.12) compared to a GAAP profit and comprehensive income in 2021 of $28.3 million (GAAP diluted earnings per share of $0.19). Unfortunately, our fair value accounting does not fully reflect the profitability Skyward Specialty achieved during the year, which is discussed in more detail below. Our fully diluted book value per share ('FDBVPS") was $2.56, an increase of 5.4% from $2.43 as of December 31, 2021. In Canadian currency, our FDBVPS was C$3.46, an increase of 12.7% from C$3.07 as of December 31, 2021.

As a reminder, we encourage Westaim shareholders to subscribe and review our quarterly Investor Presentation, which we release alongside our quarterly earnings reports and press release. We do not host quarterly conference calls. Thus, the objective of the quarterly Investment Presentation is to provide all shareholders equal access to a thorough quarterly report detailing the essential metrics within our two businesses and measure their progress over time.

1 This Letter to Shareholders contains forward-looking information and 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. Please also read the Company's cautionary notes on forward-looking information as may be found in the Company's MD&A and annual information form for the year ended December 31, 2022.
2 Arena Special Opportunities Fund, LP ("ASOF LP").
3 Generally accepted accounting principles ("GAAP").

The waterfall chart below details the book value appreciation for the year ended December 31, 2022:



Skyward Specialty

Skyward Specialty is a US-based specialty property and casualty insurance company offering products and solutions on a non-admitted (or excess and surplus) and admitted basis. Skyward Specialty focuses on market niches that are underserved or dislocated in order to achieve a competitive position to meet the needs of businesses and customers operating in these markets. Andrew Robinson, Skyward Specialty's Chief Executive Officer, refers to this strategy as "Rule Our Niche." Their ongoing execution is building a solid, defensible market position with a competitive moat and, as their results highlight, winning in their chosen markets.

With much detail available in the Westaim Q4 2022 Investor Presentation and on the Skyward Specialty website (www.skywardinsurance.com), we have highlighted a few 2022 operating metrics:

- Gross written premium increased 21.7% to $1,143.9 million in FY 2022 versus $939.8 million in FY 2021
- Net Income was $39.4 million in FY 2022 versus $38.3 million in FY 2021
- Adjusting operating income[4] was $58.6 million in FY 2022 versus $36.1 million in FY 2021
- Adjusted combined ratio[5] was 92.6% in FY 2022 versus 94.6% in FY 2021
- Annualized adjusted return-on-equity ("ROE")[6] and annualized adjusted return-on-tangible equity ("ROTE")[7] was 13.8% and 17.6% in FY 2022, respectively versus 8.8% and 11.2% in FY 2021, respectively
- Stockholders' equity decreased 1.0% to $421.7 million at December 31, 2022 from $426.1 million at December 31, 2021, primarily due to unrealized losses in the fixed income portfolio

With continued strong operating results and an industry environment conducive to profitable growth, the Skyward Specialty Board concluded that the company was ready for an IPO. This process, a very large and time-consuming undertaking, included several key milestones:

- On April 26, 2022 Skyward Specialty submitted a confidential draft registration statement on Form S-1 with the US Securities and Exchange Commission ("SEC") relating to the IPO.
- On January 4, 2023, Skyward Specialty launched the IPO and its related roadshow with the aim to trade on the Nasdaq Global Select Market under the symbol "SKWD" with a price range of $14.00 - $16.00 per common share.
- On January 12, 2023, the IPO was priced at the mid-point of the range, $15 per common share and began trading on the NASDAQ the morning of January 13, 2023.
- On January 18, 2023, Skyward Specialty closed an upsized IPO of 8,952,383 shares of its common stock, consisting of 4,750,000 shares sold by Skyward Specialty and 4,202,383 shares sold by selling shareholders at the public offering price of $15.00 per common share.

4 Skyward Specialty defines adjusted operating income (a non-GAAP measure) as net income excluding the impact of certain items that may not be indicative of underlying business trends, operating results, or future outlook, net of tax impact. They use adjusted operating income as an internal performance measure in the management of their operations because they believe it gives management and other users of their financial information useful insight into their results of operations and their underlying business performance. Adjusted operating income should not be viewed as a substitute for net income calculated in accordance with GAAP, and other companies may define adjusted operating income differently.
5 Skyward Specialty defines adjusted loss ratio and adjusted combined ratio (a non-GAAP measure) as the corresponding ratio (calculated in accordance with GAAP), excluding losses and losses and loss adjustment expense ("LAE") related to the Loss Portfolio Transfer ("LPT") and all development on reserves fully or partially covered by the LPT and amortization of deferred gains associated with recoveries of prior LPT reserve strengthening. Skyward Specialty uses these adjusted ratios as internal performance measures in the management of their operations because they believe they give management and other users of their financial information useful insight into their results of operations and their underlying business performance. Their adjusted loss ratio and adjusted combined ratio should not be viewed as substitutes for their loss ratio and combined ratio, respectively.
6 Annualized adjusted ROE (a non-GAAP measure) is adjusted operating income expressed on an annualized basis as a percentage of average beginning and ending stockholders' equity during the period.
7 Annualized adjusted ROTE (a non-GAAP measure) is adjusted operating income expressed on an annualized basis as a percentage of average beginning and ending tangible stockholders' equity during the period.

The IPO was the first IPO of 2023 in the United States, and we are pleased to share that it was well received. The net proceeds to Skyward Specialty of approximately $62.3 million from the primary offering enhance the Skyward Specialty's capital structure, allow it to grow and to continue to execute its "Rule our Niche" strategy.

Westaim was highly supportive of the IPO process and did not sell any Skyward Specialty shares in the offering. Post IPO, Westaim owns 14,567,139, or approximately 38.7% of the 37.7 million fully diluted Skyward Specialty common shares outstanding. We have high confidence in Andrew Robinson and the senior leadership team and believe Skyward Specialty has a promising future. Skyward Specialty is well-positioned and aligned with all stakeholders. Once again, we congratulation everyone on the Skyward Specialty team for this significant achievement.

As of December 31, 2022, Westaim valued Skyward Specialty at $218.9 million in its financial statements (and therefore its FDBVPS), which is consistent with the early January 2023 IPO offering price of $15.00 per common share.

Finally, with Skyward Specialty becoming an independent SEC issuer, Westaim will alter our Skyward Specialty quarterly and annual communication accordingly. Moving forward, we will direct our shareholders to access Skyward Specialty earnings results, presentations, and all other communication and information directly through their investor website.

Please register on Skyward Specialty's Email Alerts – link attached.
https://investors.skywardinsurance.com/ir-resources/email-alerts

Arena Investors and Arena FINCOs

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

- Daniel Zwirn, March 2020

In prior years' annual letters, we have highlighted our partnership with Arena, which comprises two distinct entities; Arena Investors and Arena FINCOs. Arena Investors is a global institutional asset manager that underwrites asset and credit-oriented investments to provide diversified and uncorrelated returns to its clients and investors. Its eight offices include 120+ employees and consultants, allowing the firm to be "on-the-ground" and an active investor in over 20 countries. Arena FINCOs, represents Westaim's capital and is allocated among our two wholly-owned subsidiaries, Westaim Origination Holdings, Inc. and Arena Finance Holdings Co., LLC.

Over the past few years, Arena adopted and communicated a defensive investment posture and believes we are experiencing ongoing market volatility not seen since the Great Financial Crisis of 2007 – 2009 ("GFC"). Arena believes that the excessive liquidity, extremely low interest rates and easy money provided over the past several years is over, not coming back, and that the economic pain of past speculation has only begun to show. This is not a "hiccup", and they don't expect a rapid V-shaped recovery. You may recall Daniel Zwirn, Arena's CEO/CIO, expressing concern that the "whatever it takes" policies employed through COVID-19 would only exacerbate the asset/credit bubble that had been built up since the GFC. Arena also believes that the inflation that reared its ugly head in 2021 and accelerated into 2022 was likely not transitory and that high rates and inflation will persist for longer than is currently generally perceived. Throughout this "everything bubble" period since its inception, Arena aimed to avoid the lure of speculative investments and can now play offence as:

"the current market is as favorable as it has been since Arena began and is continuing to improve in the size and variety of opportunities available."

- Daniel Zwirn, January 2023

Since inception, Arena has deployed approximately $4.7 billion into over 350 privately negotiated transactions, which averages 50 transactions per year, and a little more than $10 million per investment. Over this period approximately 190 positions have been exited, including 33 in 2022, and these 33 have realized a 16.7% gross return.

Summary of Arena's 2022 Exited Holdings						
# Positions	Top Attachment Point	Closing LTV	Coupon	Gross Underwritten Internal Rate-of-Return ("IRR")[8]	Gross Realized IRR[9]	Average Loan Term (Years)
33	2%	63%	11.0%	15.9%	16.7%	2.0

8 Gross underwritten IRR (a non-GAAP measure): represent 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 gross underwritten IRR is one of many metrics considered by Arena prior to investment and is not typically updated after the initial funding date. The gross 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 gross underwritten IRRs are not a proxy for investment performance for any strategy or fund; investment performance may be provided upon request. The gross 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 establish 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 Letter to Shareholders 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 not prove to be accurate or materialize. There can be no assurance that the objective of the investment shown can be met or that substantial losses will be avoided.
9 Gross Realized IRR (a non-GAAP measure) calculations are presented net of expenses and gross of Arena-level fees.

Amidst the downward volatility of 2022, investors in Arena's pooled and drawdown funds achieved solid absolute and relative returns that varied between -2.0% and +15.0%. Arena Investors' investment flow remains impressively vast, and its underwritten returns, payment patterns, and default activity remain consistent with prior years. As a result, in management's view, the performance volatility in 2022 primarily reflects conservative and independent marks versus material deterioration or permanent impairment.

Arena's December 31, 2022, committed AUM is approximately $3.5 billion compared to $2.8 billion on December 31, 2021. This AUM growth is consistent with prior years, observing an approximately 48% compounded annual growth rate from December 2015. Throughout 2023, Arena expects to be active in six fundraising campaigns across three core strategies – Multi-strategy, Stable Income (primarily Real Estate Credit and ABS) and Excess Capacity (primarily New Zealand Real Estate Credit).

In 2022, Arena Investors reported total revenues of $48.2 million comprised of recurring revenue of $43.7 million (2021: $31.5 million) and total incentive income of $4.5 million (2021: $34.3 million). Earnings before interest, income taxes, depreciation and amortization ("EBITDA") was $3.2 million (2021: $21.1 million) for the year, and net income of $1.5 million (2021: $19.6 million) collectively reflects the decline in year-over-year incentive income. Significantly, Arena Investors Fee Related Earnings ("FRE") improved to $4.9 million in FY 2022 compared to fee related loss of $0.1 in FY 2021, highlighting the leverage of scale and additional fee-paying AUM.

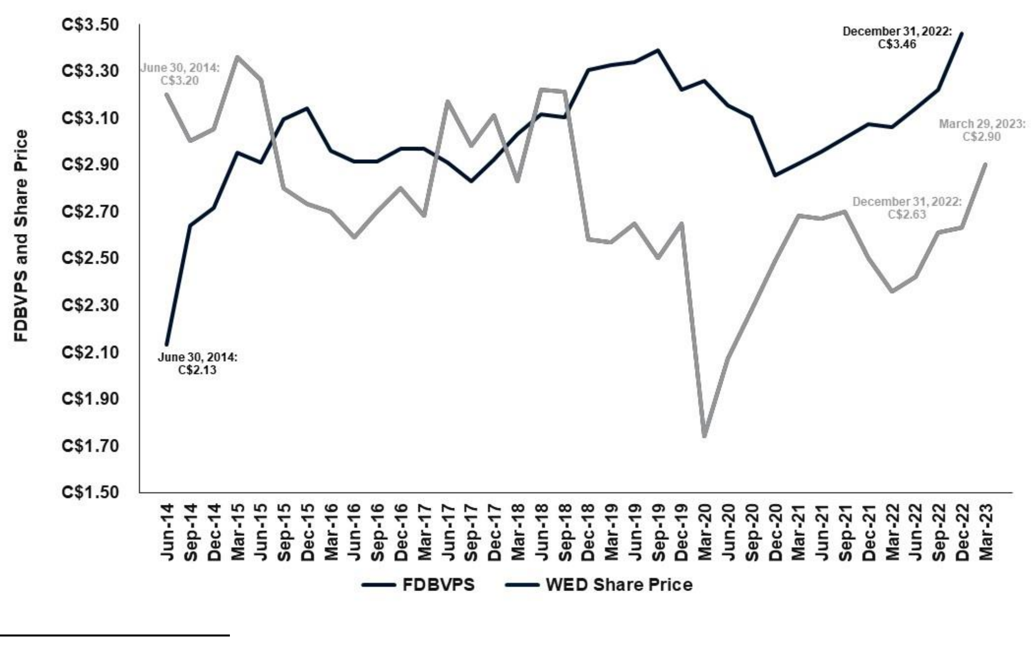
As you are aware, Arena FINCOs represent Westaim's proprietary capital invested in Arena's core multi-strategy and, at times, provides for the strategic development of Arena Investors as the lead or seed investor in Arena product offerings to help grow and build the business. However, Westaim has and will withdraw capital from Arena FINCOs when compelling alternative opportunities arise to optimize returns. As a reminder in 2020, Westaim withdrew approximately $43 million of capital from the Arena FINCOs to participate in Skyward Specialty's rights offering, which proved to be an excellent investment. Due to this additional mandate, the portfolio profile of Arena FINCOs does not reflect Arena's diversified multi-strategy funds and will experience more concentration and volatility as a result. Despite this, we believe the returns over time as investments are realized will be in keeping with targeted returns produced across the multi-strategy spectrum.

In 2022, Arena FINCOs earned a net return[10] of -1.6%, closing with a value of $160.1 million at December 31, 2022.

Westaim

Allocating Westaim's capital to aligned, high-quality leadership teams within attractive industries is the precursor to building great businesses with sustainable momentum and is a hallmark of Westaim's strategy, further enabled by the permanent nature of our capital. It can happen quickly (like our past investment in Jevco Insurance Company), but in most cases it takes time. We are fortunate to have Andrew and Dan leading their teams at Skyward Specialty and Arena Investors – we believe despite considerable past successes, their best years are yet to come.

As we write this letter, management believes Westaim's "intrinsic value" is significantly greater than both Westaim's current trading price of C$2.90 per share and the December 31, 2022 FDBVPS of C$3.46, primarily due to Skyward Specialty's common shares trading materially above the $15.00 included in our book value calculation, and due to the nominal valuation attributed to Arena Investors in Westaim's book value despite having $3.5 billion of committed AUM and growing FRE.



10 Net Return (a non-GAAP measure) 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.

We believe Westaim's approximately 22% insider ownership underscores our conviction in the quality and value of our two businesses, and the value of the permanent capital structure of the holding company and the investment orientation this provides. We understand that in today's marketplace, few, if any, holding companies command a premium valuation to their NAV - we assure you that management and the Westaim Board are continually considering all possible alternatives, levers and scenarios to narrow this chasm.

Westaim's Annual General Meeting and Investor Day will occur on **Thursday, May 18, 2023 at Vantage Venues, 150 King Street West, Toronto, Ontario, Canada, M5H 1J9.** The Annual General Meeting will be convened in-person at 9:00 AM ET. The Investor Day will be held in-person and virtually at 9:30 AM ET. The Investor Day will include a business overview and discussion with Westaim and Arena Investors management, followed by a question-and-answer session. Unfortunately, for the reasons stated earlier in this letter, Skyward Specialty will not participate in the Investor Day. However, we look forward to your in-person or virtual participation.

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, 2022 and 2021 as set out on pages 50 to 72 of this annual report ("Financial Statements"). Financial data in this MD&A has been derived from the Financial Statements and is intended to enable the reader to assess the Company's results of operations for the three months and year ended December 31, 2022 and financial condition as at December 31, 2022. The Company reports its consolidated Financial Statements using generally accepted accounting principles ("GAAP") and accounting policies consistent with International Financial Reporting Standards ("IFRS"). All currency amounts are in United States dollars ("US$"), the functional and presentation currency of the Company, unless otherwise indicated. Canadian dollars are referenced as C$. The following commentary is current as of March 30, 2023. 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.

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.
Supplementary financial measures (the "Skyward Specialty Supplementary Financial Measures") concerning Skyward Specialty Insurance Group, Inc. ("Skyward Specialty") contained in this MD&A are unaudited and have been derived from the Skyward Specialty Fourth Quarter 2022 Results press release dated February 28, 2023 and the Skyward Specialty *Form 10-K Annual Report for its fiscal year ended December 31, 2022* filed with the U.S. Securities and Exchange Commission at www.sec.gov/edgar. Such statements are the responsibility of the management of Skyward Specialty. The Skyward Specialty Supplementary Financial Measures, including any Skyward Specialty non-GAAP measures contained therein, have 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 Supplementary Financial Measures 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. For more information about Skyward Specialty, please see Skyward Specialty's audited financial statements for the year ended December 31, 2022 available at www.sec.gov/edgar.

The Skyward Specialty Supplementary Financial Measures have been provided solely by Skyward Specialty. Although Westaim has no knowledge that would indicate that any of the Skyward Specialty Supplementary Financial Measures contained herein are 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 Supplementary Financial Measures, 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
Supplementary financial measures concerning the Arena FINCOs (as hereinafter defined) and Arena Investors (as hereinafter defined) (the "Arena Supplementary Financial Measures") contained in this MD&A are unaudited and have been derived from the audited consolidated financial statements of the Arena FINCOs and Arena Investors for the years ended December 31, 2022 and 2021 and the unaudited consolidated financial statements of Arena FINCOs and Arena Investors for the three months ended December 30, 2022 and 2021, 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 Supplementary Financial Measures, 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 Supplementary Financial Measures 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 Arena Supplementary Financial Measures have 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 Supplementary Financial Measures contained herein are 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 Supplementary Financial Measures, its accuracy, completeness or by reason of reliance by any person on any of it.

Forward-Looking Information
This MD&A may contain forward-looking statements that involve risks and uncertainties. The Company's actual results could differ materially from these forward-looking statements as a result of various factors, including those discussed hereinafter, and in the Company's Annual Information Form dated March 30, 2023 for its fiscal year ended December 31, 2022 which is available on SEDAR at www.sedar.com. Please refer to Section 16, *Cautionary Note Regarding Forward-Looking 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 2022	Three months ended December 31 2021	Year ended December 31 2022	Year ended December 31 2021
Revenue and net change in unrealized value of investments	$ 35.1	$ 6.8	$ 27.4	$ 33.8
Net (expenses) recovery of expenses	(2.5)	0.1	(9.8)	(5.3)
Income tax recovery (expense)	0.2	(0.2)	0.4	(0.2)
GAAP profit and comprehensive income	$ 32.8	$ 6.7	$ 18.0	$ 28.3
GAAP earnings per share – basic	$ 0.23	$ 0.05	$ 0.13	$ 0.20
GAAP earnings per share – diluted	$ 0.23	$ 0.04	$ 0.12	$ 0.19
At December 31:				
Shareholders' equity			$ 363.2	$ 347.7
Number of Common Shares outstanding [2]			141,386,718	142,686,718
Book value per fully diluted share – in US$ [1]			$ 2.56	$ 2.43
Book value per fully diluted share – in C$ [3]			$ 3.46	$ 3.07

[1] See Section 15, *Non-GAAP Measures* of this MD&A.
[2] Westaim's common shares ("Common Shares") are listed and posted for trading on the TSX Venture Exchange ("TSXV") under the symbol "WED".
[3] Period end exchange rates: 1.35360 at December 31, 2022 and 1.26410 at December 31, 2021.

Three months ended December 31, 2022 and 2021
The Company reported a profit and comprehensive income of $32.8 and $6.7 for the three months ended December 31, 2022 and 2021, respectively.

Revenue and net change in unrealized value of investments was a net increase of $35.1 for the three months ended December 31, 2022 (2021 – $6.8), and consisted of interest income of $0.3 (2021 - $0.3), dividend income paid to the Company from the Arena FINCOs of $0.5 (2021 - $nil), advisory fees of $0.3 (2021 - $0.3), an increase of $40.5 in the unrealized value of the investment in Skyward Specialty (2021 – decrease of $0.2), a decrease of $6.6 in the unrealized value of the investments in the Arena FINCOs, which was a decrease of $6.1 before dividends paid of $0.5 (2021 – increase of $0.5 before dividends paid of $nil), the Company's share of income and comprehensive income of Arena Investors of $0.1 (2021 – $5.8) and a decrease in the unrealized value of the Company's investment in Arena Special Opportunities Fund, LP ("ASOF LP") of a nominal amount (2021 – increase of $0.1).

Net expenses for the three months ended December 31, 2022 of $2.5 (2021 – net recovery of expenses of $0.1) consisted of salaries and benefits of $1.2 (2021 - $1.4), general, administrative and other expenses of $0.2 (2021 - $0.2), professional fees of $0.2 (2021 - $0.2), site restoration provision expense of $nil (2021 – recovery of $1.5), share-based compensation expense $0.2 (2021 – net recovery of expense of $0.5), a foreign exchange loss of $0.2 (2021 – a nominal amount), interest on preferred securities of $0.5 (2021 - $0.5) and an unrealized gain resulting from a change in the fair value of the vested Warrants (as hereinafter defined) of a nominal amount (2021 – $0.4).

The Company reported income tax recovery for the three months ended December 31, 2022 of $0.2 (2021 – expense of $0.2).

Years ended December 31, 2022 and 2021
The Company reported a profit and comprehensive income of $18.0 and $28.3 for the years ended December 31, 2022 and 2021, respectively.

(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 was a net increase of $27.4 for the year ended December 31, 2022 (2021 – $33.8), and consisted of interest income of $1.3 (2021 - $1.4), dividend income paid to the Company from the Arena FINCOs of $8.4 (2021 - $nil), advisory fees of $1.0 (2021 - $1.0), an increase of $26.8 in the unrealized value of the investment in Skyward Specialty (2021 – $11.3), a decrease of $10.8 in the unrealized value of the investments in the Arena FINCOs, which was a decrease of $2.4 before dividends paid of $8.4 (2021 – increase of $9.8 before dividends paid of $nil), the Company's share of profit and comprehensive income of Arena Investors of $0.7 (2021 - $10.0) and a decrease in the unrealized value of the Company's investment in ASOF LP of a nominal amount (2021 – increase of $0.3).

Net expenses for the year ended December 31, 2022 of $9.8 (2021 – $5.3) consisted of salaries and benefits of $4.8 (2021 - $5.0), general, administrative and other expenses of $0.9 (2021 - $0.8), professional fees of $1.5 (2021 - $1.0), site restoration provision expense of $nil (2021 – recovery of $4.1), share-based compensation expense of $0.9 (2021 – $0.5), a foreign exchange gain of $0.1 (2021 – loss of $0.9), interest on preferred securities of $1.9 (2021 - $2.0) and an unrealized gain resulting from a change in the fair value of the vested Warrants of $0.1 (2021 – $0.8).

The Company reported income tax recovery for the year ended December 31, 2022 of $0.4 (2021 – expense of $0.2).

3. INVESTMENTS

The Company's principal investments consist of its investments in Skyward Specialty, the Arena FINCOs and Arena Investors.

	Place of establishment	Principal place of business	Ownership interest at December 31, 2022	Ownership interest at December 31, 2021
Skyward Specialty	Delaware, U.S.	Texas, U.S.	43.8% owned by the Company [1]	44.0% owned by the Company
Arena FINCOs	Delaware, U.S.	New York, U.S.	100% owned by the Company	100% owned by the Company
Arena Investors	Delaware, U.S.	New York, U.S.	51% owned the Company [2]	51% beneficially owned the Company [1]

[1] See section 3.A. Investment in Skyward Specialty for details of the Company's ownership in Skyward Specialty
[2] Legal equity ownership is 51% (December 31, 2021 - 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". Effective April 1, 2022, BP LLC achieved the threshold to increase its equity ownership of Arena Investors from 0% to 49% and as a result, the Company's equity ownership decreased from 100% to 51%.

For additional information on the Company's corporate structure, see the Company's Annual Information Form dated March 30, 2023 for its fiscal year ended December 31, 2022 which is available on SEDAR at www.sedar.com.

<u>Skyward Specialty</u>

The Company owns a significant ownership 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 under investments in the Company's consolidated financial statements. For more information on Skyward Specialty becoming a public company with shares trading on the NASDAQ under symbol SKWD, see Note 17, *Subsequent Events* in the Notes to the Financial Statements.

<u>Arena FINCOs</u>

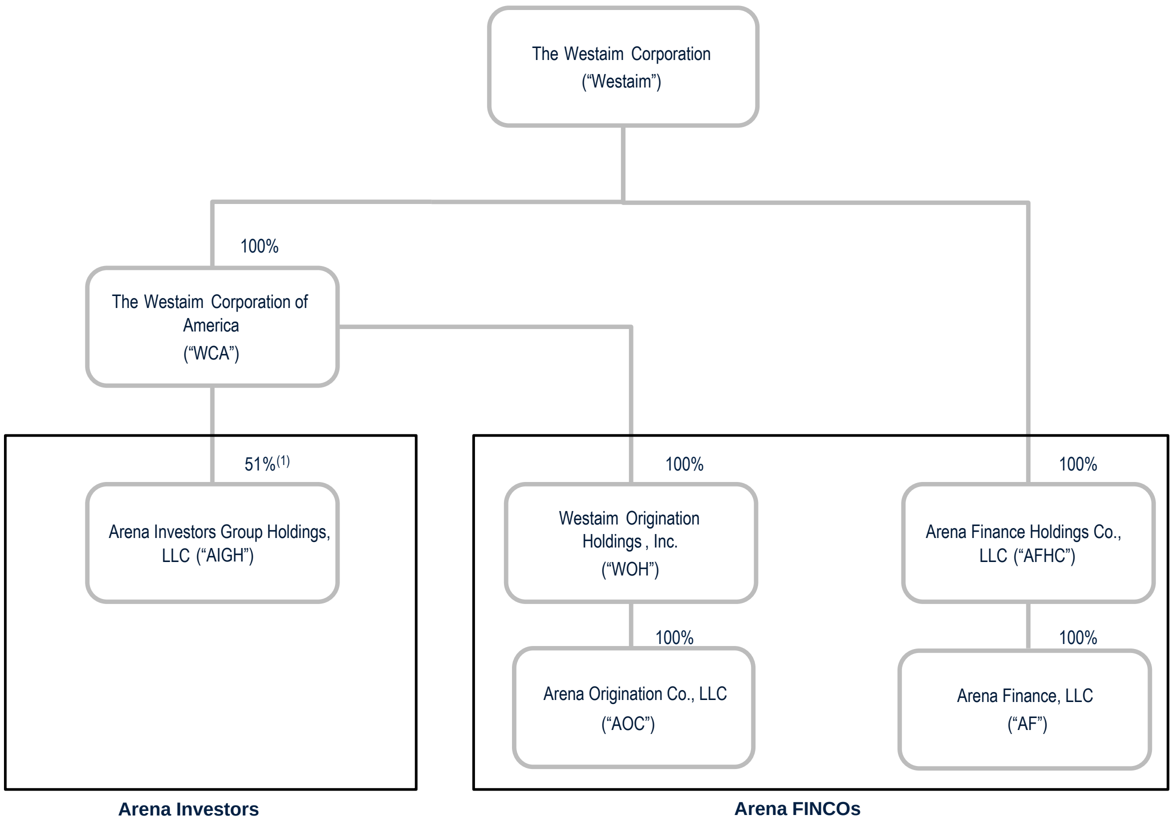
The Arena FINCOs are private companies which include specialty finance companies that primarily purchase fundamentals-based, asset-oriented credit and other investments for their own account and a company that primarily facilitates the origination of fundamentals-based, asset-oriented credit investments 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 under investments in the Company's consolidated financial statements. Arena FINCOs refers to WOH, AFHC (as each is defined hereinafter) and each of their respective subsidiaries.

<u>Arena Investors</u>

Arena Investors Group Holdings, LLC ("AIGH" or "Arena Investors"), a private company, through its wholly-owned subsidiaries and subsidiaries which AIGH has a controlling interest, operates as an investment manager offering clients access to fundamentals-based, asset-oriented credit and other 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 and profit percentage are 51%. Ownership and profit percentage are 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 Arena Investors and the Arena FINCOs, see the Company's Annual Information Form dated March 30, 2023 for its fiscal year ended December 31, 2022 which is available on SEDAR at www.sedar.com.

<u>Accounting for the Company's Investments</u>

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 Skyward Specialty, Arena FINCOs and ASOF LP are accounted for at fair value through profit or loss ("FVTPL"). The Company's investment in Arena Investors is accounted for using the equity method since the Company does not exercise control but exercises significant influence over Arena Investors. For a detailed description of the accounting and valuation of the Company's investments, see Note 4, *Investments* in the Notes to the Financial Statements.

Dividend income from investments in private entities are reported under "Revenue" in the consolidated statements of profit and comprehensive income. Changes in the fair value of the Company's investments in Skyward Specialty, Arena FINCOs and ASOF LP and the Company's share of profit and other comprehensive income of Arena Investors are reported under "Net results of investments" in the consolidated statements of profit and comprehensive income.

(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, 2022			Three months ended December 31, 2021		
	Opening Balance	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]	$ 89.0	$ 20.2	$ 109.2	$ 91.7	$ 4.1	$ 95.8
HIIG Partnership-Company's share of other partnership net assets	0.4	-	0.4	0.5	(0.1)	0.4
Skyward Specialty convertible preferred shares held by the Company [2]	89.0	20.3	109.3	100.1	(4.2)	95.9
	$ 178.4	$ 40.5	$ 218.9	$ 192.3	$ (0.2)	$ 192.1

	Year ended December 31, 2022			Year ended December 31, 2021		
	Opening Balance	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]	$ 95.8	$ 13.4	$ 109.2	$ 86.2	$ 9.6	$ 95.8
HIIG Partnership-Company's share of other partnership net assets	0.4	-	0.4	0.5	(0.1)	0.4
Skyward Specialty convertible preferred shares held by the Company [2]	95.9	13.4	109.3	94.1	1.8	95.9
	$ 192.1	$ 26.8	$ 218.9	$ 180.8	$ 11.3	$ 192.1

[1] The Company's share of Skyward Specialty common shares held by the Westaim HIIG Limited Partnership (the "HIIG Partnership").
[2] The Skyward Specialty convertible preferred shares were automatically converted in Skyward Specialty common shares on January 18, 2023. See Note 17, *Subsequent Events* in the Notes to the Financial Statements.

At December 31, 2022, the Company owned approximately 98.5% (December 31, 2021 – 62.0%) of the HIIG Partnership and the HIIG Partnership held Skyward Specialty common shares representing approximately 22.2% (December 31, 2021 – 35.5%) of the total fully diluted Skyward Specialty common shares outstanding. As a result, at December 31, 2022, Westaim's look-through interest in fully diluted common shares through the HIIG Partnership was 21.9% (December 31, 2021 – 22.0%) and had a fair value of $109.2 (December 31, 2021 - $95.8).

At December 31, 2022, Westaim's direct ownership of the Skyward Specialty preferred shares, which are convertible into Skyward Specialty common shares was $109.3 (December 31, 2021 - $95.9). See Note 17, *Subsequent Events* in the Notes to the Financial Statements.

At December 31, 2022, the Company's look-through interest in the HIIG Partnership of 21.9% (December 31, 2021 – 22.0%), combined with its direct ownership of the Skyward Specialty preferred shares, which were convertible into Skyward Specialty common shares representing 21.9% (December 31, 2021 – 22.0%) of the fully diluted Skyward Specialty common shares outstanding, resulted in a 43.8% (December 31, 2021 – 44.0%) look-through interest in Skyward Specialty.

At December 31, 2022, based on the Company's control of the HIIG Partnership, and its ownership of convertible preferred shares, the Company held a 44.1% voting interest in Skyward Specialty (December 31, 2021 – 57.5%).

(i) Fair Value

The investment in Skyward Specialty is accounted for at FVTPL. In valuing Skyward Specialty's fully diluted common shares, using multiple valuation techniques, fair value was determined to be $15.00 per share of Skyward Specialty's common stock at December 31, 2022. At December 31, 2021, the Company used a multiple of 1.0x of the net asset value of Skyward Specialty as the primary valuation technique. See Note 4, *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 $218.9 at December 31, 2022 (December 31, 2021 - $192.1) and consisted of the aggregate fair value of (i) Skyward Specialty convertible preferred shares held directly by the Company, which were convertible into 7,285,359 Skyward Specialty common shares at $15.00 per share for $109.3 (December 31, 2021 - $95.9), (ii) its share of the Skyward Specialty common shares held by the HIIG Partnership of 7,281,780 Skyward Specialty common shares at $15.00 per share for $109.2 (December 31, 2021 - $95.8) and (iii) its share of the other net assets of the HIIG Partnership of $0.4 (December 31, 2021 - $0.4).

3. INVESTMENTS (continued)

The Company recorded an increase in unrealized value on its investment in Skyward Specialty of $40.5 and $26.8 in the three months and year ended December 31, 2022, respectively, and a decrease in unrealized value on its investment in Skyward Specialty of $0.2 and an increase of $11.3 in the three months and year ended December 31, 2021, respectively.

(ii) Skyward Specialty Supplementary Financial Measures for the three months and year ended December 31, 2022 and 2021

The Company considers certain financial results of Skyward Specialty to be important measures for investors in assessing the Company's financial position and performance. Set out in the tables below are certain Skyward Specialty Supplementary Financial Measures, derived from the Skyward Specialty Fourth Quarter 2022 Results press release dated February 28, 2023 and the Skyward Specialty *Form 10-K Annual Report for its fiscal year ended December 31, 2022* filed with the U.S. Securities and Exchange Commission at www.sec.gov/edgar. Such statements are the responsibility of the management of Skyward Specialty. Readers are cautioned that the Skyward Specialty Supplementary Financial Measures 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.

Skyward Specialty Supplementary Financial Measures contains certain financial measures and ratios that are not required by or presented in accordance with US GAAP. These measures are referred to as "non-GAAP financial measures" and are used when planning, monitoring, and evaluating performance. Skyward Specialty has chosen to exclude the net impact of the Loss Portfolio Transfer ("LPT"), all development on reserves fully or partially covered by the LPT and amortization of deferred gains associated with recoveries of prior LPT reserve strengthening in certain non-GAAP metrics, where noted, as the business subject to the LPT is not representative of their continuing business strategy. The business subject to the LPT is primarily related to policy years 2017 and prior, was generated and managed under prior leadership of Skyward Specialty, and has either been exited or substantially repositioned during the reevaluation of their portfolio. Skyward Specialty considers these non-GAAP financial measures to be useful metrics for management and investors to facilitate operating performance comparisons from period to period. While they believe that these non-GAAP financial measures are useful in evaluating their business, this information should be considered supplemental in nature and is not meant to be a substitute for revenue or net income, in each case as recognized in accordance with GAAP. In addition, other companies, including companies in their industry, may calculate such measures differently, which reduces their usefulness as comparative measures.

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

3. INVESTMENTS (continued)

Skyward Specialty's Consolidated Balance Sheets

	December 31, 2022	December 31, 2021
Assets		
Investments	$ 1,082.4	$ 949.3
Cash and cash equivalents	45.4	42.1
Restricted cash	79.6	65.2
Premiums receivable, net of allowance	139.2	112.1
Reinsurance recoverables	581.4	536.3
Ceded unearned premium	157.6	138.0
Deferred policy acquisition costs	68.9	59.4
Deferred income taxes	36.2	33.7
Goodwill and intangible assets, net	89.9	91.4
Other assets	82.8	90.7
Total assets	$ 2,363.4	$ 2,118.2
Liabilities		
Reserves for losses and loss adjustment expenses	$ 1,141.8	$ 979.5
Unearned premiums	442.5	363.3
Deferred ceding commission	29.8	30.5
Reinsurance and premium payables	113.7	119.9
Funds held for others	36.8	29.6
Accounts payable and accrued liabilities	48.5	40.8
Notes payable	50.0	50.0
Subordinated debt, net of debt issuance costs	78.6	78.5
Total liabilities	$ 1,941.7	$ 1,692.1
Stockholders' equity		
Stock and additional paid-in capital	$ 577.5	$ 575.4
Stock notes receivable	(6.9)	(9.1)
Accumulated other comprehensive (loss) income	(43.5)	4.6
Accumulated deficit	(105.4)	(144.8)
Total stockholders' equity	$ 421.7	$ 426.1
Total liabilities and stockholders' equity	$ 2,363.4	$ 2,118.2
Tangible stockholders' equity[1]	$ 331.8	$ 334.7

[1] Tangible stockholders' equity is a non-GAAP measure calculated as the total stockholders' equity less goodwill and intangible assets. Skyward Specialty's definition of tangible stockholders' equity may not be comparable to that of other companies and should not be viewed as a substitute for stockholders' equity calculated in accordance with GAAP. Tangible stockholders' equity is used by Skyward Specialty management to evaluate the strength of Skyward Specialty's balance sheet and to compare returns relative to this measure.

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

3. INVESTMENTS (continued)

Skyward Specialty's Consolidated Statement of Operations and Comprehensive Income (Loss)

	Three months ended December 31		Year ended December 31	
	2022	2021[1]	2022	2021
Revenues:				
Net earned premiums	$ 170.1	$ 133.8	$ 616.0	$ 499.8
Commission and fee income	1.6	1.3	5.2	4.0
Net investment income	5.3	4.0	36.9	24.6
Net investment gains (losses)	10.4	7.1	(15.7)	17.1
Net realized gain on sale of business	-	-	-	5.1
Other income (loss)	-	1.1	-	(0.4)
Total revenues	187.4	147.3	642.4	550.2
Expenses:				
Losses and loss adjustment expense ("LAE")	109.0	104.6	402.5	354.5
Underwriting, acquisition and insurance expenses	49.9	39.5	182.2	138.5
Impairment charges	-	-	-	2.8
Interest expense	2.1	1.2	6.4	4.6
Amortization expense	0.4	0.4	1.5	1.5
Total expenses	161.4	145.7	592.6	501.9
Income before income taxes	26.0	1.6	49.8	48.3
Income tax expense	5.6	0.3	10.4	10.0
Net Income	20.4	1.3	39.4	38.3
Comprehensive income (loss):				
Net income	20.4	1.3	39.4	38.3
Other comprehensive income (loss):				
Unrealized gains (losses) on investments:				
Net change in unrealized (losses) gains on investments, net of tax	0.7	(3.5)	(48.5)	(8.2)
Reclassification adjustment for gains on securities no longer held, net of tax	0.1	0.2	0.4	0.6
Total other comprehensive income (loss)	0.8	(3.3)	(48.1)	(7.6)
Comprehensive income (loss)	$ 21.2	$ (2.0)	$ (8.7)	$ 30.7
Skyward Specialty's Share and Per Share Data				
Weighted average basic shares	16,576,760	16,341,011	16,568,393	16,308,712
Weighted average diluted shares	32,669,335	32,567,203	32,653,194	32,468,048
Basic earnings per share	$ 0.64	$ 0.04	$ 1.24	$ 1.21
Diluted earnings per share	$ 0.63	$ 0.04	$ 1.21	$ 1.18
Basic adjusted earnings per share	$ 0.37	$ 0.24	$ 1.84	$ 1.14
Diluted adjusted earnings per share	$ 0.36	$ 0.23	$ 1.79	$ 1.11
Annualized ROE[2]	19.9%	1.2%	9.3%	9.4%
Annualized adjusted ROE[3]	11.3%	7.1%	13.8%	8.8%
Annualized ROTE[4]	25.5%	1.6%	11.8%	11.9%
Annualized adjusted ROTE[5]	14.5%	9.0%	17.6%	11.2%
Shares outstanding			16,599,666	16,533,620
Fully diluted shares outstanding			33,290,638	33,082,691
Book value per share			$ 25.82	$ 26.32
Fully diluted book value per share			$ 12.87	$ 13.15
Fully diluted tangible book value per share			$ 10.17	$ 10.39

[1] Adjusted to conform to the presentation of the current period financial statements.
[2] Annualized ROE is net income expressed on an annualized basis as a percentage of average beginning and ending stockholders' equity during the period.
[3] Annualized adjusted ROE is adjusted operating income expressed on an annualized basis as a percentage of average beginning and ending stockholders' equity during the period.
[4] Annualized ROTE is net income expressed on an annualized basis as a percentage of average beginning and ending tangible stockholders' equity during the period.
[5] Annualized adjusted ROTE is adjusted operating income expressed on an annualized basis as a percentage of average beginning and ending tangible stockholders' equity during the period.

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

3. INVESTMENTS (continued)

Skyward Specialty results for the three months ended December 31, 2022

Skyward Specialty reported net income of $20.4, or $0.63 per diluted share, for the three months ended December 31, 2022 compared to $1.3, or $0.04 per diluted share, for the three months ended December 31, 2021. Adjusted operating income (see "Adjusted operating income" below for a description of this non-GAAP measure) was $11.6, or $0.36 per diluted share, for the three months ended December 31, 2022 compared to $7.6, or $0.23 per diluted share, for the three months ended December 31, 2021. For the three months ending December 31, 2022 gross written premiums increased 18.1%, while continuing business grew 21.4% versus the same period in 2021, the combined ratio was 92.4% (2021: 106.8%), the adjusted combined ratio (see chart below for non-GAAP measure) was 92.8% (2021: 94.8%), net investment income increased 30.6% to $5.3 compared to the same period in 2021.

Skyward Specialty Premiums

	Three months ended December 31			Year ended December 31		
	2022	2021	change	2022	2021	change
Total continuing business	$ 263.9	$ 217.3	21.4%	$ 1,138.6	$ 867.9	31.2%
Exited business	0.9	6.9	(86.1%)	5.3	71.9	(92.6%)
Total gross written premiums	$ 264.8	$ 224.2	18.1%	$ 1,143.9	$ 939.8	21.7%
Ceded written premiums	$ (84.8)	$ (83.2)	2.0%	$ (468.4)	$ (410.7)	14.0%
Net Retention	68.0%	62.9%	NM[1]	59.1%	56.3%	NM[1]
Net written premiums	$ 180.0	$ 141.0	27.6%	$ 675.5	$ 529.1	27.7%
Net earned premiums	$ 170.1	$133.8	27.2%	$ 616.0	$ 499.8	23.2%

[1] Not meaningful.

The increase during three months ended December 31, 2022 in gross written premiums, when compared to the same 2021 period, was primarily driven by double-digit premium growth in the Accident & Health, Captives, Professional Lines, Surety, and Transactional E&S underwriting divisions. The increase during the year ended December 31, 2022 in gross written premiums, when compared to the same 2021 period, was driven by double-digit premium growth in each of Skyward Specialty's eight underwriting divisions.

Underwriting Income (Loss)

Skyward Specialty defines underwriting income (loss) as net income (loss) before income taxes excluding net investment income, net realized and unrealized gains and losses on investments, impairment charges, interest expense, amortization expense and other income and expenses. Underwriting income (loss) represents the pre-tax profitability of Skyward Specialty's underwriting operations and allows Skyward Specialty to evaluate their underwriting performance without regard to investment income. Skyward Specialty uses this metric as they believe it gives management and other users of their financial information useful insight into their underlying business performance. Underwriting income (loss) should not be viewed as a substitute for pre-tax income (loss) calculated in accordance with GAAP, and other companies may define underwriting income (loss) differently.

	Three months ended December 31		Year ended December 31	
(All amounts before federal income tax)	2022	2021	2022	2021
Income before federal income tax	$ 26.0	$ 1.6	$ 49.8	$ 48.3
Add:				
Interest expense	2.1	1.2	6.4	4.6
Amortization expense	0.4	0.4	1.5	1.5
Less:				
Net investment income	5.3	4.0	36.9	24.6
Net investment gains (losses)	10.4	7.1	(15.7)	17.1
Impairment charges	-	-	-	(2.8)
Other income	-	1.1	-	4.7
Underwriting income (loss)	$ 12.8	$ (9.0)	$ 36.5	$ 10.8

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

3. INVESTMENTS (continued)

Adjusted Loss Ratio / Adjusted Combined Ratio

Skyward Specialty defines adjusted loss ratio and adjusted combined ratio as the corresponding ratio (calculated in accordance with GAAP), excluding losses and LAE related to the LPT and all development on reserves fully or partially covered by the LPT and amortization of deferred gains associated with recoveries of prior LPT reserve strengthening. Skyward Specialty uses these adjusted ratios as internal performance measures in the management of their operations because they believe they give management and other users of their financial information useful insight into their results of operations and their underlying business performance. Their adjusted loss ratio and adjusted combined ratio should not be viewed as substitutes for their loss ratio and combined ratio, respectively.

	Three months ended December 31		Year ended December 31	
	2022	2021	2022	2021
Net earned premiums	$ 170.1	$ 133.8	$ 616.0	$ 499.8
Losses and LAE	109.0	104.6	402.5	354.5
Less: Pre-tax net impact of LPT	(0.7)	16.1	8.6	16.1
Adjusted losses and LAE	$ 109.7	$ 88.5	$ 393.9	$ 338.4
Loss ratio	64.0%	78.2%	65.3%	70.9%
Less: Net impact of LPT	(0.4)%	12.0%	1.4%	3.2%
Adjusted loss ratio	64.4%	66.2%	63.9%	67.7%
Expense ratio	28.4%	28.6%	28.7%	26.9%
Combined ratio	92.4%	106.8%	94.0%	97.8%
Less: Net impact of LPT	(0.4)%	12.0%	1.4%	3.2%
Adjusted combined ratio	92.8%	94.8%	92.6%	94.6%

The adjusted loss ratio for the three months and year ended December 31, 2022 improved 1.8 points and 3.8 points, respectively, when compared to the same 2021 periods. The improvements for the three months and year ended December 31, 2022 were primarily driven by (i) a shift in the mix of business, (ii) continued run-off of exited business, and (iii) lower catastrophe losses. Catastrophe losses from Winter Storm Elliott added 1.2 points to adjusted loss ratio for the three months ended December 31, 2022 compared to 2021, which was impacted by 1.9 points of catastrophe losses from tornadoes in the U.S. Midwest. Catastrophe losses from Hurricane Ian and Winter Storm Elliott added 1.1 points to the year ended December 31, 2022 adjusted loss ratio compared to 2021, which was impacted by 2.4 points of catastrophe losses from tornadoes in the Midwest, Hurricane Ida and the first quarter winter storms.

The expense ratio decreased 0.2 points and increased 1.8 points for the three months and year ended December 31 2022, respectively, when compared to the same 2021 periods. The increase in the year ended December 31, 2022, was primarily driven by changes in mix of business resulting in higher net policy acquisition expenses combined with higher operating expenses due to continued investment in new underwriters and underwriting teams.

Investment Results

	Three months ended December 31		Year ended December 31	
	2022	2021	2022	2021
Cash and short-term investments[1]	$ 0.8	$ 0.1	$ 1.4	$ 0.2
Core fixed income	5.9	2.5	16.5	8.8
Opportunistic fixed income	(2.3)	1.1	16.8	12.5
Equities	0.9	0.3	2.2	3.1
Net investment income	$ 5.3	$ 4.0	$ 36.9	$ 24.6
Net unrealized gains (losses) on equity securities still held	$ 11.1	$ 6.2	$ (15.1)	$ 15.2
Net realized (losses) gains	$ (0.7)	$ 0.9	$ (0.6)	$ 1.9

[1] Excludes restricted cash.

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

3. INVESTMENTS (continued)

Net investment income in the three months and year ended December 31, 2022 benefited from increased income in the core fixed income portfolio, due to (i) a larger asset base as they increased the allocation to this part of the investment portfolio and (ii) higher net investment yields in the core fixed income portfolio of 3.7% and 3.0%, respectively, compared to 2.2% and 2.3%, respectively, for the same 2021 periods.

Net investment income in the three months ended December 31, 2022 was impacted by a decline in income from the opportunistic fixed income portfolio, although the result for the year ended December 31, 2022 still benefited from an increase in income from this portfolio when compared to the same 2021 period.

The investment portfolio had a net investment yield of 3.4% for the year ended December 31, 2022 (2021: 2.7%).

Adjusted Operating Income

Skyward Specialty defines adjusted operating income (a non-GAAP measure) as net income excluding the impact of certain items that may not be indicative of underlying business trends, operating results, or future outlook, net of tax impact. They use adjusted operating income as an internal performance measure in the management of their operations because they believe it gives management and other users of their financial information useful insight into their results of operations and their underlying business performance. Adjusted operating income should not be viewed as a substitute for net income calculated in accordance with GAAP, and other companies may define adjusted operating income differently.

	Three months ended December 31		Year ended December 31	
(All amounts after federal income tax)	2022	2021	2022	2021
Income as reported	$ 20.4	$ 1.3	$ 39.4	$ 38.3
Less:				
Net impact of LPT	0.6	(12.7)	(6.8)	(12.7)
Net investment gains (losses)	8.2	5.6	(12.4)	13.5
Net realized gain on sale of business	-	-	-	4.0
Impairment charges	-	-	-	(2.2)
Other income (expenses)	-	0.8	-	(0.4)
Adjusted operating income	$ 11.6	$ 7.6	$ 58.6	$ 36.1

Stockholders' Equity

Skyward Specialty's stockholders' equity was $421.7 at December 31, 2022 which represents an increase of 5.5% when compared to stockholders' equity of $399.8 at September 30, 2022. The increase in stockholders' equity was primarily due to an increase in net operating income and an increase in the market value of Skyward Specialty's investment portfolio.

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

3. INVESTMENTS (continued)

B. INVESTMENT IN THE ARENA FINCOS

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.

	Three months ended December 31		Year ended December 31	
	2022	2021	2022	2021
Opening balance	$ 168.6	$ 172.3	$ 172.8	$ 163.0
Return of capital to the Company	(1.9)	-	(1.9)	-
Unrealized (loss) gain before dividends	(6.1)	0.5	(2.4)	9.8
Dividends paid to the Company	(0.5)	-	(8.4)	-
Ending balance	$ 160.1	$ 172.8	$ 160.1	$ 172.8

The Arena FINCOs invest in both debt and equity, hard assets and real estate owned investments, with an emphasis on debt instruments comprised of multiple investment strategies including, but not limited to, corporate private investments, real estate private investments, 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 Investments
Senior private corporate debt, bank debt, including, without limitation, secondary market bank debt, distressed debt such as senior secured bank debt before or during a Chapter 11 bankruptcy filing, corporate bonds, including, without limitation, bonds in liquidation or out-of-court exchange offers and trade claims of distressed companies in anticipation of a recapitalization, bridge loans/transition financing, debtor-in-possession ("DIP") financings, junior secured loans, junior capital to facilitate restructurings, equity co-investments or warrants alongside corporate loans.

Real Estate Private Investments
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 centres, hotels, land, single family homes, multi-family apartments, condominium towers, hospitality providers, health care service providers, and corporate campuses, leases and lease residuals.

Structured Finance and Assets
Commercial receivables, investments in entities (including, without limitation, 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, without limitation, airplanes and components, industrial machinery), commodities (physical and synthetic), reinsurance and premium finance within life and property casualty insurance businesses, legal-related finance including, without limitation, 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. Thinly traded or more illiquid loans and securities backed by mortgages (commercial and residential), other small loans including, without limitation, equipment leases, auto loans, commercial mortgage-backed securities, residential mortgage-backed securities, collateralized loan obligations, collateralized debt obligations, other structured credits and consumer-related assets, aviation and other leased asset securitizations, esoteric asset securitization, revenue interests, synthetics, and catastrophe bonds. 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-related assets, 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.

3. INVESTMENTS (continued)

Corporate and Other Securities

Illiquid positions in asset-backed securities, collateralized debt obligations, collateralized loan obligations, residential mortgage backed securities, commercial mortgage backed securities, other securitized bonds or non-bond tranches and liquid positions including, hedged and unhedged investments in public securities (including, without limitation, public real estate and special purpose acquisition companies ("SPACs")), preferred stock, common stock, municipal bonds, senior public corporate debt, other industry relative value, merger arbitrage in transactions such as mergers, hedged investments in regulated utilities, integrated utilities, merchant energy providers, acquisitions, tender offers, spin-offs, recapitalizations and Dutch auctions, limited partnership interests, interests in fund start-ups and investment managers, event-driven relative value equity investments in transactions such as corporate restructurings, strategic block, other clearly defined events, 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.

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

(i) Accounting for the Arena FINCOs

The Company's investment in the Arena FINCOs is accounted for at FVTPL. 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, 2022, in the amount of $160.1 approximated the fair value of the Company's investments in the Arena FINCOs. See Note 4, *Investments in the Arena FINCOs* in the Notes to the Financial Statements.

The fair value of the Company's investment in the Arena FINCOs was determined to be $160.1 and $172.8 at December 31, 2022 and 2021, respectively.

The Company recorded a decrease in the unrealized value of its investments in the Arena FINCOs of $6.6, which was a decrease of $6.1 before dividends paid to the Company of $0.5 in the three months ended December 31, 2022, and a decrease in the unrealized value of its investments in the Arena FINCOs of $10.8, which was a decrease of $2.4 before dividends paid to the Company of $8.4 in the year ended December 31, 2022. In addition, the Arena FINCOs returned capital in the amount of $1.9 in the three months and year ended December 31, 2022. The Company recorded an increase in the unrealized value of its investments in the Arena FINCOs of $0.5 and $9.8 in the three months and year ended December 31, 2021, respectively. There were no dividends paid or capital returned to the Company in the three months and year ended December 31, 2021.

(ii) Arena FINCOs Supplementary Financial Measures for the three months and year ended December 31, 2022 and 2021

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. Supplementary Financial Measures related to the Arena FINCOs set out below is unaudited and has been derived from the unaudited financial statements of WOH and AFHC, the audited financial statements of AOC and the audited consolidated financial statements of AF and its subsidiaries for the years ended December 31, 2022 and 2021 and the unaudited financial statements of AOC, AF and its subsidiaries for the three months ended December 31, 2022 and 2021, 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.

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

3. INVESTMENTS (continued)

A summary of the net assets of the Arena FINCOs is as follows:

	December 31, 2022	December 31, 2021
Cash and cash equivalents	$ 16.7	$ 36.3
Investments:		
Loans / private assets	161.2	136.8
Other securities	37.8	46.1
Total investments	199.0	182.9
Other net assets	7.9	6.0
Due to brokers, net	(17.0)	(1.7)
Senior secured notes payable	(43.9)	(43.7)
Revolving credit facility payable	(2.6)	(7.0)
Net assets of the Arena FINCOs	$ 160.1	$ 172.8

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 US$ currency hedges to reduce its non-US$ currency exposure.

During 2021, Arena Finance II LLC ("AFII"), one of the Arena FINCOs, secured a revolving credit facility with third party lenders with a commitment amount of $25.0 and initial termination date of September 30, 2023. Unpaid principal amounts under the revolving credit facility will bear interest at the 3-month London Interbank Offered Rate ("LIBOR") plus 2.8%. Additionally, an unused facility fee accrues at a rate of 0.50% per annum and is payable monthly in arrears. The loan is secured by AFII's equity interests in its subsidiaries, carries a parental guarantee from AF, and ranks senior to AFII's senior secured notes payable. The net proceeds received under the revolving credit facility are intended to be used as working capital and liquidity support in lieu of maintaining cash reserves and therefore are expected to keep AFII's equity and term debt capital fully invested in productive, yield-earning investments.

AFII has a private placement of $45.0 of 6.75% senior secured notes payable to improve net returns by leveraging invested assets. The net proceeds received from these notes are being used by the Arena FINCOs in accordance with its investment objectives.

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

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	
	2022	2021	2022	2021
Net operating results of the Arena FINCOs:				
Investment income	$ 1.9	$ 4.8	$ 5.2	$ 10.4
Net (losses) gains on investments	(5.5)	(2.1)	2.4	9.0
Interest expense	(1.1)	(0.9)	(4.1)	(3.5)
Net investment (loss) income	(4.7)	1.8	3.5	15.9
Management and asset servicing fees	(1.0)	(1.1)	(4.3)	(4.2)
Incentive fees recovery (expense)	0.1	-	(0.4)	(0.9)
Other operating expenses	(0.4)	(0.1)	(1.0)	(0.8)
Net operating results before holding companies' expenses	(6.0)	0.6	(2.2)	10.0
Arena FINCOs holding companies' expenses:				
Advisory fees paid to the Company	(0.1)	(0.1)	(0.2)	(0.2)
Net operating results of the Arena FINCOs	$ (6.1)	$ 0.5	$ (2.4)	$ 9.8

The Net Return on the investment portfolios of the Arena FINCOs was -3.6% and -1.6% for the three months and year ended December 31, 2022, respectively, and +0.3% and +6.1% for the three months and year ended December 31, 2021, respectively. See Section 15, *Non-GAAP Measures* of this MD&A.

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

3. INVESTMENTS (continued)

C. INVESTMENT IN ARENA INVESTORS

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

	Three months ended December 31		Year ended December 31	
	2022	2021	2022	2021
Investment in Arena Investors				
Opening balance	$ 26.8	$ 20.4	$ 26.2	$ 20.2
Decrease in revolving loan from the Company	-	-	-	(4.0)
The Company's share of profit and comprehensive income	0.1	5.8	0.7	10.0
Ending balance	$ 26.9	$ 26.2	$ 26.9	$ 26.2

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

Arena Investors generates revenues primarily from Management Fees, Incentive Fees and Asset Servicing Fees. "Management Fees" are the fees calculated on Arena Investors' various segregated client accounts and private pooled investment vehicles. Management Fees for separately managed and proprietary accounts are pro-rated on mid-month accounts and 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 calculated as a percentage of net profits earned by Arena Investors as of the end of each accounting period or applicable withdrawal date related to client accounts subject to a "high water mark" and loss carryforward provisions for each measurement date. "Asset Servicing Fees" are the fees earned in connection with the management and servicing of the illiquid portion of clients' investment portfolios.

At December 31, 2022, Arena Investors had committed assets under management ("AUM") of approximately $3.5 billion (December 31, 2021: $2.8 billion). AUM refers to the assets for which Arena Investors provides investment management, advisory or certain other investment-related services. AUM is generally based on the net asset value of the funds managed by Arena Investors plus any unfunded commitments. Arena Investors' calculation of AUM may differ from the calculations of other asset managers, and as a result, may not be comparable to similar measures presented by other asset managers. Arena Investors' calculations of AUM are not based on any definition set forth in the governing documents of the investment funds and are not calculated pursuant to any regulatory definitions. At December 31, 2022, AUM included the net assets of the Arena FINCOs and the Company's investment in ASOF LP of approximately $163 (December 31, 2021: $176).

(i) 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 was 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 ("EBITDA") to trailing twelve month revenues) thresholds in accordance with the AIGH Associate Agreement. At April 1, 2022, under the Associate Agreements, BP LLC achieved the threshold to increase its equity ownership of Arena Investors from 0% to 49%. At December 31, 2022, the Company's equity ownership and profit sharing percentage of Arena Investors is 51%. At December 31, 2021, the thresholds in accordance with the Associate Agreements had not been met, therefore the Company's equity ownership of Arena Investors was 100% and its profit sharing percentage was 51%.

(ii) 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, 2022. Arena Investors had drawn down the loan facility by $24.0 at December 31, 2022 (December 31, 2021 - $24.0). See Note 4, *Investment in Arena Investors* in the Notes to the Financial Statements.

The Company's investment in Arena Investors is accounted for using the equity method. The carrying amount of the Company's investment in Arena Investors was $26.9 and $26.2 at December 31, 2022 and December 31, 2021. The Company's 51% share of Arena Investors' profit and comprehensive profit that amounted to $0.1 and $0.7 for the three months and year ended December 31, 2022, respectively, and $5.8 and $10.0 for the three months and year ended December 31, 2021, respectively, was reported under "Net results of investments" in the consolidated statements of profit and comprehensive income.

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

3. INVESTMENTS (continued)

(iii) Arena Investors Supplementary Financial Measures for the three months and year ended December 31, 2022 and 2021

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. Supplementary Financial Measures related to Arena Investors set out below is unaudited and has been derived from the audited financial statements of AIGH for the years ended December 31, 2022 and 2021 and the unaudited financial statements of AIGH for the three months ended December 31, 2022 and 2021, which have been prepared in accordance with US GAAP. Such statements are the responsibility of the management of Arena Investors. Supplementary Financial Measures includes EBITDA which is a common measure for operating profitability. Management of the Company concluded that any reconciling items to IFRS are not material.

Supplementary Financial Measures of Arena Investors is as follows:

Supplementary Financial Measures from Arena Investors' Statement of Financial Position

	December 31, 2022	December 31, 2021
Cash and cash equivalents	$ 4.8	$ 2.2
Restricted cash	28.2	13.4
Arena Investors' Revolving Loan from the Company	(24.0)	(24.0)
Other net (liabilities) assets	(3.2)	12.4
Net assets	5.8	4.0
Less: net assets attributable to non-controlling interests	0.2	-
Net assets attributable to Arena Investors	$ 5.6	$ 4.0
Company's share of Arena Investors' net assets	$ 2.9	$ 2.2
Arena Investors' Revolving Loan from the Company	24.0	24.0
Carrying amount of the Company's investment in Arena Investors	$ 26.9	$ 26.2

Restricted cash includes deposits received in advance for pre-funded work fees and prepaid deposits primarily from investment loans.

Supplementary Financial Measures from Arena Investors' Statement of Profit and Comprehensive Income

	Three months ended December 31		Year ended December 31	
	2022	2021[1]	2022[1]	2021[1]
Management fees	$ 8.2	$ 7.2	$ 31.9	$ 24.0
Asset servicing fees	2.4	2.1	10.6	7.0
Other income	1.3	0.2	1.2	0.5
Total recurring revenue	11.9	9.5	43.7	31.5
Operating expenses (excluding incentive fees compensation expense)	(11.3)	(7.0)	(38.8)	(31.6)
Fee related earnings (loss)	**0.6**	**2.5**	**4.9**	**(0.1)**
Incentive fees	(1.0)	15.4	4.5	34.3
Incentive fees compensation expense	1.1	(6.3)	(6.2)	(13.1)
Net incentive fees	**0.1**	**9.1**	**(1.7)**	**21.2**
EBITDA	**0.7**	**11.6**	**3.2**	**21.1**
Depreciation	(0.1)	-	(0.2)	(0.1)
Revolving loan interest expense paid to the Company	(0.3)	(0.3)	(1.3)	(1.4)
Taxes	-	-	(0.2)	-
Profit and comprehensive income	**0.3**	**11.3**	**1.5**	**19.6**
Company's share of profit and comprehensive income of Arena Investors (51%)	$ 0.1	$ 5.8	$ 0.7	$ 10.0

[1] Adjusted to conform to the presentation of the current period financial statements.

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

3. INVESTMENTS (continued)

D. INVESTMENT IN ASOF LP

The Company's investment in ASOF LP, a fund managed by Arena Investors, with a fair value of $3.2 at both December 31, 2022 and 2021, is included under investments in the consolidated statements of financial position. The Company's decrease in unrealized value on its investment in ASOF LP was a nominal amount in each of the three months and year ended December 31, 2022, respectively, and was an increase of $0.1 and $0.3 in the three months and year ended December 31, 2021, respectively.

4. FINANCING

Preferred Securities

On June 2, 2017, the Company closed the sale to certain affiliates of Fairfax Financial Holdings Limited (collectively referred to as "Fairfax") of 5,000,000 Preferred Securities for C$50 million. The Preferred Securities are repayable on demand upon a change of control of Westaim and the liability is recorded at the principal amount in the consolidated statements of financial position. The C$ principal amount of the Preferred Securities was converted to US$ at the period end exchange rate, resulting in a carrying amount of the Preferred Securities at December 31, 2022 of $36.9 (December 31, 2021 - $39.5). See Note 6, *Preferred Securities* in the Notes to the Financial Statements.

Canadian Dollar Currency Forward Contracts

At December 31, 2022, the Company had a 188 day C$ exchange forward contract to purchase C$50 million maturing on March 28, 2023. For the year ended December 31, 2022, the Company settled a C$ exchange forward contract to purchase C$50 million and incurred a realized foreign exchange loss of $3.0. For the year ended December 31, 2021, the Company settled three C$ exchange forward contracts to purchase C$40 million each and earned a net realized foreign exchange gain of a nominal amount. The realized foreign exchange loss from the forward contracts for the year ended December 31, 2022 was more than offset by other realized and unrealized C$ currency net gains on the Company's underlying C$ currency assets and liabilities, including the currency exposure arising from the Preferred Securities, which resulted in a net unrealized and realized foreign exchange gain of $0.1 in the year ended December 31, 2022 (for the year ended December 31, 2021: net loss of $0.9). See Note 7, *C$ Exchange Forward Contracts* and Note 17, *Subsequent Events* in the Notes to the Financial Statements. The Company has not designated these Canadian dollar currency forward contracts as accounting hedges.

Derivative Warrant Liability

In conjunction with the purchase by Fairfax of C$50 million in Preferred Securities on June 2, 2017, Westaim issued to Fairfax 14,285,715 warrants to purchase Common Shares (the "Warrants") at a strike price of C$3.50, with all of the 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, 2022, a liability of $0.1 (December 31, 2021 - $0.2) representing the estimated fair value of the vested Warrants had been accrued in the consolidated statements of financial position. See Note 8, *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	
	2022	2021	2022	2021
Revenue				
Interest income	$ 0.3	$ 0.3	$ 1.3	$ 1.4
Dividend income from investments in private entities	0.5	-	8.4	-
Advisory fees	0.3	0.3	1.0	1.0
	$ 1.1	$ 0.6	$ 10.7	$ 2.4
Net results of investments	34.0	6.2	16.7	31.4
Net expenses				
Salaries and benefits	(1.2)	(1.4)	(4.8)	(5.0)
General, administrative and other	(0.2)	(0.2)	(0.9)	(0.8)
Professional fees	(0.2)	(0.2)	(1.5)	(1.0)
Site restoration recovery	-	1.5	-	4.1
Share-based compensation (expense) recovery	(0.2)	0.5	(0.9)	(0.5)
Foreign exchange (loss) gain	(0.2)	-	0.1	(0.9)
Interest on preferred securities	(0.5)	(0.5)	(1.9)	(2.0)
Derivative warrant gain	-	0.4	0.1	0.8
	$ (2.5)	$ 0.1	$ (9.8)	$ (5.3)
Income tax recovery (expense)	0.2	(0.2)	0.4	(0.2)
GAAP profit and comprehensive income	$ 32.8	$ 6.7	$ 18.0	$ 28.3

5.1 Revenue

In the three months ended December 31, 2022, the Company earned interest on loans made to Arena Investors of $0.3 (2021 - $0.3), received dividends paid to the Company from the Arena FINCOs of $0.5 (2021 - $nil), and earned advisory fees from Skyward Specialty of $0.1 (2021 - $0.1) and from the Arena FINCOs and Arena Investors of $0.2 (2021 - $0.2).

In the year ended December 31, 2022, the Company earned interest on loans made to Arena Investors of $1.3 (2021 - $1.4), received dividends paid to the Company from the Arena FINCOs of $8.4 (2021 - $nil), and earned advisory fees from Skyward Specialty of $0.5 (2021 - $0.5) and from the Arena FINCOs and Arena Investors of $0.5 (2021 - $0.5).

5.2 Net Results of Investments

In the three months ended December 31, 2022, the net results of investments consisted of an increase of $40.5 in the unrealized value of the investment in Skyward Specialty (2021 – decrease of $0.2), a decrease of $6.6 in the unrealized value of the investments in the Arena FINCOs, which was a decrease of $6.1 before dividends paid of $0.5 (2021 – increase of $0.5 before dividends paid of $nil), the Company's share of income and comprehensive income of Arena Investors of $0.1 (2021 – $5.8) and a decrease in unrealized value of the Company's investment in ASOF LP of a nominal amount (2021 – increase of $0.1).

In the year ended December 31, 2022, the net results of investments consisted of an increase of $26.8 in the unrealized value of the investment in Skyward Specialty (2021 – $11.3), a decrease of $10.8 in the unrealized value of the investments in the Arena FINCOs, which was a decrease of $2.4 before dividends paid of $8.4 (2021 – increase of $9.8 before dividends paid of $nil), the Company's share of profit and comprehensive income of Arena Investors of $0.7 (2021 - $10.0) and a decrease in unrealized value of the Company's investment in ASOF LP of a nominal amount (2021 – increase of $0.3).

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

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

5. ANALYSIS OF FINANCIAL RESULTS (continued)

5.3 *Expenses*

Salaries and benefits in the three months and year ended December 31, 2022 were comparable to the corresponding periods in the prior year.

General, administrative and other expenses in the three months and year ended December 31, 2022 were comparable to the corresponding periods in the prior year.

Professional fees increased by $0.5 in the year ended December 31, 2022 when compared to the corresponding period in the prior year due to certain expenses relating to non-recurring consultation and legal fees. Professional fees in the three months ended December 31, 2022 were comparable to the corresponding period in the prior year.

Changes in share-based compensation expense from period to period result from 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 restricted share units ("RSUs") and deferred share units ("DSUs"). See Section 8, *Liquidity and Capital Resources* of this MD&A for additional information on the Company's share-based compensation plans.

The Company holds C$ denominated assets and liabilities and the Company's operating results include foreign exchange gains or losses arising from the revaluation of the Company's C$ denominated net liabilities and revaluation of C$ foreign exchange forward contract into US$ at period end exchange rates. The following is a breakdown of the major components of the foreign exchange (loss) gain in the three months and year ended December 31, 2022 and 2021:

	Three months ended December 31		Year ended December 31	
	2022	2021	2022	2021
Foreign exchange (losses) gains relating to:				
- Liabilities for RSUs and DSUs	$ (0.2)	$ (0.1)	$ 0.5	$ (0.1)
- Preferred securities	(0.8)	-	2.6	(0.3)
- Canadian dollar currency forward contracts	0.8	0.1	(3.0)	(0.4)
- Other	-	-	-	(0.1)
	$ (0.2)	$ -	$ 0.1	$ (0.9)

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

6. ANALYSIS OF FINANCIAL POSITION

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

	December 31, 2022	December 31, 2021
Assets		
Cash	$ 3.4	$ 6.6
Other assets	0.6	0.8
Investments	409.1	394.3
Deferred tax asset	0.2	-
	$ 413.3	$ 401.7
Liabilities		
Accounts payable and accrued liabilities	$ 12.9	$ 13.7
Income tax payable	0.2	0.2
Preferred securities	36.9	39.5
Derivative warrant liability	0.1	0.2
Deferred tax liability	-	0.4
	50.1	54.0
Shareholders' equity	363.2	347.7
Total liabilities and shareholders' equity	$ 413.3	$ 401.7

6.1 Cash

At December 31, 2022, the Company had cash of $3.4 (December 31, 2021 - $6.6).

6.2 Other Assets

Other assets were $0.6 and $0.8 at December 31, 2022 and 2021, respectively. Other assets at December 31, 2022 included right of use asset of $0.3 (December 31, 2021 - $0.4), and other receivables of $0.3 (December 31, 2021 - $0.4). See Note 3, *Other Assets* in the Notes to the Financial Statements.

6.3 Investments

Investments were $409.1 and $394.3 at December 31, 2022 and 2021, respectively, and consisted of the investments in: Skyward Specialty, the Arena FINCOs, Arena Investors, and ASOF LP.

The Company's investment in Skyward Specialty, which is accounted for at FVTPL, was determined to be $218.9 and $192.1 at December 31, 2022 and 2021, respectively. See discussion in Section 3, *Investment in Skyward Specialty* of this MD&A.

The Company's investment in the Arena FINCOs, which is accounted for at FVTPL, was determined to be $160.1 and $172.8 at December 31, 2022 and 2021, respectively. See discussion in Section 3, *Investment in the Arena FINCOs* of this MD&A.

The Company's investment in Arena Investors, which is accounted for using the equity method, was determined to be $26.9 and $26.2 at December 31, 2022 and 2021, respectively. See discussion in Section 3, *Investment in Arena Investors* of this MD&A.

The Company's investment in ASOF LP, which is accounted for at FVTPL, was determined to be $3.2 at each of December 31, 2022 and 2021. See discussion in Section 3, *Investment in ASOF LP* 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)

6.4 Deferred Tax Asset

At December 31, 2022, the Company reported a deferred tax asset of $0.2 (December 31, 2021 – deferred tax liability $0.4) primarily related to temporary differences of its United States taxable income and it is probable that taxable profits will be available against which those temporary differences can be utilized. Canadian deferred tax assets are not recognized and cannot be netted against deferred tax liabilities of another country. See Note 2(k), *Summary of Significant Accounting Policies Income Taxes* and Note 13, *Income Taxes* in the Notes to Financial Statements.

6.5 Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities were $12.9 at December 31, 2022 (December 31, 2021 - $13.7). Accounts payable and accrued liabilities at December 31, 2022 included liabilities related to accrued employee bonuses of $2.4 (December 31, 2021 - $2.6), RSUs of $5.8 (December 31, 2021 - $5.9), DSUs of $2.6 (December 31, 2021 - $2.2), lease liability of $0.3 (December 31, 2021 - $0.4), interest accrued on the Preferred Securities of $0.5 (December 31, 2021 - $0.5), fair value of Canadian dollar currency forward contract of $0.5 (December 31, 2021 - $0.4), and other accrued liabilities of $0.8 (December 31, 2021 - $1.7). See Note 3, *Other Assets* in the Notes to the Financial Statements 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, 2022, the Company had an income tax payable of $0.2 (December 31, 2021 - $0.2).

6.7 Preferred Securities

The C$50 million principal amount of the Preferred Securities was converted to US$ at the period end exchange rate, resulting in a carrying amount of the Preferred Securities at December 31, 2022 of $36.9 (December 31, 2021 - $39.5). See discussion in Section 4, *Financing* of this MD&A.

6.8 Derivative Warrant Liability

At December 31, 2022, a liability of $0.1 (December 31, 2021 - $0.2) representing the estimated fair value of the vested Warrants had been accrued in the consolidated statements of financial position. See discussion in Section 4, *Financing* of this MD&A.

6.9 Shareholders' Equity

The details of shareholders' equity are as follows:

	December 31, 2022	December 31, 2021
Common Shares	$ 378.6	$ 381.1
Contributed surplus	17.7	17.7
Accumulated other comprehensive loss	(2.2)	(2.2)
Deficit	(30.9)	(48.9)
Shareholders' equity	$ 363.2	$ 347.7

Common Shares

Westaim had 141,386,718 Common Shares outstanding at December 31, 2022 and 142,686,718 Common Shares at December 31, 2021. In the year ended December 31, 2022, Westaim cancelled 1,300,000 Common Shares that it had acquired at a cost of $2.5 through its normal course issuer bid ("NCIB"). In the year ended December 31, 2021, Westaim cancelled 500,000 Common Shares that it had acquired at a cost of $1.1 through the prior NCIB. For further details, see Note 10, *Share Capital* in the Notes to the Financial Statements.

Contributed Surplus

The Company had $17.7 in contributed surplus at December 31, 2022 and 2021.

6. ANALYSIS OF FINANCIAL POSITION (continued)

Accumulated Other Comprehensive Loss

Accumulated other comprehensive loss of $2.2 at December 31, 2022 and 2021 comprised cumulative exchange differences from currency translation as a result of a change in presentation currency from the C$ to the US$ on August 31, 2015.

Deficit

The decrease in deficit of $18.0 from December 31, 2021 to December 31, 2022 is due to the profit and comprehensive income for the year ended December 31, 2022.

7. OUTLOOK

With the Arena Investors' platform largely built (product suite, geographies, IT systems, investment capability), its 100+ professionals are poised to deploy committed capital, continue to increase AUM and demonstrate operating leverage to grow its earnings.

Generally, the US property and casualty insurance market has shifted to a cycle of increasing insurance rates and improved underwriting terms. Skyward Specialty is well positioned to take advantage of the hard insurance market and accelerate its profitable growth and return on equity. Skyward Specialty continues to acquire additional key talent, executes on underwriting actions to optimize its product mix, maintains protection under an LPT agreement signed in 2020 that helps minimize the impact of prior years' claims development and effectively manages its investment portfolio to result in improved investment returns. Skyward Specialty has an AM Best rating "A-" with a Stable Outlook. Skyward Specialty's objective is to build a top quartile property and casualty specialty publicly traded insurer trading at or above peer multiples of book value.

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

Westaim's authorized share capital consists of an unlimited number of Common Shares, Class A preferred shares and Class B preferred shares.

At December 31, 2022, Westaim had 141,386,718 Common Shares outstanding (December 31, 2021 – 142,686,718), with a stated capital of $378.6 (December 31, 2021 - $381.1).

There were no Class A or Class B preferred shares outstanding at December 31, 2022 or 2021. For further details, see Note 10, *Share Capital* in the Notes to the Financial Statements.

Dividends

No dividends were paid by the Company in the years ended December 31, 2022 and 2021.

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

8. LIQUIDITY AND CAPITAL RESOURCES (continued)

Share-based Compensation Plans

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

The Option Plan is a "rolling plan" which provides, subject to the terms of the Option Plan, the aggregate number of Common Shares which may be reserved for issuance thereunder 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, subject to the terms of the plan, the number of Common Shares issuable under such plan, together with all other security-based compensation arrangements of Westaim, shall not exceed 10% of the aggregate number of Common Shares outstanding. As the DSUs are settled solely in cash, they are not included in this 10% limitation.

At December 31, 2022 and 2021, Westaim had 10,428,337 stock options outstanding at strike prices ranging from C$3.00 to C$3.25.

Westaim had 2,975,198 RSUs outstanding at December 31, 2022 and 2021. The RSUs, at the election of the holder, can be settled in Common Shares or cash based on the prevailing market price of the Common Shares on the settlement date. There were no RSUs exercised in the year ended December 31, 2022 and 59,063 RSUs exercised in the year ended December 31, 2021.

At December 31, 2022, 1,355,133 DSUs were vested and outstanding (December 31, 2021 – 1,093,603 DSUs). DSUs are issued to certain directors in lieu of director fees, at their election, at the market value of 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, 2022 and 2021, no DSUs were redeemed by the Company.

At December 31, 2022, accounts payable and accrued liabilities included amounts related to outstanding RSUs of $5.8 (December 31, 2021 - $5.9) and outstanding DSUs of $2.6 (December 31, 2021 - $2.2).

For further details, see Note 11, *Share-based Compensation* in the Notes to the Financial Statements.

Market for Securities

Westaim's Common Shares are listed and posted for trading on the TSXV under the symbol "WED".

Cash Flow Objectives

The Company manages its liquidity with a view to ensuring that there is sufficient cash to meet all financial commitments and obligations as they fall due including having access to liquidity from dividends from the Arena FINCOs. 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, 2022	One year or less	One to five years	No specific date / later than five years	Total
Financial assets:				
Cash	$ 3.4	$ -	$ -	$ 3.4
Other assets (excluding capital assets and right-of-use asset)	0.3	-	-	0.3
Investments	-	24.0	385.1	409.1
Total financial assets	3.7	24.0	385.1	412.8
Financial obligations:				
Accounts payable and accrued liabilities (excluding lease liabilities)	4.4	-	8.4	12.8
Preferred securities	-	-	36.9	36.9
Total financial obligations	4.4	-	45.3	49.7
Net financial (obligations) assets	$ (0.7)	$ 24.0	$ 339.8	$ 363.1

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

8. LIQUIDITY AND CAPITAL RESOURCES (continued)

December 31, 2021	One year or less	One to five years	No specific date / later than five years	Total
Financial assets:				
Cash	$ 6.6	$ -	$ -	$ 6.6
Other assets (excluding capital assets and right-of-use asset)	0.4	-	-	0.4
Investments	-	24.0	370.3	394.3
Total financial assets	7.0	24.0	370.3	401.3
Financial obligations:				
Accounts payable and accrued liabilities (excluding lease liabilities)	5.2	-	8.1	13.3
Preferred securities	-	-	39.5	39.5
Total financial obligations	5.2	-	47.6	52.8
Net financial assets	$ 1.8	$ 24.0	$ 322.7	$ 348.5

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 and directors, 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.

For further details, see Note 12, *Related Party Transactions* in the Notes to the Financial Statements.

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 an indication of value from market participants as the primary valuation technique in determining the fair value of the Company's investment in Skyward Specialty and net asset value as the primary valuation technique in determining the fair value of the Company's investment in the Arena FINCOs at December 31, 2022. Management determined that these valuation techniques produced the best indicator of the fair value of the investments in private entities December 31, 2022. The significant unobservable inputs used in the valuation of Skyward Specialty and the Arena FINCOs at December 31, 2022 were the equity of each of the entities at December 31, 2022, value of the price per Skyward Specialty common share offered by a market participant, and the multiple applied to net assets of the Arena FINCOs. For a detailed description of the valuation of the Company's investments in private entities, see Note 4, *Investments* in the Notes to the Financial Statements. 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.

Other key estimates include the Company's fair value of share-based compensation and unrecognized deferred tax assets. Details of these items are disclosed in Note 11 and Note 13, respectively, to the Company's audited consolidated financial statements for the years ended December 31, 2022 and 2021.

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

A description of the Company's accounting policies is disclosed in Note 2, *Summary of Significant Accounting Policies* in the Notes to the Financial Statements.

At December 31, 2022, there were no new pronouncements that impacted the Company.

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

12. QUARTERLY FINANCIAL INFORMATION

	Q4 2022	Q3 2022	Q2 2022	Q1 2022	Q4 2021	Q3 2021	Q2 2021	Q1 2021
Revenue	$ 1.1	$ 3.4	$ 3.2	$ 3.0	$ 0.6	$ 0.6	$ 0.6	$ 0.6
Increase (decrease) in unrealized value of investments, less dividends	34.0	(18.5)	(2.7)	3.9	6.2	3.2	9.9	12.1
Net (expenses) recovery of expenses	(2.5)	(2.5)	(2.4)	(2.4)	0.1	(2.2)	0.4	(3.6)
Income tax recovery (expense)	0.2	0.9	0.3	(1.0)	(0.2)	-	-	-
Profit (loss) and comprehensive income (loss)	$ 32.8	$ (16.7)	$ (1.6)	$ 3.5	$ 6.7	$ 1.6	$ 10.9	$ 9.1

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 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 30, 2023 for its fiscal year ended December 31, 2022 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, 2022
	Number of positions	Cost	Fair value	Percentage of investments at fair value	% Debt investments	% Equity, hard assets and real estate owned investments
Corporate Private Investments	24	$ 50.1	$ 60.2	30.2%	7.6%	22.6%
Real Estate Private Investments	36	47.0	45.8	23.0%	15.9%	7.1%
Structured Finance and Assets	49	59.1	55.2	27.8%	21.7%	6.1%
Other Securities	188	44.0	37.8	19.0%	5.8%	13.2%
	297	$ 200.2	$ 199.0	100.0%	51.0%	49.0%

Investments by Strategy						December 31, 2021
	Number of positions	Cost	Fair value	Percentage of investments at fair value	% Debt investments	% Equity, hard assets and real estate owned investments
Corporate Private Investments	28	$ 57.2	$ 54.9	30.0%	11.2%	18.8%
Real Estate Private Investments	33	30.0	29.1	15.9%	12.5%	3.4%
Structured Finance and Assets	42	56.2	52.8	28.9%	21.9%	7.0%
Other Securities	100	40.8	46.1	25.2%	10.3%	14.9%
	203	$ 184.2	$ 182.9	100.0%	55.9%	44.1%

Investments in Corporate Private Investments, Real Estate Private Investments, 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, 2022			December 31, 2021		
	Cost	Fair value	Percentage of investments at fair value	Cost	Fair value	Percentage of investments at fair value
Loans / Private Assets						
North America	$ 111.1	$ 111.8	56.2%	$ 112.8	$ 107.7	58.9%
Europe	30.1	35.1	17.6%	19.2	18.6	10.2%
Asia/Pacific	13.4	12.5	6.3%	11.4	10.5	5.7%
Latin America	1.6	1.8	0.9%	-	-	0.0%
	156.2	161.2	81.0%	143.4	136.8	74.8%
Other Securities [1]						
North America	30.7	30.6	15.4%	13.5	24.7	13.5%
Asia/Pacific	5.2	3.9	2.0%	11.5	11.4	6.2%
Europe	7.8	3.1	1.5%	8.3	5.5	3.0%
Other	0.3	0.2	0.1%	4.6	3.5	2.0%
Latin America	-	-	0.0%	2.9	1.0	0.5%
	44.0	37.8	19.0%	40.8	46.1	25.2%
	$ 200.2	$ 199.0	100.0%	$ 184.2	$ 182.9	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, 2022 Cost	December 31, 2022 Fair value	December 31, 2022 Percentage of investments at fair value	December 31, 2021 Cost	December 31, 2021 Fair value	December 31, 2021 Percentage of investments at fair value
Loans / Private Assets						
Corporate Private Investments						
Basic Materials	$ 0.5	$ 0.6	0.3%	$ -	$ -	0.0%
Business Services	9.9	10.0	5.0%	16.1	11.3	6.2%
Consumer Products	2.5	2.6	1.3%	0.6	0.6	0.3%
Financial Services	1.4	0.8	0.4%	1.1	1.1	0.6%
Oil and Gas (1)	20.7	27.4	13.7%	21.3	25.2	13.8%
Other Assets	14.5	18.1	9.1%	15.6	14.2	7.8%
Retail	0.6	0.7	0.4%	2.5	2.5	1.3%
	50.1	60.2	30.2%	57.2	54.9	30.0%
Real Estate Private Investments						
Commercial	1.4	1.3	0.6%	0.9	0.9	0.5%
Hospitality	8.9	9.8	4.9%	3.7	3.7	2.0%
Land - Commercial Development	6.5	6.8	3.4%	8.1	7.6	4.2%
Land - Multi-Family Development	4.7	2.7	1.4%	5.8	5.1	2.8%
Land - Single-Family Development	4.4	3.9	2.0%	2.2	2.1	1.1%
Mixed Use	0.4	0.4	0.2%	-	-	0.0%
Retail	6.8	6.7	3.4%	-	-	0.0%
Residential	13.9	14.2	7.1%	9.3	9.7	5.3%
	47.0	45.8	23.0%	30.0	29.1	15.9%
Structured Finance and Assets						
Lease/Equipment	1.7	2.5	1.3%	3.6	4.7	2.6%
Other Assets	37.5	36.7	18.4%	36.5	37.7	20.6%
Consumer Assets	19.9	16.0	8.1%	16.1	10.4	5.7%
	59.1	55.2	27.8%	56.2	52.8	28.9%
Total Loans / Private Assets	156.2	161.2	81.0%	143.4	136.8	74.8%
Other Securities (2)						
Basic Materials	2.0	2.1	1.1%	1.3	1.4	0.8%
Biotechnology	0.8	0.9	0.4%	0.1	0.1	0.1%
Consumer Products	11.9	8.9	4.5%	7.2	6.3	3.4%
Diversified	9.0	7.8	3.9%	4.3	4.3	2.4%
Energy	0.3	0.4	0.2%	0.7	0.9	0.5%
Financial Services	2.5	2.4	1.2%	7.3	5.8	3.2%
Foreign Exchange Forwards/Options	-	(1.0)	(0.5)%	-	0.4	0.2%
Fund Investment	3.2	3.6	1.8%	-	-	0.0%
Healthcare Services	0.5	0.7	0.4%	1.2	1.4	0.7%
Industrial	3.1	2.3	1.1%	3.6	3.7	2.0%
Information Technology	1.6	1.2	0.6%	1.8	1.7	0.9%
Interest Rate Derivatives	0.4	0.4	0.2%	-	-	0.0%
Mining	0.1	0.1	0.1%	2.2	2.1	1.1%
Oil and Gas	0.8	1.3	0.7%	2.0	2.4	1.3%
Real Estate	2.0	0.8	0.4%	1.7	1.6	0.9%
Retail	0.1	0.1	0.1%	-	-	0.0%
Technology	3.4	3.5	1.7%	-	-	0.0%
Telecommunications	2.3	2.3	1.1%	7.4	14.0	7.7%
	44.0	37.8	19.0%	40.8	46.1	25.2%
	$ 200.2	$ 199.0	100.0%	$ 184.2	$ 182.9	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 are as follows:

Details of Loan and Private Asset Positions								**December 31, 2022**
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 Investments								
CPC-3222	Oil & Gas	13.6	13.8	20.3	North America	Equity	n/a (14)	n/a (14)
CPC-2209	Other Assets	12.2	13.8	17.4	Europe	Equity	n/a (14)	n/a (14)
CPC-3349	Business Services	5.4	5.4	4.6	Asia Pacific	Equity	n/a (14)	n/a (14)
CPC-5325	Oil & Gas	2.7	2.9	3.3	North America	1st Lien	12.75%	100%+
CPC-7044	Consumer Products	3.6	2.5	2.6	North America	1st Lien	14.00%	27.0%
CPC-6859	Business Services	1.3	1.4	1.6	Asia Pacific	1st Lien	11.00%	27.0%
CPC-4985	Oil & Gas	1.3	1.3	1.5	North America	1st Lien	10.00%	17.0%
CPC-5143EQY	Oil & Gas	1.3	1.3	1.4	North America	Hard Asset	n/a (14)	n/a (14)
CPC-2170	Oil & Gas	1.7	1.2	0.7	North America	1st Lien	3.50%	100%+
CPC-7227	Other Assets	0.7	0.7	0.7	North America	Asset Pool	n/a (14)	n/a (14)
CPC-5830	Business Services	0.5	0.6	0.7	Europe	1st Lien	10.00%	0.0%
CPC-5027	Retail	0.6	0.6	0.7	North America	1st Lien	13.77%	84.0%
CPC-7018	Business Services	0.5	0.5	0.6	Europe	1st Lien	9.50%	10.0%
CPC-8155	Basic Materials	0.6	0.5	0.6	Asia Pacific	1st Lien	20.00%	66.7%
CPC-6677	Business Services	0.4	0.5	0.5	Europe	1st Lien	10.00%	3.0%
CPC-6374	Business Services	0.0	0.1	0.5	Europe	Equity	n/a (14)	n/a (14)
CPC-2397	Financial Services	1.0	1.0	0.4	North America	Equity	n/a (14)	n/a (14)
CPC-5913	Business Services	0.3	0.4	0.4	Europe	1st Lien	10.00%	1.4%
CPC-7677	Financial Services	0.5	0.4	0.4	North America	1st Lien	12.29%	100%+
CPC-5914	Business Services	0.3	0.3	0.3	Europe	1st Lien	10.00%	2.3%
CPC-7312EQY	Business Services	0.3	0.3	0.3	North America	Equity	n/a (14)	n/a (14)
CPC-6373	Business Services	0.2	0.3	0.3	Europe	1st Lien	10.00%	2.2%
CPC-5856	Business Services	0.1	0.1	0.2	Europe	1st Lien	11.00%	4.0%
CPC-1010	Oil & Gas	0.2	0.2	0.2	North America	1st Lien	14.00%	43.0%
CPC-5889	Consumer Products	0.0	0.0	0.0	North America	1st Lien	14.00%	34.6%
CPC-7167	Business Services	0.0	0.0	0.0	North America	Equity	n/a (14)	n/a (14)
Subtotal / Weighted average %		49.3	50.1	60.2			11.79%	77.4%

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

14. ADDITIONAL ARENA FINCOs' INVESTMENT SCHEDULES (continued)

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

Details of Loan and Private Asset Positions (continued)								**December 31, 2022**
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 Investments								
RECPC-6932	Hospitality	3.6	4.7	5.0	Europe	1st Mortgage	13.80%	93.7%
RECPC-1068S4	Residential	5.1	5.1	5.0	North America	Real Property	n/a (9)	n/a (9)
RECPC-2277	Land - Commercial Development	3.2	3.2	4.5	North America	1st Mortgage	19.00%	65.0%
RECPC-8192	Retail	4.5	4.5	4.4	North America	1st Mortgage	9.68%	30.0%
RECPC-7586	Residential	2.1	2.4	2.5	Europe	1st Mortgage	12.50%	78.0%
RECPC-2683	Land - Multi-Family Development	4.3	4.3	2.4	North America	Real Property	n/a (9)	n/a (9)
RECPC-7654	Retail	2.3	2.3	2.3	North America	1st Mortgage	7.00%	30.0%
RECPC-4220	Residential	2.3	2.3	2.3	North America	Real Property	n/a (9)	n/a (9)
RECPC-7488	Residential	1.3	1.7	1.8	Asia Pacific	1st Mortgage	13.00%	71.0%
RECPC-8135	Hospitality	1.3	1.3	1.4	Europe	Real Property	n/a (9)	n/a (9)
RECPC-2592	Land - Commercial Development	2.0	2.0	1.1	North America	1st Mortgage	12.94%	100%+
RECPC-2560	Hospitality	0.9	0.9	1.1	North America	Real Property	n/a (9)	n/a (9)
RECPC-7319	Residential	0.9	1.0	1.1	Europe	1st Mortgage	15.69%	58.0%
RECPC-5905	Land - Commercial Development	1.1	1.1	1.1	North America	1st Mortgage	19.38%	62.0%
RECPC-6592	Hospitality	0.9	0.9	1.0	North America	1st Mortgage	9.53%	50.1%
RECPC-6996	Land - Single-Family Development	0.9	1.0	0.9	Asia Pacific	1st Mortgage	18.00%	57.0%
RECPC-7027	Hospitality	0.6	0.7	0.9	Europe	Real Property	n/a (9)	n/a (9)
RECPC-7390	Residential	0.8	0.8	0.8	North America	1st Mortgage	12.10%	100%+
RECPC-6506TL1	Land - Single-Family Development	0.8	0.8	0.8	Asia Pacific	1st Mortgage	8.00%	73.0%
RECPC-6854	Residential	0.6	0.6	0.7	Europe	1st Mortgage	16.69%	67.0%
RECPC-5476	Land - Single-Family Development	0.6	0.7	0.6	Asia Pacific	1st Mortgage	20.00%	91.0%
RECPC-6384EQ	Commercial	0.4	0.4	0.5	North America	Asset Pool	n/a (4)	n/a (4)
RECPC-6194	Land - Single-Family Development	0.5	0.5	0.5	Asia Pacific	1st Mortgage	15.00%	76.0%
RECPC-6995	Land - Single-Family Development	0.4	0.4	0.4	Asia Pacific	1st Mortgage	12.00%	40.0%
RECPC-6242	Land - Single-Family Development	0.4	0.5	0.4	Asia Pacific	1st Mortgage	9.18%	88.0%
RECPC-7554	Commercial	0.6	0.6	0.4	Europe	Real Property	n/a (9)	n/a (9)
RECPC-6129	Hospitality	0.4	0.4	0.4	North America	1st Mortgage	24.00%	75.2%
RECPC-8622	Mixed Use	0.4	0.4	0.4	North America	1st Mortgage	18.00%	51.5%
RECPC-6334	Commercial	0.2	0.2	0.3	Europe	Real Property	n/a (9)	n/a (9)
RECPC-4698	Land - Multi-Family Development	0.4	0.4	0.3	North America	Real Property	n/a (9)	n/a (9)
RECPC-6505	Land - Single-Family Development	0.4	0.4	0.2	Asia Pacific	1st Mortgage	11.50%	100%+
RECPC-8118	Land - Single-Family Development	0.1	0.1	0.1	Asia Pacific	1st Mortgage	11.00%	77.0%
RECPC-6048	Commercial	0.2	0.2	0.1	Europe	Real Property	n/a (9)	n/a (9)
RECPC-1047	Land - Commercial Development	0.1	0.1	0.1	North America	1st Mortgage	15.00%	53.0%
RECPC-8417	Residential	0.0	0.0	0.0	Asia Pacific	1st Mortgage	12.00%	40.0%
RECPC-1015	Land - Commercial Development	0.2	0.1	0.0	North America	Real Property	n/a (9)	n/a (9)
Subtotal / Weighted average %		44.8	47.0	45.8			13.59%	67.5%

(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 are as follows:

Details of Loan and Private Asset Positions (continued) — **December 31, 2022**

Ref. no.	Investments by industry	Principal [1]	Investments at cost	Investments at fair value	Geographic location	Collateral	Total coupon (including PIK) [2]	LTV [3]
Structured Finance and Assets								
SF-2239	Other Assets	5.0	5.7	6.5	North America	1st Lien	n/a [10]	29.0%
CI-4898	Other Assets	4.0	4.0	4.2	North America	1st Lien	16.80%	42.1%
CI-6785	Other Assets	3.6	3.6	3.6	North America	1st Lien	13.50%	97.0%
CI-3045	Other Assets	1.3	1.3	2.8	North America	Asset Pool	n/a [7]	29.4%
CI-2651	Other Assets	4.0	4.3	2.6	North America	Hard Asset	n/a [14]	n/a [14]
CA-6834	Consumer	2.3	2.3	2.4	North America	Asset Pool	n/a [10]	n/a [10]
CA-5596C	Consumer	2.3	2.3	2.3	North America	Asset Pool	n/a [10]	n/a [10]
CA-5898	Consumer	2.5	2.5	2.1	North America	Asset Pool	n/a [10]	n/a [10]
CA-4946	Consumer	1.8	1.8	1.8	North America	1st Lien	16.39%	89.0%
CI-1999EQ	Other Assets	3.0	3.0	1.8	North America	Equity	n/a [14]	n/a [14]
CI-2201	Lease/Equipment	0.9	0.9	1.6	North America	Hard Asset	n/a [4]	n/a [4]
SF-8578	Other Assets	1.6	1.6	1.6	North America	1st Lien	9.50%	23.8%
CA-7491	Consumer	1.7	1.7	1.6	North America	Asset Pool	n/a [10]	n/a [10]
CI-2000	Other Assets	0.9	0.9	1.4	North America	Equity	n/a [14]	n/a [14]
CI-3978	Other Assets	1.7	1.8	1.4	North America	Hard Asset	n/a [4]	n/a [4]
CI-5554	Other Assets	1.4	1.4	1.4	North America	1st Lien	10.00%	77.0%
CA-6444	Consumer	1.1	1.1	1.3	Latin America	Asset Pool	n/a [10]	n/a [10]
SF-7254	Other Assets	1.2	1.2	1.2	North America	1st Lien	20.00%	69.3%
CA-7474	Consumer	1.2	1.2	1.2	North America	Asset Pool	n/a [10]	n/a [10]
CI-6253	Other Assets	1.2	1.1	1.1	North America	1st Lien	13.88%	44.0%
CI-5177	Other Assets	0.9	0.9	1.0	North America	Hard Asset	n/a [14]	n/a [14]
CA-6154	Consumer	0.7	0.9	0.9	Europe	1st Lien	18.50%	62.0%
CI-6006	Lease/Equipment	0.8	0.8	0.9	North America	1st Lien	13.79%	100.0%
CI-6750	Other Assets	0.9	0.9	0.9	Europe	Asset Pool	24.00%	86.0%
CI-6648TL	Other Assets	0.8	0.8	0.8	North America	1st Lien	16.20%	86.0%
CA-7092	Consumer	0.5	0.6	0.6	North America	1st Lien	9.00%	29.0%
CI-6016	Other Assets	0.6	0.5	0.5	North America	1st Lien	15.00%	88.7%
CA-8720	Consumer	0.5	0.5	0.5	North America	Asset Pool	n/a [10]	n/a [10]
CI-8104	Other Assets	0.5	0.5	0.5	North America	Hard Asset	n/a [14]	n/a [14]
CI-6004	Other Assets	0.5	0.5	0.5	Latin America	Hard Asset	n/a [14]	n/a [14]
CI-6565	Other Assets	0.5	0.5	0.5	North America	1st Lien	18.00%	86.0%
CI-7166	Other Assets	0.4	0.4	0.5	North America	Hard Asset	n/a [14]	n/a [14]
CI-7492	Other Assets	0.3	0.3	0.4	North America	Hard Asset	n/a [14]	n/a [14]
CA-4718	Consumer	0.4	0.4	0.4	North America	Asset Pool	n/a [10]	n/a [10]
CI-1520	Other Assets	0.2	0.2	0.3	North America	1st Lien	n/a [11]	48.0%
CA-6288	Consumer	0.2	0.2	0.3	North America	1st Lien	10.00%	60.8%
CI-1035	Other Assets	0.5	0.5	0.3	North America	1st Lien	9.90%	100.0%
CA-4727	Consumer	0.1	0.1	0.3	North America	1st Lien	29.00%	66.0%
CI-4967	Other Assets	0.2	0.2	0.3	North America	Hard Asset	n/a [14]	n/a [14]
CI-2064	Other Assets	0.0	0.0	0.2	North America	2nd Lien	15.00%	67.0%
SF-5396	Other Assets	0.2	0.2	0.2	North America	1st Lien	15.00%	100%+
CI-7985	Other Assets	0.2	0.2	0.2	North America	1st Lien	15.00%	86.0%
CA-8621	Consumer	0.2	0.2	0.2	North America	Asset Pool	n/a [10]	n/a [10]
CA-1052F	Consumer	2.6	2.6	0.1	North America	1st Lien	15.66%	100.0%
CA-2729	Consumer	0.0	0.0	0.0	North America	1st Lien	n/a [10]	100.0%
CI-8048	Other Assets	0.0	0.0	0.0	North America	Hard Asset	n/a [14]	n/a [14]
CI-2686	Other Assets	0.2	0.2	0.0	North America	Equity	n/a [14]	n/a [14]
CA-7573	Consumer	0.0	0.0	0.0	Asia Pacific	Asset Pool	n/a [10]	n/a [10]
CA-6328	Other Assets	0.0	0.0	0.0	North America	1st Lien	12.00%	99.0%
CI-7721	Other Assets	0.0	0.0	0.0	North America	1st Lien	10.88%	44.0%
CA-1052S	Consumer	1.5	1.5	0.0	North America	1st Lien	15.66%	100.0%
CI-7140	Other Assets	1.0	0.6	0.0	North America	1st Lien	n/a [14]	n/a [14]
CI-1018	Other Assets	0.2	0.2	0.0	North America	1st Lien	9.26%	100.0%
CI-1999	Other Assets	0.0	0.0	0.0	North America	1st Lien	n/a [16]	n/a [16]
Subtotal / Weighted average %		58.3	59.1	55.2			15.16%	57.5%
Total / Weighted average %		$ 152.4	$ 156.2	$ 161.2			13.70%	66.0%

(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 are as follows:

Details of Loan and Private Asset Positions (continued)	**December 31, 2022**

[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 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, 2022. 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, 2022.
[4] Investment is not a loan. Metric is not applicable.
[5] Denotes subordinate position within the structure.
[6] Interest not accrued on loans purchased as non-performing.
[7] Investment represents a credit pool purchase with no stated interest rate.
[8] Investment is a maturity default past its maturity date and has an uncertain holding period as of December 31, 2022.
[9] Investment represents owned real estate. Metric is not available.
[10] Investment represents an unsecured credit pool purchase with no stated interest rate.
[11] This investment represents a claim against proceeds subject to a litigation result whereby the FINCOs are not accruing interest.
[12] Investment with no stated coupon rate.
[13] Investment is a preferred equity investment.
[14] Investment is an equity interest in an operating company. Stated coupon and LTV are not applicable.
[15] Investment is a warrant to purchase an equity interest in an operating company. Stated coupon and LTV are not applicable.
[16] Investment is in maturity default where the Company and its partners acquired the borrower in bankruptcy. LTV is not applicable.

(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 are as follows:

Details of Loan and Private Asset Positions								**December 31, 2021**
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 Investments								
CPC-2209	Other Assets	$ 12.0	$ 13.6	$ 12.2	Europe	Equity	n/a [14]	n/a [14]
CPC-3222	Oil & Gas	6.7	5.6	6.7	North America	Hard Asset	n/a [14]	n/a [14]
CPC-3198	Oil & Gas	4.5	4.5	6.6	North America	Hard Asset	n/a [14]	n/a [14]
CPC-3349	Business Services	7.2	5.0	4.9	Asia Pacific	2nd Lien	12.00%	100%+
CPC-5325	Oil & Gas	3.4	3.6	4.1	North America	1st Lien	12.00%	31.0%
CPC-3199EQ	Oil & Gas	2.6	2.6	2.7	North America	Hard Asset	n/a [14]	n/a [14]
CPC-3677	Business Services	1.1	1.1	2.1	North America	Equity	n/a [14]	n/a [14]
CPC-4108	Oil & Gas	1.6	1.6	2.0	North America	Hard Asset	n/a [14]	n/a [14]
CPC-6678	Retail	1.7	1.7	1.7	North America	1st Lien	12.00%	85.0%
CPC-4985	Oil & Gas	1.3	1.3	1.5	North America	1st Lien	10.00%	17.0%
CPC-7227	Other Assets	1.3	1.2	1.2	North America	Asset Pool	n/a [7]	9.0%
CPC-6374	Business Services	0.5	0.6	1.0	Europe	Equity	n/a [15]	n/a [15]
CPC-5974	Other Assets	2.0	0.9	0.8	Asia Pacific	1st Lien	8.00%	67.0%
CPC-5143	Oil & Gas	0.8	0.8	0.8	North America	1st Lien	12.00%	21.0%
CPC-2397	Financial Services	0.9	0.9	0.8	North America	Equity	n/a [14]	n/a [14]
CPC-5830	Business Services	0.5	0.6	0.7	Europe	1st Lien	10.00%	5.0%
CPC-6859	Business Services	0.5	0.6	0.7	Asia Pacific	1st Lien	11.00%	26.0%
CPC-5027	Retail	0.6	0.6	0.7	North America	1st Lien	9.13%	83.0%
CPC-5913	Business Services	0.4	0.5	0.6	Europe	1st Lien	10.00%	5.0%
CPC-7044	Consumer Products	0.5	0.5	0.6	North America	1st Lien	n/a [8]	n/a [8]
CPC-2170	Oil & Gas	1.7	1.1	0.5	North America	1st Lien	3.50%	100%+
CPC-5914	Business Services	0.3	0.3	0.5	Europe	1st Lien	10.00%	5.0%
CPC-6510	Financial Services	0.2	0.2	0.3	Asia Pacific	1st Lien	8.00%	14.0%
CPC-6373	Business Services	0.2	0.2	0.2	Europe	1st Lien	10.00%	8.0%
CPC-1010	Oil & Gas	0.2	0.2	0.2	North America	1st Lien	14.00%	43.0%
CPC-5856	Business Services	0.1	0.1	0.2	Europe	1st Lien	11.00%	5.0%
CPC-7018	Business Services	0.2	0.2	0.2	Europe	1st Lien	9.50%	6.3%
CPC-7199	Retail	0.1	0.1	0.1	North America	1st Lien	14.00%	67.0%
CPC-7167	Business Services	0.6	0.6	0.1	North America	2nd Lien	1.00%	64.0%
CPC-6678EQ	Retail	0.1	0.1	0.1	North America	Equity	n/a [14]	n/a [14]
CPC-6532	Business Services	0.9	0.9	0.1	North America	2nd Lien	n/a [16]	n/a [16]
CPC-3349EQY	Business Services	0.8	0.8	0.0	Asia Pacific	Equity	n/a [14]	n/a [14]
CPC-3083	Business Services	4.6	4.6	0.0	North America	Equity	n/a [14]	n/a [14]
CPC-5889	Consumer Products	0.0	0.0	0.0	North America	1st Lien	22.00%	27.0%
Subtotal / Weighted average %		60.1	57.2	54.9			10.98%	38.8%

(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 are as follows:

Details of Loan and Private Asset Positions (continued)								**December 31, 2021**
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 Investments								
REPC-1068S4	Residential	3.8	3.8	4.3	North America	1st Mortgage [5]	11.00%	72.0%
REPC-2277	Land - Commercial Development	3.1	3.1	3.5	North America	1st Mortgage	15.00%	65.0%
REPC-2683	Land - Multi-Family Development	4.0	4.0	3.3	North America	Real Property	n/a [9]	n/a [9]
REPC-4220	Residential	2.5	2.5	2.3	North America	1st Mortgage	12.00%	83.0%
REPC-7488	Residential	0.1	1.7	1.7	Asia Pacific	1st Mortgage	13.00%	66.0%
REPC-5591	Land - Commercial Development	1.6	1.6	1.6	North America	1st Mortgage	13.50%	59.0%
REPC-6162	Land - Multi-Family Development	1.5	1.5	1.5	North America	1st Mortgage	12.00%	46.0%
REPC-5905	Land - Commercial Development	1.2	1.2	1.2	North America	1st Mortgage	15.13%	60.0%
REPC-2592	Land - Commercial Development	2.0	2.0	1.1	North America	1st Mortgage	10.50%	100%+
REPC-2497	Hospitality	1.0	1.0	1.0	North America	Real Property	n/a [9]	n/a [9]
REPC-2560	Hospitality	0.9	0.9	0.9	North America	Real Property	n/a [9]	n/a [9]
REPC-7319	Residential	0.7	0.8	0.9	Europe	1st Mortgage	13.00%	42.7%
REPC-6592	Hospitality	0.7	0.7	0.7	North America	1st Mortgage	8.00%	80.0%
REPC-7027	Hospitality	0.6	0.7	0.7	Europe	Real Property	n/a [9]	n/a [9]
REPC-6384EQ	Commercial	0.5	0.5	0.5	North America	1st Mortgage	n/a [9]	n/a [9]
REPC-5476	Land - Single-Family Development	0.5	0.5	0.5	Asia Pacific	1st Mortgage	11.50%	78.0%
REPC-4698	Land - Multi-Family Development	0.4	0.3	0.4	North America	1st Mortgage	11.50%	54.0%
REPC-6854	Residential	0.3	0.4	0.4	Europe	1st Mortgage	14.00%	47.7%
REPC-6129TL	Hospitality	0.4	0.4	0.4	North America	1st Mortgage	10.50%	61.0%
REPC-6506TL1	Land - Single-Family Development	0.5	0.5	0.4	Asia Pacific	1st Mortgage	8.00%	79.0%
REPC-6505	Land - Single-Family Development	0.4	0.3	0.3	Asia Pacific	1st Mortgage	11.50%	69.0%
REPC-6242	Land - Single-Family Development	0.3	0.3	0.3	Asia Pacific	1st Mortgage	11.00%	80.0%
REPC-6194	Land - Single-Family Development	0.2	0.2	0.2	Asia Pacific	1st Mortgage	9.00%	69.0%
REPC-6048	Commercial	0.2	0.2	0.2	Europe	Real Property	n/a [9]	n/a [9]
REPC-6334	Commercial	0.2	0.2	0.2	Europe	Real Property	n/a [9]	n/a [9]
REPC-7193	Residential	0.1	0.1	0.1	North America	1st Mortgage	13.75%	50.0%
REPC-6996	Land - Single-Family Development	0.8	0.1	0.1	Asia Pacific	1st Mortgage	5.40%	70.0%
REPC-6995	Land - Single-Family Development	0.1	0.1	0.1	Asia Pacific	1st Mortgage	12.00%	69.0%
REPC-6054	Land - Single-Family Development	0.1	0.1	0.1	Asia Pacific	1st Mortgage	10.00%	74.0%
REPC-6276	Land - Single-Family Development	0.1	0.1	0.1	Asia Pacific	1st Mortgage	8.00%	74.0%
REPC-1047	Land - Commercial Development	0.1	0.1	0.1	North America	1st Mortgage	15.00%	53.0%
REPC-5348	Commercial	1.3	0.0	0.0	Europe	1st Mortgage	15.00%	54.0%
REPC-1015	Land - Commercial Development	0.2	0.1	0.0	North America	Real Property	n/a [9]	n/a [9]
Subtotal / Weighted average %		30.4	30.0	29.1			12.28%	70.0%

(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 are as follows:

Details of Loan and Private Asset Positions (continued)								**December 31, 2021**
Ref. no.	Investments by industry	Principal (1)	Investments at cost	Investments at fair value	Geographic location	Collateral	Total coupon (including PIK) (2)	LTV (3)
Structured Finance and Assets								
CI-3045	Other Assets	2.1	2.1	4.2	North America	Asset Pool	n/a (7)	49.0%
CI-4898	Other Assets	4.0	4.0	4.1	North America	1st Lien	14.00%	43.0%
CI-2651	Other Assets	4.0	4.3	3.3	North America	Hard Asset	n/a (4)	n/a (4)
CI-1800	Other Assets	2.7	2.7	2.7	North America	1st Lien	13.50%	0.0%
CI-3978	Other Assets	1.8	1.8	2.2	North America	Hard Asset	n/a (4)	n/a (4)
CI-1999EQY	Other Assets	3.1	3.1	2.0	North America	Equity	n/a (14)	n/a (14)
CI-2201	Lease/Equipment	0.9	0.9	2.0	North America	Hard Asset	n/a (4)	n/a (4)
CI-6253	Other Assets	2.1	1.9	1.9	North America	1st Lien	7.88%	n/a (4)
CI-2000	Other Assets	0.6	0.6	1.5	North America	Equity	n/a (13)	n/a (13)
CI-6752	Other Assets	1.4	1.4	1.4	North America	1st Lien	15.00%	61.0%
CI-7004	Other Assets	1.3	1.3	1.3	North America	1st Lien	15.00%	61.0%
CI-6750	Other Assets	1.1	1.2	1.2	North America	1st Lien	24.00%	61.0%
CI-6016	Other Assets	1.1	1.1	1.1	North America	1st Lien	15.00%	85.0%
CI-4282	Lease/Equipment	1.1	1.1	1.1	North America	1st Lien	12.00%	79.0%
CI-6006	Lease/Equipment	1.0	1.0	1.0	North America	1st Lien	14.30%	85.0%
CI-7164	Other Assets	0.8	0.8	0.8	North America	1st Lien	30.00%	61.0%
CI-6648TL	Other Assets	0.7	0.7	0.7	North America	1st Lien	16.20%	61.0%
CI-2064	Other Assets	0.3	0.3	0.6	North America	2nd Lien	15.00%	80.0%
CI-6565	Other Assets	0.6	0.6	0.6	North America	1st Lien	18.00%	61.0%
CI-5777	Lease/Equipment	0.6	0.6	0.6	North America	1st Lien	12.00%	90.0%
CI-2686	Other Assets	1.0	1.0	0.5	North America	Equity	n/a (14)	n/a (14)
CI-5177	Other Assets	0.5	0.5	0.5	North America	Hard Asset	n/a (4)	n/a (4)
CI-7166	Other Assets	0.5	0.5	0.5	North America	Hard Asset	n/a (4)	n/a (4)
CI-6785	Other Assets	0.4	0.4	0.4	North America	1st Lien	13.50%	85.0%
CI-1520	Other Assets	0.2	0.2	0.4	North America	1st Lien	n/a (11)	48.0%
CI-4967	Other Assets	0.4	0.4	0.4	North America	Hard Asset	n/a (4)	n/a (4)
CI-7140	Other Assets	0.9	0.4	0.4	North America	1st Lien	n/a (4)	n/a (4)
CI-5554A	Other Assets	0.4	0.4	0.4	North America	1st Lien	10.00%	80.0%
CI-1035	Other Assets	0.4	0.4	0.3	North America	1st Lien	9.90%	100.0%
CI-5554B	Other Assets	0.3	0.3	0.3	North America	1st Lien	10.00%	80.0%
CI-5554	Other Assets	0.2	0.2	0.2	North America	1st Lien	10.00%	80.0%
CI-7406EQY	Other Assets	0.1	0.1	0.1	North America	1st Lien	18.00%	77.0%
CI-1999	Other Assets	0.0	0.0	0.0	North America	1st Lien	n/a (16)	n/a (16)
CI-5372	Other Assets	0.0	0.0	0.0	Latin America	1st Lien	18.00%	77.0%
CI-5113	Other Assets	0.0	0.0	0.0	North America	1st Lien	13.20%	68.0%
CI-1018	Other Assets	0.2	0.2	0.0	North America	1st Lien	9.26%	100%+
CI-2808	Other Assets	0.1	0.1	0.0	North America	Equity	n/a (13)	n/a (13)
SF-2239	Other Assets	3.1	3.3	3.5	North America	First Lien	n/a (12)	8.0%
SF-5396	Other Assets	0.2	0.2	0.2	North America	First Lien	15.00%	85.0%

(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 are as follows:

Details of Loan and Private Asset Positions (continued)								**December 31, 2021**
Ref. no.	Investments by industry	Principal (1)	Investments at cost	Investments at fair value	Geographic location	Collateral	Total coupon (including PIK) (2)	LTV (3)
Structure Finance and Assets (continued)								
CA-4946	Consumer	3.7	3.6	3.6	North America	1st Lien	15.00%	89.0%
CA-5898	Consumer	1.8	1.8	1.8	North America	Asset Pool	n/a	60.0%
CA-1788/1933/1934	Consumer	4.0	4.0	1.8	North America	1st Lien	n/a (6)	n/a (4)
CA-5596	Consumer	0.7	0.7	0.8	North America	Asset Pool	n/a (6)	n/a (10)
CA-4718	Consumer	0.4	0.4	0.7	North America	Asset Pool	n/a (12)	n/a (10)
CA-1052F	Consumer	2.6	2.6	0.7	North America	1st Lien	15.66%	100.0%
CA-6288	Consumer	0.2	0.2	0.2	North America	1st Lien	10.00%	0.0%
CA-7092	Consumer	0.2	0.2	0.2	North America	1st Lien	9.00%	75.0%
CA-6154	Consumer	0.1	0.2	0.2	Europe	1st Lien	15.00%	50.0%
CA-4727	Consumer	0.2	0.2	0.2	North America	1st Lien	29.00%	66.0%
CA-6834	Consumer	0.1	0.1	0.1	North America	Asset Pool	n/a (6)	n/a (10)
CA-2729	Consumer	0.4	0.4	0.1	North America	1st Lien	n/a (12)	100.0%
CA-5060	Consumer	0.0	0.0	0.0	North America	Asset Pool	25.00%	64.0%
CA-2373	Consumer	0.3	0.3	0.0	North America	Asset Pool	n/a (12)	n/a (10)
CA-1052S	Consumer	1.4	1.4	0.0	North America	1st Lien	15.66%	100.0%
Subtotal / Weighted average %		56.3	56.2	52.8			14.67%	56.1%
Total / Weighted average %		$ 146.8	$ 143.4	$ 136.8			13.14%	56.9%

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 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, 2021. 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 LTV represents the value of the outstanding loan as a percentage of the estimated fair value of the underlying collateral as of December 31, 2021.
4 Investment is not a loan. Metric is not applicable.
5 Denotes subordinate position within the structure.
6 Interest not accrued on loans purchased as non-performing.
7 Investment represents a credit pool purchase with no stated interest rate.
8 Investment is a maturity default past its maturity date and has an uncertain holding period as of December 31, 2021.
9 Investment represents owned real estate. Metric is not available.
10 Investment represents an unsecured credit pool purchase with no stated interest rate.
11 This investment represents a claim against proceeds subject to a litigation result whereby the FINCOs are not accruing interest.
12 Investment with no stated coupon rate.
13 Investment is a preferred equity investment.
14 Investment is an equity interest in an operating company. Stated coupon and LTV are not applicable.
15 Investment is a warrant to purchase an equity interest in an operating company. Stated coupon and LTV are not applicable.
16 Investment is in maturity default where the Company and its partners acquired the borrower in bankruptcy. LTV is not applicable.

(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. 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, 2022	December 31, 2021
Book value:		
Shareholders' equity per IFRS	$ 363.2	$ 347.7
Adjustments:		
RSU liability [1]	5.8	5.9
Derivative warrant liability [2]	0.1	0.2
	$ 369.1	$ 353.8
Number of Common Shares:		
Number of Common Shares outstanding	141,386,718	142,686,718
Adjustments for assumed exercise of:		
Outstanding RSUs [1]	2,975,198	2,975,198
Adjusted number of Common Shares [3]	144,361,916	145,661,916
Book value per share - in US$	$ 2.56	$ 2.43
Book value per share - in C$ [4]	$ 3.46	$ 3.07
Westaim TSXV closing share price - in C$	$ 2.63	$ 2.50

[1] See Note 11, *Share-based Compensation* in the Notes to the Financial Statements. 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 8, *Derivative Warrant Liability* in the Notes to the Financial Statements. 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, 2022 and 2021.

[3] See Note 11, *Share-based Compensation* in the Notes to the Financial Statements. No adjustments were made for options at December 31, 2022 and 2021 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: 1.35360 at December 31, 2022 and 1.26410 at December 31, 2021.

(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.

16. CAUTIONARY NOTE REGARDING FORWARD-LOOKING INFORMATION

Certain portions of this MD&A, as well as other public statements by the Company, contain forward-looking statements information which reflect the current expectations of management regarding the Company's future growth, results of operations, performance and business prospects and opportunities. 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.

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; fluctuations in the United States dollar to Canadian dollar exchange rate; the Company's cash flow; future sales of a substantial number of the Common Shares; the Company's ability to raise additional capital; regulatory requirements may delay or deter a change in control of the Company; the potential treatment of the Company as a passive foreign investment company for U.S. federal income tax purposes; market turmoil, risk of volatile markets and market disruption risk; exposure to epidemics; Company employee error or misconduct; the Company's cybersecurity; Skyward Specialty's ability to accurately assess underwriting risk; the effect of intense competition and/or industry consolidation on Skyward Specialty's business; Skyward Specialty's reliance on brokers and third parties to sell its products to clients; Skyward Specialty's ability to alleviate risk through reinsurance; Skyward Specialty's reserves may prove to be inadequate; Skyward Specialty's ability to maintain its financial strength and issuer credit ratings; the occurrence of catastrophic events including terrorist attacks and weather related natural disasters on Skyward Specialty's business; the cyclical nature of the property and casualty insurance industry on Skyward Specialty's business; 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; the effect of retentions in various lines of business; 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); unfavourable capital market developments or other factors which may affect the investments of Skyward Specialty (including meeting liquidity requirements); Skyward Specialty's ability to manage growth effectively; Skyward Specialty's ability to obtain additional capital; Skyward Specialty's ability to receive dividends from its subsidiaries; Skyward Specialty employee error or misconduct; Skyward Specialty's reliance on information technology and telecommunications systems; dependence by Skyward Specialty on certain third party service providers and program administrators; Skyward Specialty's policies will be enforceable in the manner it intends; Skyward Specialty receiving reimbursement for claims by reinsurers on a timely basis; Skyward Specialty's ability to pay claims accurately and timely; Skyward Specialty's reliance on renewal of existing insurance contracts; the effect of environmental, social and governance matters on Skyward Specialty's business; the effect of any changes in accounting practices and future pronouncements on Skyward Specialty's business; the effect of additional legislation or market regulation enacted by the U.S. federal government on Skyward Specialty's business; Skyward Specialty's ability to utilize net operating loss carryforwards and certain other tax attributes; the effect of change of control requirements under Texas insurance laws and regulations on Skyward Specialty's ability to successfully pursue its acquisition strategy; the effect of Skyward Specialty's debt obligations and other financial obligations on its business; Skyward Specialty's reliance on its intellectual property rights; Skyward Specialty not infringing the intellectual property rights of others; increased costs of Skyward Specialty being a public company; material weaknesses identified in Skyward Specialty's internal control over financial reporting; Skyward Specialty's reduced reporting and disclosure obligations as an emerging growth company; the volatility or decline in Skyward Specialty's stock price and operating results; substantial future sales of shares of Skyward Specialty's common stock or the perception thereof; changes in Skyward Specialty's underwriting guidelines or strategy without stockholder approval; anti-takeover provisions in Skyward Specialty's organizational documents; the Court of Chancery of the State of Delaware has the exclusive forum for substantially all Skyward Specialty disputes; the condition of the global financial markets and economic and geopolitical conditions affecting Arena's business; the variable nature of Arena Investors' revenues, results of operations and cash flows; the effect of rapid changes and growth in AUM on Arena Investors; Arena Investors' ability to mitigate operational and due diligence risks; the subjective nature of the valuation of the Arena FINCOs' investments; Arena Investors' ability to mitigate regulatory and other legal risks; Arena Investors' ability to find appropriate investment opportunities; Arena Investors' ability to successfully navigate and secure compliance with regulations applicable to it and its business; Arena Investors' ability to mitigate private litigation risks; Arena Investors' ability to manage conflicts of interest; the effects of a decrease in revenues as a result of significant redemptions in AUM on Arena Investors' business; the investment performance of Arena Investors'; Arena Investors investment in illiquid investments; Arena Investors' ability to retain qualified management staff; Arena Investors' ability to mitigate the risk of employee misconduct and employee error; the effect of the COVID-19 pandemic on Arena's business; effect of market conditions on the Arena FINCOs; Arena Investors' ability to implement effective risk management systems; the performance of the investments of the Arena FINCOs; the Arena FINCOs' investment in illiquid investments; Arena Investors' ability to manage risks related to its risk management procedures; Arena Investors' ability to compete against current and potential future competitors; 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

16. CAUTIONARY NOTE REGARDING FORWARD-LOOKING INFORMATION (continued)

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; the Arena FINCOs' ability to realize profits; 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; Arena Investors' cybersecurity 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 30, 2023

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL INFORMATION

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

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

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

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, 2022 and 2021, and the consolidated statements of profit (loss) and comprehensive income (loss), 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, 2022 and 2021, 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.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the year ended December 31, 2022. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Investments— Refer to Notes 2 and 4 to the financial statements

Key Audit Matter Description

The Company's investment portfolio includes private investments for which reliable quotations are not readily available, or for which there is no closing bid price. Management uses various valuation methodologies with unobservable market inputs in its determination of the fair value of private investments. The valuation methodologies used in estimating the fair value of these private investments vary based on the specific characteristics of the private investments.

The valuation of the private investments is inherently subjective and involves the use of significant management judgment and unobservable market inputs. As a result, the procedures related to the valuation methodologies and unobservable market inputs required a high degree of auditor judgment and increased audit effort, including the use of fair value specialists.

How the Key Audit Matter Was Addressed in the Audit

With the assistance of fair value specialists, our audit procedures related to the valuation methodologies and unobservable market inputs used by management to estimate the fair value of the private investments included the following, among others:

- Evaluated the appropriateness of the methodologies used in the valuation of private investments and the reasonableness of any significant changes in valuation methodologies or significant unobservable market inputs;
- Reviewed relevant internal and external information, including industry information, to assess the reasonability of unobservable market inputs in instances where these inputs were more subjective;
- Evaluated significant judgments and estimates at the underlying private investments through oversight of the auditors of the private investments and assessing financial information from the auditors to understand significant judgments and estimates, significant findings or issues identified, actions taken to address them, and conclusions reached;
- For certain investments, developed independent fair value estimates by using private investments financial information, which was compared to agreements or underlying source documents provided to the Company by the private investments, and available market information from third party sources such as market spreads, market multiples, and leverages; and
- For certain investments, evaluated management’s fair value estimates by comparing to subsequent transactions, taking into account changes in market or investment specific conditions.

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 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 the 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.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor’s report is Eric Leopold.

Deloitte LLP

Chartered Professional Accountants
Licensed Public Accountants
March 30, 2023

The Westaim Corporation
Consolidated Statements of Financial Position

(thousands of United States dollars)		December 31 2022		December 31 2021
ASSETS				
Cash	$	3,434	$	6,558
Income tax receivable (note 13)		-		64
Other assets (note 3)		552		766
Investments				
Investment in Skyward Specialty (note 4)		218,879		192,011
Investment in Arena FINCOs (note 4)		160,113		172,866
Investment in Arena Investors (note 4)		26,957		26,174
Investment in ASOF LP (note 4)		3,179		3,222
		409,128		394,273
Deferred tax asset (note 13)		178		-
	$	413,292	$	401,661
LIABILITIES				
Accounts payable and accrued liabilities (note 5)	$	12,940	$	13,706
Income tax payable (note 13)		245		153
Preferred securities (note 6)		36,939		39,554
Derivative warrant liability (note 8)		94		156
Deferred tax liability (note 13)		-		415
		50,218		53,984
Commitments and contingent liabilities (note 9)				
SHAREHOLDERS' EQUITY				
Share capital (note 10)		378,563		381,127
Contributed surplus (note 2m)		17,735		17,735
Accumulated other comprehensive loss (note 2n)		(2,227)		(2,227)
Deficit		(30,997)		(48,958)
		363,074		347,677
	$	413,292	$	401,661

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

Approved on behalf of the Board

Ian W. Delaney
Director

John W. Gildner
Director

The Westaim Corporation

Consolidated Statements of Profit and Comprehensive Income

(thousands of United States dollars except share and per share data)	Year Ended December 31 2022	2021
Revenue		
Interest income (note 12)	$ 1,382	$ 1,405
Dividend income from investment in Arena FINCOs (note 4 and 12)	8,350	-
Fee income (note 12)	950	950
	10,682	2,355
Net results of investments		
Increase in unrealized value of investment in Skyward Specialty (note 4)	26,868	11,235
(Decrease) increase in unrealized value of investment in Arena FINCOs, less dividends (note 4)	(10,853)	9,797
Share of income from investment in Arena Investors (note 4)	783	10,004
(Decrease) increase in unrealized value of investment in ASOF LP (note 4)	(43)	326
	16,755	31,362
Net expenses		
Salaries and benefits	4,811	4,984
General, administrative and other	860	849
Professional fees	1,525	1,038
Site restoration (recovery)	-	(4,112)
Share-based compensation expense (note 11)	874	510
Foreign exchange (gain) loss	(80)	912
Interest on preferred securities (note 6)	1,900	1,989
Derivative warrant (gain) (note 8)	(57)	(884)
	9,833	5,286
Profit before income tax	17,604	28,431
Income tax recovery (expense) (note 13)	357	(221)
Profit and comprehensive income	$ 17,961	$ 28,210
Earnings per share (note 14)		
Basic	$ 0.13	$ 0.20
Diluted	$ 0.12	$ 0.19
Weighted average common shares outstanding - basic	141,901,513	143,079,869
Weighted average common shares outstanding - diluted	144,876,711	146,109,113

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, 2022 (thousands of United States dollars)		Share Capital		Contributed Surplus		Accumulated Other Comprehensive Loss		Deficit		Total Equity
Balance at January 1, 2022	$	381,127	$	17,735	$	(2,227)	$	(48,958)	$	347,677
Cancellation of common shares (note 10)		(2,564)		-		-		-		(2,564)
Profit and comprehensive income		-		-		-		17,961		17,961
Balance at December 31, 2022	$	378,563	$	17,735	$	(2,227)	$	(30,997)	$	363,074

Year ended December 31, 2021 (thousands of United States dollars)		Share Capital		Contributed Surplus		Accumulated Other Comprehensive Loss		Deficit		Total Equity
Balance at January 1, 2021	$	382,182	$	17,735	$	(2,227)	$	(77,168)	$	320,522
Cancellation of common shares (note 10)		(1,055)		-		-		-		(1,055)
Profit and comprehensive income		-		-		-		28,210		28,210
Balance at December 31, 2021	$	381,127	$	17,735	$	(2,227)	$	(48,958)	$	347,677

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

The Westaim Corporation

Consolidated Cash Flow Statements

		Year Ended December 31		
(thousands of United States dollars)		2022		2021
Operating activities				
Profit	$	17,961	$	28,210
Increase in unrealized value of investment in Skyward Specialty (note 4)		(26,868)		(11,235)
Decrease (increase) in unrealized value of investment in Arena FINCOs, less dividends (note 4)		10,853		(9,797)
Share of income from investment in Arena Investors (note 4)		(783)		(10,004)
Decrease (increase) in unrealized value of investment in ASOF LP (note 4)		43		(326)
Share-based compensation expense (note 11)		874		510
Share-based compensation payments (note 11)		-		(119)
Site restoration (recovery)		-		(4,191)
Depreciation and amortization		141		145
Unrealized foreign exchange (gain) loss		(3,105)		856
Derivative warrant gain (note 8)		(57)		(884)
Change in income tax receivable, payable and deferred (note 13)		(437)		(131)
Net changes in other non-cash balances				
Change in other assets		64		737
Change in other accounts payable and accrued liabilities		(1,146)		1,111
Cash used in operating activities		(2,460)		(5,118)
Investing activities				
Purchase of capital assets		-		(10)
Repayment of loan made to Arena Investors (note 4)		-		4,000
Return of capital from investments in Arena FINCOs (note 4)		1,900		-
Cash provided from investing activities		1,900		3,990
Financing activities				
Purchase and cancellation of Common Shares (note 10)		(2,564)		(1,055)
Cash used in financing activities		(2,564)		(1,055)
Net decrease in cash		(3,124)		(2,183)
Cash, beginning of year		6,558		8,741
Cash, end of year	$	3,434	$	6,558
Supplemental disclosure of cash flow information:				
Interest paid	$	1,932	$	1,984

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 30, 2023.

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. ("Skyward Specialty") (as defined in note 4), Arena FINCOs (as defined in note 4) and Arena Investors (as defined in note 4). Westaim's common shares ("Common Shares") are listed and posted for trading 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 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.

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. Investments accounted for at FVTPL consist of Skyward Specialty (including Westaim HIIG Limited Partnership (the "HIIG Partnership")), the Arena FINCOs and Arena Special Opportunities Fund, LP ("ASOF LP"). See note 4 for investments' definitions.

Investment in associates are 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 and is reported under "Investment in Arena Investors" in the consolidated statements of financial position, with the Company's share of profit and comprehensive income of Arena Investors reported under "Net results of investments" in the consolidated statements of profit and comprehensive income.

(b) Functional and presentation currency

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

(c) Use of estimates

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

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 classified as FVTPL, 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 4 for investments and note 2(b) for functional currency.

(e) Foreign currency translation

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

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

(f) Revenue recognition

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, 2022, the Company's cash consisted of cash on deposit in both C$ and US$.

(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 Skyward Specialty, Arena FINCOs and ASOF LP are classified as FVTPL and are carried at fair value. At initial recognition, these investments were measured at cost, which was 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 profit and comprehensive income for the period in which they arise. Transaction costs on the investments are expensed as incurred.

Investment in Arena Investors was initially recorded at cost and subsequently adjusted to recognize the Company's share of profit and other comprehensive income of Arena Investors and any dividends and/or distributions received from Arena Investors.

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

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

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

(k) Income taxes

Income tax expense is recognized in the consolidated statements of profit and comprehensive income. Current tax, based on taxable income in countries where the Company operates, may differ from profit and comprehensive income because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible.

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

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

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

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 profit and comprehensive income for the period in which they arise.

(m) Contributed surplus

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

(n) Accumulated other comprehensive loss

Accumulated other comprehensive loss consists of cumulative exchange differences from currency translation as a result of a change in presentation currency from C$ to US$ on August 31, 2015.

(o) Share-based compensation

The Company maintains share-based compensation plans, which are described in note 11. 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. When a change in value occurs, it is recognized in share-based compensation expense (recovery) and foreign exchange (gain) loss in the applicable financial period.

(p) Earnings per share

Basic earnings per share is calculated by dividing profit by the weighted average number of Common Shares outstanding during the reporting period. See note 14 for the calculation of the weighted average number of Common Shares outstanding.

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

3 Other Assets

Other assets consist of the following:

	December 31, 2022	December 31, 2021
Capital assets	$ 19	$ 34
Right of use asset	242	368
Accounts receivable and other	291	364
	$ 552	$ 766

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

3 Other Assets (continued)

Effective, December 1, 2019, the Company entered into a new operating lease for its office premises in Toronto, Ontario, Canada 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 profit and comprehensive 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 profit and comprehensive income.

The right of use asset recorded for the Company's office premises was $242 and $368 at December 31, 2022 and December 31, 2021, respectively. The depreciation on the right of use asset was $126 in each of the years ended December 31, 2022 and 2021.

The lease liability recorded for the Company's office premises was $261 and $413 at December 31, 2022 and December 31, 2021, respectively. The lease payments were $132 in each of the years ended December 31, 2022 and 2021, and the interest expense on the lease liability was $5 and $6 in the years ended December 31, 2022 and 2021, respectively. The Company recorded an unrealized foreign exchange gain relating to the lease liability of $25 and $2 in the years ended December 31, 2022 and 2021, respectively.

4 Investments

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

	Place of establishment	Principal place of business	Ownership interest at December 31, 2022	Ownership interest at December 31, 2021
Skyward Specialty[1]	Delaware, U.S.	Texas, U.S.	43.8% owned by the Company[1]	44.0% owned by the Company[1]
Arena FINCOs	Delaware, U.S.	New York, U.S.	100% owned by the Company	100% owned by the Company
Arena Investors	Delaware, U.S.	New York, U.S.	51% owned by the Company[2]	51% beneficially owned by the Company[2]

[1] Skyward Specialty includes the Company's ownership in the HIIG Partnership which is established and operates in Ontario, Canada. See note 4 investment in Skyward Specialty for details of the Company's ownership in Skyward Specialty and note 17 subsequent events.

[2] Legal equity ownership is 51% (December 31, 2021 - 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". Effective April 1, 2022, BP LLC achieved the threshold to increase its equity ownership of Arena Investors from 0% to 49% and as a result, the Company's equity ownership decreased from 100% to 51%.

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

The table below summarizes the fair value hierarchy under which the Company's investments classified as FVTPL 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.

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

4 Investments (continued)

The Company's investments classified as FVTPL are as follows:

December 31, 2022	Fair value	Level 1	Level 2	Level 3
- Skyward Specialty	$ 218,879	-	-	$ 218,879
- Arena FINCOs	160,113	-	-	160,113
- ASOF LP	3,179	-	-	3,179
	$ 382,171	$ -	$ -	$ 382,171

December 31, 2021	Fair value	Level 1	Level 2	Level 3
- Skyward Specialty	$ 192,011	-	-	$ 192,011
- Arena FINCOs	172,866	-	-	172,866
- ASOF LP	3,222	-	-	3,222
	$ 368,099	$ -	$ -	$ 368,099

There were no transfers among Levels 1, 2 and 3 during the years ended December 31, 2022 and 2021.

Investment in Skyward Specialty

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

	Year ended December 31, 2022			Year ended December 31, 2021		
	Opening Balance	Increase (decrease) in unrealized value of investment	Ending Balance	Opening Balance	Increase (decrease) in unrealized value of investment	Ending Balance
Investment in Skyward Specialty:						
Company's share of Skyward Specialty common shares held by the HIIG Partnership	$ 95,785	$ 13,442	$ 109,227	$ 86,177	$ 9,608	$ 95,785
Company's share of other net assets of the HIIG Partnership	394	(22)	372	522	(128)	394
Skyward Specialty convertible preferred shares held by the Company	95,832	13,448	109,280	94,077	1,755	95,832
	$ 192,011	$ 26,868	$ 218,879	$ 180,776	$ 11,235	$ 192,011

At December 31, 2022, the Company's $218,879 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 $109,280, (ii) its share of the Skyward Specialty common shares held by the HIIG Partnership of $109,227, and (iii) its share of the other net assets of the HIIG Partnership of $372. At December 31, 2021, the Company's $192,011 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 $95,832, (ii) its share of the Skyward Specialty common shares held by the HIIG Partnership of $95,785, and (iii) its share of the other net assets of the HIIG Partnership of $394.

At December 31, 2022, the Company's direct ownership of the Skyward Specialty preferred shares, which are convertible into 7,285,359 Skyward Specialty common shares, represented 21.9% (December 31, 2021 – 22.0%) of the fully diluted Skyward Specialty common shares outstanding. On January 18, 2023 the Skyward Specialty preferred shares were converted to Skyward Specialty common shares. See note 17 for subsequent events.

At December 31, 2022, the Company owned approximately 98.5% (December 31, 2021 – 62.0%) of the HIIG Partnership and the HIIG Partnership held Skyward Specialty common shares representing approximately 22.2% (December 31, 2021 – 35.5%) of the total fully diluted Skyward Specialty common shares outstanding. As a result, at December 31, 2022, Westaim's look-through interest in Skyward Specialty common shares through the HIIG Partnership was 21.9% (December 31, 2021 – 22.0%).

The Company's direct ownership of the Skyward Specialty preferred shares, combined with its interest in the HIIG Partnership, resulted in a 43.8% look-through interest in Skyward Specialty at December 31, 2022 (December 31, 2021 – 44.0%).

4 Investments (continued)

The Company, through HIIG GP, has a management services agreement with Skyward Specialty (the "Skyward Specialty MSA"), whereby HIIG GP is entitled to receive from Skyward Specialty an advisory fee of $500 annually for the years ended December 31, 2022 and 2021. See note 17 for subsequent events.

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 $218,879 at December 31, 2022 and $192,011 at December 31, 2021.

At December 31, 2022, the Company's estimated fair value of Skyward Specialty common shares held (directly or indirectly) by the Company was supported by using multiple valuation techniques including a series of discussions with various market participants. The market participants' valuation was determined through the process Skyward Specialty initiated in 2022 with third party firms to establish a public market through an initial public offering of the Skyward Specialty common shares (the "IPO"). This fair value of Skyward Specialty common shares was used by the Company to fair value its investment in Skyward Specialty common shares held by the HIIG Partnership and the Skyward Specialty convertible preferred shares held directly by Westaim. On November 14, 2022, Skyward Specialty filed a registration statement on Form S-1 with the U.S. Securities and Exchange Commission ("SEC") relating to a proposed IPO of shares of its common stock. The process resulted with a recommendation in December 2022 from Skyward Specialty management and the external advisors to the Skyward Specialty board of directors, indicating that there were market participants who would participate in the IPO with Skyward Specialty common shares having a trading price in the range of $14 to $16 per share following a 4 for 1 reverse stock split (the "Reverse Stock Split") and the conversion of Skyward Specialty's preferred shares. Westaim's management selected $15 per Skyward Specialty share at December 31, 2022 as the best estimate of fair value for its valuation for Skyward Specialty's common shares. The Skyward Specialty convertible preferred shares were valued at their common share equivalent on an as converted basis. Unless otherwise indicated, all references herein to the number of or price per Skyward Specialty common share are after giving effect to the Reverse Stock Split.

At December 31, 2022, the Company's investment in Skyward Specialty was $218,879 consisting of the aggregate of: (i) Skyward Specialty convertible preferred shares held directly by the Company as converted to 7,285,359 Skyward Specialty common shares at $15 per share for $109,280, (ii) the Company's share of the Skyward Specialty common shares held by the HIIG Partnership of 7,281,780 Skyward Specialty common shares at $15 per share for $109,227, and (iii) the Company's share of the fair value of other net assets of the HIIG Partnership of $372. The carrying values of the HIIG Partnership's other net assets, consisting of monetary assets and liabilities including cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, which approximates their fair values due to the short maturity of these financial instruments. See note 17 for subsequent events.

At December 31, 2021, the Company used a multiple of net asset value as the primary valuation technique and arrived at the fair value of the Company's investment in Skyward Specialty fully diluted common shares held by the HIIG Partnership, other net assets held by the HIIG Partnership and the Skyward Specialty convertible preferred shares held directly by Westaim. Fair value was determined to be 1.0x the adjusted stockholders' equity of Skyward Specialty at December 31, 2021.

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 multiples of net asset value, 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 certainty, the 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 an increase in the unrealized value on its investment in Skyward Specialty of $26,868 and $11,235 in the years ended December 31, 2022 and 2021, respectively, in the consolidated statements of profit and comprehensive income.

For purposes of assessing the sensitivity of the Skyward Specialty per share value on the valuation of the Company's investment in Skyward Specialty, if the value of a Skyward Specialty common share was higher by $1.00 per share, the fair value of the Company's investment in Skyward Specialty at December 31, 2022 would have increased by approximately $14,567 (December 31, 2021 - $14,567) and the change in the unrealized value of investment in Skyward Specialty for the year ended December 31, 2022 would have increased by approximately $14,567 (for the year ended December 31, 2021 - $14,567). If the value of a Skyward Specialty common share at December 31, 2022 was lower by $1.00 per share, an opposite effect would have resulted.

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

4 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.

Arena FINCOs are private companies which include specialty finance companies that primarily purchase fundamentals-based, asset-oriented credit and other investments for their own account and a company that primarily 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 investment in the Arena FINCOs is accounted for at FVTPL in the Company's consolidated financial statements.

The Company's investment in the Arena FINCOs consists of the following:

	Year ended December 31 2022	2021
Opening balance	$ 172,866	$ 163,069
Return of capital from the Arena FINCOs to the Company	(1,900)	-
(Decrease) increase in unrealized value before dividends	(2,503)	9,797
Dividends paid by the Arena FINCOs to the Company	(8,350)	-
Ending balance	$ 160,113	$ 172,866

FVTPL

The Company's investment in the Arena FINCOs is accounted for at FVTPL and was determined to be $160,113 at December 31, 2022 and $172,866 at December 31, 2021.

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, 2022 in the amount of $160,113 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, 2022. This same valuation technique was used to determine the fair value of the Company's investment in the Arena FINCOs of $172,866 at December 31, 2021.

The significant unobservable inputs used in the valuation of the Arena FINCOs at December 31, 2022 were the aggregate equity of the Arena FINCOs at December 31, 2022 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, 2022, as described below (December 31, 2021 – 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, senior secured notes payable, revolving credit facility payable, 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.

4 Investments (continued)

- Private loans and other private investments are valued using valuation methodologies for Level 3 investments. When valuing private loans, factors evaluated include the impact of changes in market yields, credit quality of the borrowers and estimated collateral values. If there is sufficient credit coverage, a yield analysis is performed by projecting cash flows for the instrument and discounting the cash flows to present value using a market-based, risk adjusted rate. On each valuation date, an analysis of market yields is also performed to determine if any adjustments to the fair values are necessary. Techniques used to value collateral, real estate, and other hard assets include discounted cash flows, with the discount rate being the primary unobservable input, recent transaction pricing and third-party appraisals. Private investments held through joint ventures are valued net of each respective joint venture waterfall and other joint venture assets and liabilities.

- Warrants that are actively traded on a securities exchange are valued based on quoted prices. Warrants that are traded over the counter or are privately issued are valued based on observable market inputs, if available. If these inputs are not observable or timely, the values of warrants are determined using valuation methodologies for Level 3 investments described below.

- 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 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 $2,503 before dividends paid of $8,350 in the year ended December 31, 2022 in the consolidated statements of profit and comprehensive income. In addition, Arena FINCOs returned capital in the amount of $1,900 in the year ended December 31, 2022. The Company recorded an increase in the unrealized value of its investment in the Arena FINCOs of $9,797 in the year ended December 31, 2021. There were no dividends paid or capital returned in the year ended December 31, 2021.

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, 2022 was higher by $1,000, the fair value of the Company's investment in the Arena FINCOs at December 31, 2022 would have increased by $1,000 (December 31, 2021 - $1,000) and the change in the unrealized value of the investment in the Arena FINCOs for the year ended December 31, 2022 would have increased by $1,000 (for the year ended December 31, 2021 - $1,000). If the equity of the Arena FINCOs at December 31, 2022 was lower by $1,000, an opposite effect would have resulted.

Investment in Arena Investors

Arena Investors Group Holdings, LLC ("AIGH"), a private company, through its wholly-owned subsidiaries and subsidiaries which AIGH has a controlling interest, operates as a US based investment manager offering third-party clients access to primarily fundamentals-based, asset-oriented credit and other 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.

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 Arena Investors and share up to 75% of the profit of Arena Investors 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. At April 1, 2022, under the Associate Agreements, BP LLC achieved the threshold to increase its equity ownership of Arena Investors from 0% to 49%. At December 31, 2022, the Company's equity ownership of Arena Investors and its profit sharing percentage is 51%. At December 31, 2021, the thresholds in accordance with the Associate Agreements had not been met, therefore the Company's equity ownership of Arena Investors was 100% and its profit sharing percentage was 51%.

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

4 Investments (continued)

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 Arena Investors. The Company's investment in Arena Investors is therefore accounted for using the equity method in accordance with IAS 28.

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

	December 31, 2022	December 31, 2021
Financial information of Arena Investors:		
Assets	$ 86,525	$ 69,301
Liabilities	(80,798)	(65,290)
Net assets	5,727	4,011
Less: net assets attributable to non-controlling interests	178	-
Net assets attributable to Arena Investors	$ 5,549	$ 4,011
Company's share	$ 2,957	$ 2,174
Arena Investors' Revolving Loan with the Company	24,000	24,000
Carrying amount of the Company's investment in Arena Investors	$ 26,957	$ 26,174

	Year ended December 31 2022	2021
Financial information of Arena Investors:		
Revenue	$ 48,727	$ 65,723
Operating expenses [1]	(47,011)	(46,107)
Profit and comprehensive income	1,716	19,616
Profit and comprehensive income attributable to non-controlling interests	178	-
Profit and comprehensive income attributable to Arena Investors	$ 1,538	$ 19,616
Company's share of profit and comprehensive income of Arena Investors (51%)	$ 783	$ 10,004

[1] Includes interest expense on the Arena Investors' Revolving Loan granted by the Company of $1,344 and $1,397 in the years ended December 31, 2022 and 2021, respectively.

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

	Year ended December 31 2022	2021
Carrying amount of investment in Arena Investors:		
Opening balance	$ 26,174	$ 20,170
Company's share of profit and comprehensive income of Arena Investors (51%)	783	10,004
Decrease in Arena Investors' Revolving Loan with the Company	-	(4,000)
Ending balance	$ 26,957	$ 26,174

The Company has a revolving loan to Arena Investors (the "Arena Investors' Revolving Loan") with a limit of $35,000 at December 31, 2022 (December 31, 2021 - $35,000) in order to continue funding growth initiatives and working capital needs of Arena Investors. The loan facility matures on March 31, 2023 and bears an interest rate of 5.60% per annum. Arena Investors had drawn down the loan facility by $24,000 at December 31, 2022 (December 31, 2021 - $24,000). 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 $1,344 and $1,397 for the years ended December 31, 2022 and 2021, respectively, which was reported under "Interest income" in the consolidated statements of profit and comprehensive income. See note 17 for subsequent events.

The total of the Company's 51% share of profit and comprehensive income of Arena Investors was $783 and $10,004 in the years ended December 31, 2022 and 2021, respectively, which was reported under "Share of income from investment in Arena Investors" in the consolidated statements of profit and comprehensive income.

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

4 Investments (continued)

Investment in ASOF LP

The Company's investment in ASOF LP, a fund managed by Arena Investors, is classified at Level 3 of the fair value hierarchy and measured at FVTPL. At December 31, 2022 and December 31, 2021, the fair value of the Company's minority interest in ASOF LP was determined by Arena Investors to be $3,179 and $3,222, respectively. The Company reported a decrease in the unrealized value of its investment in ASOF LP of $43 and an increase of $326 in the years ended December 31, 2022 and 2021, respectively, which was reported under "(Decrease) increase in unrealized value of investment in ASOF LP" in the consolidated statements of profit and comprehensive income.

5 Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities consist of the following:

	December 31, 2022	December 31, 2021
RSUs (note 11)	$ 5,781	$ 5,884
DSUs (note 11)	2,633	2,163
Lease liability (note 3)	261	413
Interest on Preferred Securities (note 6)	466	498
C$ exchange forward contract payable (note 7)	478	443
Site restoration provision	-	726
Other accounts payable and accrued liabilities	3,321	3,579
Ending balance	$ 12,940	$ 13,706

At December 31, 2021, the Company reported a site restoration provision liability of $726 for the remaining indemnities that the Company had provided to certain third parties for environmental liabilities. In February 2022 and March 2022, the Company entered into release agreements with certain third parties, made net payments of $726 to settle the environmental liability provision balance at December 31, 2021 and, as a result, at December 31, 2022, the site restoration provision liability was $nil.

6 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 million in Westaim in exchange for the issuance by Westaim of 5% interest bearing notes (the "Preferred Securities") and Common Share purchase warrants (the "Warrants") (see note 8).

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 if the volume-weighted average trading price of the 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 million of Preferred Securities (the "Fairfax Financing"). There were 5,000,000 Preferred Securities outstanding at December 31, 2022 and December 31, 2021.

The Preferred Securities are repayable on demand upon a change of control of Westaim and the liability is recorded at the principal amount in the consolidated statements of financial position. The Preferred Securities liability is translated into US$ at rates of exchange at the end of each reporting period and any resulting foreign exchange gain or loss is included in the consolidated statements of profit and comprehensive income. The carrying amount of the Preferred Securities, which approximated fair value, was $36,939 and $39,554 at December 31, 2022 and 2021, respectively. The Company recorded an unrealized foreign exchange gain relating to the Preferred Securities of $2,615 in the year ended December 31, 2022, and an unrealized foreign exchange loss relating to the Preferred Securities of $306 in the year ended December 31, 2021.

Interest expense on the Preferred Securities amounted to $1,900 and $1,989 in the years ended December 31, 2022 and 2021, respectively. Accrued interest expense was $466 and $498 at December 31, 2022 and 2021, respectively, and was reported under accounts payable and accrued liabilities in the consolidated statements of financial position.

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

7 C$ Exchange Forward Contracts

At December 31, 2022, the Company had a 188 day C$ exchange forward contract to purchase C$50 million maturing on March 28, 2023. For the year ended December 31, 2022, the Company settled a C$ exchange forward contract to purchase C$50 million and incurred a realized foreign exchange loss of $2,973. For the year ended December 31, 2021, the Company settled three C$ exchange forward contracts each to purchase C$40 million and earned a net realized foreign exchange gain of $6. The realized foreign exchange loss from the forward contracts for the year ended December 31, 2022 was more than offset by other realized and unrealized C$ currency net gains on the Company's underlying C$ currency assets and liabilities, including the currency exposure arising from the Preferred Securities, which resulted in a net unrealized and realized foreign exchange gain of $80 in the year ended December 31, 2022 (for the year ended December 31, 2021: net loss of $912). See note 17 for subsequent events.

The Company has not designated these C$ exchange forward contracts as accounting hedges.

Changes to the C$ exchange forward contract payable was as follows:

	December 31, 2022	December 31, 2021
C$ exchange forward contract payable, opening balance	$ (443)	$ (11)
Change in value of C$ exchange forward contracts – (loss)	(3,008)	(426)
Net cash settlements paid (received) from C$ exchange forward contracts	2,973	(6)
C$ exchange forward contract payable, closing balance	$ (478)	$ (443)

A C$ exchange forward contract payable was accrued in the amount of $478 and $443 at December 31, 2022 and 2021, respectively, and was recorded under accounts payable and accrued liabilities in the consolidated statements of financial position. The change in value of C$ exchange forward contracts resulted in a net loss of $3,008 and $426 for the years ended December 31, 2022 and 2021, respectively, and was reported under foreign exchange (gain) loss in the consolidated statements of profit and comprehensive income.

8 Derivative Warrant Liability

In connection with the Preferred Securities (see note 6), Westaim issued to Fairfax 14,285,715 Warrants, each exercisable for one Common Share at an exercise price of C$3.50. Each vested Warrant was originally exercisable on or prior to June 2, 2022, and the expiry date automatically extended to June 2, 2024 since the volume-weighted average trading price of the Common Shares for the 10 day period ending on June 2, 2022 was less than C$5.60. The Company can elect to require early exercise of the Warrants if the volume-weighted average trading price of the Common Shares for any 10 day period prior to the election is at least C$5.60 up to June 2, 2024.

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

Changes to the derivative warrant liability are as follows:

	December 31, 2022	December 31, 2021
Opening balance	$ 156	$ 1,026
Change in fair value – (gain)	(57)	(884)
Unrealized foreign exchange – (gain) loss	(5)	14
Ending balance	$ 94	$ 156

The fair value liability of the vested Warrants at December 31, 2022 of $94 (December 31, 2021 - $156) was estimated using the Monte Carlo pricing model assuming no dividends are paid on the Common Shares, a risk-free interest rate of 4.37% (December 31, 2021 - 0.17%), an expiration date between January 1, 2023 and June 2, 2024 (December 31, 2021: January 1, 2022 and June 2, 2024), a volatility of the underlying Common Shares of 24.87% (December 31, 2021 – 26.50%), a closing price of the Common Shares of C$2.63 (December 31, 2021 - C$2.50) 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.

The Company recorded an unrealized gain resulting from a change in the fair value of the vested Warrants of $57 and $884 in the years ended December 31, 2022 and 2021, respectively. The Company also recorded an unrealized foreign exchange gain with respect to the vested Warrants of $5 in the year ended December 31, 2022, and an unrealized foreign exchange loss with respect to the vested Warrants of $14 in the year ended December 31, 2021, under foreign exchange (gain) loss in the consolidated statements of profit and comprehensive income.

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

9 Commitments and Contingent Liabilities

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, 2022, the Company had a total commitment of $513 for future occupancy cost payments including payments due not later than one year of $268 and payments due later than one year of $245. At December 31, 2021, the Company had a total commitment of $827 for future occupancy cost payments including payments due not later than one year of $278 and payments due later than one year of $549.

10 Share Capital

Westaim'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, 2022, Westaim had 141,386,718 Common Shares issued and outstanding (December 31, 2021 – 142,686,718), with a stated capital of $378,563 (December 31, 2021 - $381,127). In the year ended December 31, 2022, Westaim cancelled 1,300,000 Common Shares it had acquired at a cost of $2,564 through its normal course issuer bid (the "NCIB"). In the year ended December 31, 2021, Westaim cancelled 500,000 Common Shares that it had acquired at a cost of $1,055 through the prior NCIB. The NCIB, which was approved by the TSXV, provides that Westaim may, during the 12-month period commencing October 1, 2022 and ending September 30, 2023, purchase up to 11,005,494 Common Shares in total, representing approximately 10% of Westaim's public float and not more than 2,827,734 Common Shares within a 30 day period. The NCIB for the 12-month period which commenced October 1, 2021 and ended September 30, 2022, provided that Westaim could purchase up to 11,208,044 Common Shares in total and not more than 2,863,734 Common Shares within a 30 day period. Westaim is conducting the NCIB because it believes the Common Shares currently trade in a price range that represents an attractive investment and a desirable use of its corporate funds as cash becomes available.

No shares of Westaim are held by the Company, and there were no Class A preferred shares or Class B preferred shares outstanding at December 31, 2022 and December 31, 2021.

11 Share-based Compensation

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

The Option Plan is a "rolling plan" which provides that, subject to the terms of the Option Plan, 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 14,138,671 at December 31, 2022 (December 31, 2021 – 14,268,671). However, each of the Incentive Plan and the Option Plan provide that, subject to the terms of the plan, the number of Common Shares issuable under such plan, together with all other security-based compensation arrangements of Westaim, shall not exceed 10% of the aggregate number of Common Shares outstanding. As the DSUs are settled solely in cash, they are not included in this 10% limitation.

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

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

	Year ended December 31, 2022		Year ended December 31, 2021	
	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	10,428,337	C$ 3.10

December 31, 2022 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	2.05	C$ 3.10	3,815,000	C$ 3.10
C$ 3.00	3,860,397	1.25	C$ 3.00	3,860,397	C$ 3.00
C$ 3.25	2,752,940	0.25	C$ 3.25	2,752,940	C$ 3.25
	10,428,337	1.28	C$ 3.10	10,428,337	C$ 3.10

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

11 Share-based Compensation (continued)

December 31, 2021 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	3.05	C$ 3.10	3,815,000	C$ 3.10
C$ 3.00	3,860,397	2.25	C$ 3.00	3,860,397	C$ 3.00
C$ 3.25	2,752,940	1.25	C$ 3.25	2,752,940	C$ 3.25
	10,428,337	2.28	C$ 3.10	10,428,337	C$ 3.10

On April 1, 2016, 2,752,940 options were granted to certain officers and employees of Westaim. Subject to the terms of the Option Plan, 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 Westaim. Subject to the terms of the Option Plan, 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 Westaim. Subject to the terms of the Option Plan, these options have a term of seven years, vested 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, 2022 or 2021.

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 $nil in the years ended December 31, 2022 and 2021.

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

Changes to the number of RSUs are as follows:

	Year ended December 31 2022	 2021
Opening balance	2,975,198	3,034,261
Exercised	-	(59,063)
Ending balance	2,975,198	2,975,198

On November 14, 2014, an aggregate of 2,375,000 RSUs were granted to certain officers, employees and consultants of Westaim. These RSUs have a term of fifteen years from date of issue and at December 31, 2022, all of these RSUs had vested, of which 325,000 RSUs had been exercised and 2,050,000 RSUs were outstanding.

On April 1, 2016, an additional 925,198 RSUs were granted to certain officers and employees of Westaim. These RSUs have a term of fifteen years from date of issue and at December 31, 2022, all of these RSUs had vested and none have been exercised.

There were 2,975,198 RSUs outstanding at December 31, 2022 and 2021. No RSUs were granted in the years ended December 31, 2022 or 2021. There were no RSUs exercised in the year ended December 31, 2022, and 59,063 RSUs were exercised in the year ended December 31, 2021.

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

11 Share-based Compensation (continued)

Compensation expenses relating to RSUs, including the impact of the change in the market value of the Common Shares, was an expense of $258 and $28 for the years ended December 31, 2022 and 2021, respectively. The Company also recorded an unrealized foreign exchange gain with respect to the RSUs of $361 in the year ended December 31, 2022, and an unrealized foreign exchange loss with respect to the RSUs of $44 in the year ended December 31, 2021, under foreign exchange (gain) loss in the consolidated statements of profit and comprehensive income. At December 31, 2022, a liability of $5,781 (December 31, 2021 - $5,884) had been accrued by Westaim with respect to outstanding RSUs in the consolidated statements of financial position.

Deferred Share Units - DSUs are issued to certain directors of Westaim in lieu of director fees, at their election, at the market value of the 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	
	2022	2021
Opening balance	1,093,603	855,228
Granted	261,530	238,375
Ending balance	1,355,133	1,093,603

In the year ended December 31, 2022, 261,530 DSUs were issued in lieu of director fees of $497 and in the year ended December 31, 2021, 238,375 DSUs were issued in lieu of director fees of $500. No DSUs were exercised in the years ended December 31, 2022 and 2021.

Compensation expenses relating to DSUs, including the impact of the change in the market value of the Common Shares was an expense of $616 and $482 in the years ended December 31, 2022 and 2021, respectively. The Company also recorded an unrealized foreign exchange gain with respect to the DSUs of $146 in the year ended December 31, 2022, and an unrealized foreign exchange loss with respect to the DSUs of $8 in the year ended December 31, 2021, under foreign exchange (gain) loss in the consolidated statements of profit and comprehensive income. At December 31, 2022, a liability of $2,633 (December 31, 2021 - $2,163) had been accrued with respect to outstanding DSUs in the consolidated statements of financial position.

12 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 expense related to the Company's key management personnel and directors are as follows:

	Year ended December 31	
	2022	2021
Salaries and benefits[1]	$ 4,120	$ 4,142
Share-based compensation expense	874	507
Compensation expense	$ 4,994	$ 4,649

[1] Salaries and benefits include director fees paid in cash totaling $110 in the years ended December 31, 2022 and 2021, respectively.

The Company received dividends from the Arena FINCOs in the amount of $8,350 and $nil in the years ended December 31, 2022 and 2021, respectively.

Arena FINCOs returned capital to the Company in the amount of $1,900 and $nil in the years ended December 31, 2022 and 2021, respectively.

The Company earned and received interest on the Arena Investors' Revolving Loan of $1,344 and $1,397 in the years ended December 31, 2022 and 2021, respectively. Interest on the Arena Investors Revolving Loan plus interest received from the Company's bank balance are included in interest income in the consolidated statements of profit and comprehensive income.

The Company earned advisory fees of $500 from Skyward Specialty in each of the years ended December 31, 2022 and 2021. The Company earned advisory fees of $200 and $250 from the Arena FINCOs and Arena Investors, respectively, in each of the years ended December 31, 2022 and 2021. Advisory fees are included in fee income in the consolidated statements of profit and comprehensive income. See note 17 for subsequent events.

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

13 Income Taxes

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

	Year ended December 31 2022	2021
Profit before income tax	$ 17,604	$ 28,431
Statutory income tax rates	26.5%	26.5%
Income taxes at statutory income tax rates	4,665	7,534
Variations due to:		
Non-taxable portion of unrealized (gain) on investments classified as FVTPL	(2,638)	(1,042)
Tax losses allocated from the HIIG Partnership	(7)	(36)
(Non-taxable) non-deductible items	(2,500)	(231)
Difference between statutory and foreign tax rates	22	(183)
Unrecognized tax losses	101	(5,821)
Income tax (recovery) expense	$ (357)	$ 221

At December 31, 2022, a current income tax receivable of $nil (December 31, 2021 - $64) and current income tax payable of $245 (December 31, 2021 - $153), and a deferred tax asset for United States taxes of $178 (December 31, 2021 – deferred tax liability of $415) were recorded in the consolidated statements of financial position.

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

	December 31, 2022	December 31, 2021
Non-capital loss carry-forwards	$ 52,776	$ 56,911
Capital loss carry-forwards	5,367	5,511
Deductible temporary differences	-	4,553
Corporate minimum tax credits	350	350
Investment tax credits	1,668	2,175

The unrecognized non-capital losses and investment tax credits will expire at various times to the end of 2042, as follows:

Non-capital losses by year of expiry:	
2027	$ 2,866
2028	4,852
2029	7,137
2030	81
2031	199
2032	16,539
2033	3,021
2034	3,848
2035	2,013
2036	47
2037	3,931
2038	5,624
2039	-
2040	-
2041	87
2042	2,531
	$ 52,776

Investment tax credits by year of expiry:	
2023	$ 256
2024	138
2025	313
2026	264
2027	522
2028	175
	$ 1,668

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

14 Earnings per Share

Westaim had 10,428,337 stock options, 2,975,198 RSUs and 14,285,715 Warrants outstanding at December 31, 2022 and 2021. The stock options and Warrants for the year ended December 31, 2022 and 2021 were excluded in the calculation of diluted earnings per share as they were not dilutive. The RSUs for the years ended December 31, 2022 and 2021 were included in the calculation of diluted earnings per share as they were dilutive.

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

	Year ended December 31 2022	2021
Basic earnings per share:		
Profit and comprehensive income	$ 17,961	$ 28,210
Weighted average number of Common Shares outstanding	141,901,513	143,079,869
Basic earnings per share	$ 0.13	$ 0.20
Diluted earnings per share:		
Profit and comprehensive income	$ 17,961	$ 28,210
Dilutive RSU recovery and related foreign exchange	(103)	(47)
Profit and comprehensive income on a diluted basis	$ 17,858	$ 28,163
Weighted average number of Common Shares outstanding	141,901,513	143,079,869
Dilutive impact of RSUs	2,975,198	3,029,245
Weighted average number of Common Shares outstanding on a dilutive basis	144,876,711	146,109,113
Diluted earnings per share	$ 0.12	$ 0.19

Common Shares outstanding at December 31, 2022 was 141,386,718 (December 31, 2021: 142,686,718).

15 Capital Management

Westaim's capital currently consists of the Preferred Securities and Common Shares.

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.

16 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, 2022 consists of short-term financial assets and financial liabilities with maturities of less than one year, investments in Skyward Specialty, Arena FINCOs, Arena Investors, and ASOF LP, Preferred Securities, and derivative warrant liability. 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.

16 Financial Risk Management (continued)

Liquidity risk

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

The Company has made investments in level 3 investments classified as FVTPL 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, 2022, the Company's short-term financial liabilities amounted to $4,510 (December 31, 2021 - $4,673), and the Company has access to cash and other resources to meet these financial obligations.

Currency risk

The Company's C$ denominated monetary liabilities exceed C$ denominated monetary assets and most of its operating expenses are paid in C$. From time to time, the Company may enter into C$ to US$ exchange forward contracts to manage its C$ currency exposures. At December 31, 2022, the Company's C$50 million (December 31, 2021 – C$50 million) C$ exchange forward contract is effective at reducing a significant portion of the risk associated with changes in the C$ currency exchange. At December 31, 2022, it is estimated a 10% strengthening of the C$ against the US$ would have increased the foreign exchange loss by approximately $835 and $838 for the years ended December 31, 2022 and 2021, respectively. A similar weakening of the C$ would result in an opposite effect.

The Company has not designated any foreign exchange forward contracts as accounting hedges.

Interest rate risk

The Company does not believe that the results of operations or cash flows would be affected to any significant degree by a sudden change in market interest rates relative to interest rates on its cash and cash equivalents, loans receivable, or the Preferred Securities. The Company is subject to interest rate risks indirectly as a result of its investments in Skyward Specialty and the Arena FINCOs as certain underlying investments made by these entities are sensitive to interest rate movements.

Equity risk

At December 31, 2022, 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. See note 17 for subsequent events.

17 Subsequent Events

On January 4, 2023, Skyward Specialty announced the launch of its IPO indicating an expected offering price between $14 to $16 per share of Skyward Specialty common stock including the offering of 4,750,000 shares sold by Skyward Specialty (after giving effect to the 4 for 1 reverse stock split which was effective on January 3, 2023). On January 18, 2023, Skyward Specialty announced the close of the IPO at a price of $15 per share listed on the Nasdaq Global Select Market under the ticker symbol "SKWD". With the closing of the IPO on January 18, 2023, the Skyward Specialty convertible preferred shares, including those which the Company owned, automatically converted to Skyward Specialty shares of common stock. As a result, Westaim now holds 7,285,359 Skyward Specialty common shares directly and its share of Skyward Specialty common shares through the HIIG Partnership of 7,281,780 for a total of 14,567,139. Westaim is restricted from trading Skyward Specialty common shares under a lock-up agreement through to July 12, 2023.

As per the terms of the Skyward Specialty MSA, the agreement which the Company earned advisory fees from Skyward Specialty of $500 annually, automatically terminated with the closing of IPO of Skyward Specialty on January 18, 2023.

17 Subsequent Events (continued)

On March 22, 2023, the Company extended the Arena Investors' Revolving Loan from March 31, 2023 to March 31, 2025 and increased the interest rate from 5.60% to 7.25% per annum effective April 1, 2023.

On March 28, 2023, the Company settled its 188 day C$ exchange forward contract to purchase C$50 million and incurred a realized foreign exchange loss of $997 which was primarily offset by unrealized foreign exchange gains in the Company's Canadian dollar liabilities. Coinciding with this settlement, the Company entered into a new 92 day C$ exchange forward contract to purchase C$50 million maturing on June 28, 2023.

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
Thursday May 18th, 2023 9:00 A.M. EDT

Vantage Venues
150 King Street West, 27th Floor
Toronto, Ontario M5H 1J9

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, 2022 were 141,386,718

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