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"Westaim" or the "Company" in this Management's Discussion and Analysis ("MD&A") refers to The Westaim Corporation on a consolidated basis. This MD&A, which has been approved by the Board of Directors of Westaim, should be read in conjunction with Westaim's unaudited consolidated financial statements including notes for the three and nine months ended September 30, 2017 and 2016 as set out on pages 40 to 62 of this quarterly report. Financial data in this MD&A has been derived from the unaudited consolidated financial statements for the three and nine months ended September 30, 2017 and 2016 and is intended to enable the reader to assess Westaim's results of operations for the three and nine months ended September 30, 2017 and financial condition as at September 30, 2017. The Company reports its consolidated financial statements using accounting policies consistent with International Financial Reporting Standards ("IFRS"). All currency amounts are in United States dollars ("US\$") unless otherwise indicated. The following commentary is current as of November 9, 2017. Additional information relating to Westaim is available on SEDAR at [www.sedar.com](http://www.sedar.com). Certain comparative figures have been reclassified to conform to the presentation of the current year, and certain totals, subtotals and percentages may not reconcile due to rounding.

### **IFRS for Investment Entities**

Westaim qualifies as an investment entity under IFRS and uses fair value as the key measure to monitor and evaluate its primary investments. The Company reports its financial results in accordance with IFRS applicable to investment entities.

### **Functional and Presentation Currency**

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

### **Non-GAAP Measures**

Westaim uses both IFRS and non-generally accepted accounting principles ("non-GAAP") measures to assess performance. The Company cautions readers about non-GAAP measures that do not have a standardized meaning under IFRS and are unlikely to be comparable to similar measures used by other companies. Management believes these measures allow for a more complete understanding of the underlying business. These measures are used to monitor Westaim's results and should not be viewed as a substitute for those determined in accordance with IFRS. Reconciliations of such measures to the most comparable IFRS figures are contained in Section 15, *Non-GAAP Measures* of this MD&A.

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**Cautionary Statement Regarding the Valuation of Investments in Private Entities**

In the absence of an active market for its investments in private entities, fair values for these investments are determined by management using the appropriate valuation methodologies after considering the history and nature of the business, operating results and financial conditions, outlook and prospects, general economic, industry and market conditions, capital market and transaction market conditions, contractual rights relating to the investment, public market comparables, net asset value, discounted cash flow analysis, comparable recent arm's length transactions, private market transaction multiples and, where applicable, other pertinent considerations. The process of valuing investments for which no active market exists is inevitably based on inherent uncertainties and the resulting values may differ from values that would have been used had an active market existed. The amounts at which the Company's investments in private entities could be disposed of may differ from the fair value assigned and the differences could be material.

**Cautionary Statement Regarding Financial Information of Houston International Insurance Group, Ltd.**

Select financial information concerning Houston International Insurance Group, Ltd. ("HIIG") (the "HIIG Financial Information") contained in this MD&A is unaudited and has been derived from the unaudited consolidated financial statements of HIIG for the three and nine months ended September 30, 2017 and 2016 (the "HIIG Statements") which have been prepared in accordance with United States generally accepted accounting principles ("US GAAP"). Such statements are the responsibility of the management of HIIG. The HIIG Financial Information, including any HIIG non-GAAP measures contained therein, has not been reconciled to IFRS and so may not be comparable to the financial information of issuers that present their financial information in accordance with IFRS.

The HIIG Financial Information should be read in conjunction with Westaim's historical financial statements including the notes thereto and the related MD&A as well as Westaim's other public filings.

The HIIG Financial Information has been provided solely by HIIG. Although Westaim has no knowledge that would indicate that any of the HIIG Financial Information contained herein is untrue or otherwise misleading, neither Westaim nor any of its directors or officers assumes any responsibility for the accuracy or completeness of such information, or for any failure by HIIG to disclose to Westaim events or facts which may have occurred or which may affect the significance or accuracy of any such financial information but which are unknown to Westaim.

Westaim disclaims and excludes all liability (to the extent permitted by law), for losses, claims, damages, demands, costs and expenses of whatever nature arising in any way out of or in connection with the HIIG Financial Information, its accuracy, completeness or by reason of reliance by any person on any of it.

**Cautionary Statement Regarding Financial Information of the Arena Group**

Select financial information concerning the Arena Group (as hereinafter defined) (the "Arena Financial Information") contained in this MD&A is unaudited and has been derived from the unaudited financial statements of the Arena Group for the three and nine months ended September 30, 2017 and 2016 which have been prepared in accordance with either IFRS or US GAAP. Such statements are the responsibility of the management of the Arena Group. The Arena Financial Information, including any Arena Group non-GAAP measures contained therein, may not be reconciled to IFRS and so may not be comparable to the financial information of issuers that present their financial information in accordance with IFRS.

The Arena Financial Information should be read in conjunction with Westaim's historical financial statements including the notes thereto and the related MD&A as well as Westaim's other public filings.

The Arena Financial Information has been provided by the Arena Group. Although Westaim has no knowledge that would indicate that any of the Arena Financial Information contained herein is untrue or otherwise misleading, neither Westaim nor any of its directors or officers assumes any responsibility for the accuracy or completeness of such information, or for any failure by the Arena Group to disclose to Westaim events or facts which may have occurred or which may affect the significance or accuracy of any such financial information but which are unknown to Westaim.

Westaim disclaims and excludes all liability (to the extent permitted by law), for losses, claims, damages, demands, costs and expenses of whatever nature arising in any way out of or in connection with the Arena Financial Information, its accuracy, completeness or by reason of reliance by any person on any of it.

**Future Oriented Financial Information**

This MD&A may contain forward-looking statements that involve risks and uncertainties. The Company's actual results could differ materially from these forward-looking statements as a result of various factors, including those discussed hereinafter, and in the Company's Annual Information Form dated March 30, 2017 for its fiscal year ended December 31, 2016 which is available on SEDAR at [www.sedar.com](http://www.sedar.com). Please refer to Section 16, *Cautionary Note Regarding Future Oriented Financial Information* of this MD&A.

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**1. THE COMPANY**

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

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

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 Canadian dollars ("C\$") 100 million in Westaim in exchange for the issuance by Westaim of 5% interest bearing notes (the "Preferred Securities") and common share purchase warrants (the "Warrants") (collectively, the "Private Placement"). On June 2, 2017, the Company closed an initial subscription by Fairfax of C\$50 million of Preferred Securities and issued 28,571,430 Warrants to Fairfax, with 14,285,715 Warrants having vested on June 2, 2017. See discussion in Section 4, *Financing* of this MD&A for additional information on the Private Placement. The proceeds raised from the Fairfax financing were used by Westaim to make interest bearing short-term loans to the Arena Group. See discussion in Section 3, *Investments* of this MD&A for additional information on these loans.

**2. OVERVIEW OF PERFORMANCE**

| <b>Highlights</b><br>(millions except share and per share data) | Three months ended September 30 |             | Nine months ended September 30 |             |
|---|---------------------------------|-------------|--------------------------------|-------------|
|   | 2017                            | 2016        | 2017                           | 2016        |
| Revenue   | \$ 1.1                          | \$ 0.6      | \$ 2.5                         | \$ 2.0      |
| Net results of investments                                      | 4.3                             | (2.3)       | 10.8                           | (2.1)       |
| Net recovery of expenses (expenses)                             | 0.8                             | (2.0)       | (14.6)                         | (7.3)       |
| Profit (loss) and comprehensive income (loss)                   | \$ 6.2                          | \$ (3.7)    | \$ (1.3)                       | \$ (7.4)    |
| Earnings (loss) per share - basic and diluted                   | \$ 0.04                         | \$ (0.03)   | \$ (0.01)                      | \$ (0.05)   |
| At September 30:  |                                 |             |                                |             |
| Shareholders' equity  | \$ 318.6                        | \$ 319.2    | \$ 318.6                       | \$ 319.2    |
| Number of common shares outstanding                             | 143,186,718                     | 143,186,718 | 143,186,718                    | 143,186,718 |
| Book value per share - in US\$ <sup>1</sup>                     | \$ 2.27                         | \$ 2.22     | \$ 2.27                        | \$ 2.22     |
| Book value per share - in C\$ <sup>1</sup>                      | \$ 2.83                         | \$ 2.91     | \$ 2.83                        | \$ 2.91     |

<sup>1</sup> Non-GAAP measure. See Section 15, *Non-GAAP Measures* of this MD&A. Period end exchange rates: 1.2470 at September 30, 2017 and 1.3117 at September 30, 2016.

Three months ended September 30, 2017 and 2016

The Company reported a profit and comprehensive income of \$6.2 million for the three months ended September 30, 2017 (2016 - loss and comprehensive loss of \$3.7 million).

Revenue for the three months ended September 30, 2017 of \$1.1 million (2016 - \$0.6 million) consisted of interest income of \$0.7 million (2016 - \$0.3 million) and advisory fees of \$0.4 million (2016 - \$0.3 million).

Net results of investments were a gain of \$4.3 million for the three months ended September 30, 2017 (2016 - loss of \$2.3 million), consisting of an unrealized gain on the Company's investments in private entities of \$4.8 million (2016 - loss of \$1.5 million), an unrealized gain on other investments of \$0.1 million (2016 - \$nil) and the Company's share of losses of its Associates (as hereinafter defined) of \$0.6 million (2016 - \$0.8 million).

Net recovery of expenses for the three months ended September 30, 2017 of \$0.8 million (2016 - net expenses of \$2.0 million) consisted of share-based compensation of \$0.4 million (2016 - \$1.0 million), professional fees of \$0.2 million (2016 - \$0.1 million), site restoration provision recovery of \$0.6 million (2016 - \$0.2 million), salaries and benefits of \$1.0 million (2016 - \$0.9 million), general, administrative and other expenses of \$0.2 million (2016 - \$0.2 million), a foreign exchange loss of \$0.8 million (2016 - \$nil), interest on preferred securities of \$0.5 million (2016 - \$nil), and a derivative warrant gain of \$3.3 million (2016 - \$nil).

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**2. OVERVIEW OF PERFORMANCE (continued)**

Nine months ended September 30, 2017 and 2016

The Company reported a loss and comprehensive loss of \$1.3 million for the nine months ended September 30, 2017 (2016 - \$7.4 million).

Revenue for the nine months ended September 30, 2017 of \$2.5 million (2016 - \$2.0 million) consisted of interest income of \$1.4 million (2016 - \$0.9 million) and advisory fees of \$1.1 million (2016 - \$1.1 million).

Net results of investments were a gain of \$10.8 million for the nine months ended September 30, 2017 (2016 - loss of \$2.1 million), consisting of an unrealized gain on the Company's investments in private entities of \$13.3 million (2016 - loss of \$0.3 million), an unrealized gain on other investments of \$0.2 million (2016 - \$nil) and the Company's share of losses of its Associates of \$2.7 million (2016 - \$1.8 million).

Net expenses for the nine months ended September 30, 2017 of \$14.6 million (2016 - \$7.3 million) consisted of share-based compensation of \$2.7 million (2016 - \$1.7 million), professional fees of \$0.6 million (2016 - \$0.8 million), site restoration provision recovery of \$0.3 million (2016 - expense of \$1.0 million), salaries and benefits of \$2.8 million (2016 - \$2.6 million), general, administrative and other expenses of \$0.8 million (2016 - \$0.8 million), a foreign exchange loss of \$1.4 million (2016 - \$0.4 million), interest on preferred securities of \$0.7 million (2016 - \$nil), a derivative warrant expense of \$5.4 million (2016 - \$nil), and preferred securities issuance cost of \$0.5 million (2016 - \$nil).

**3. INVESTMENTS**

The Company's investments in private entities and associates are included under investments in the consolidated statements of financial position. The Company's principal investments consist of its investments in HIIG (through Westaim HIIG Limited Partnership (the "HIIG Partnership")) and the Arena Group, as follows:

|                                  | Place of establishment | Principal place of business | Ownership interest as at September 30, 2017 and December 31, 2016      |
|----------------------------------|------------------------|-----------------------------|--|
| Investments in private entities: |                        |                             |  |
| - HIIG Partnership               | Ontario, Canada        | Ontario, Canada             | 58.5% owned by Westaim   |
| - Arena Finance                  | Ontario, Canada        | Ontario, Canada             | 100% owned by Westaim <sup>1</sup>                                     |
| - Arena Origination              | Delaware, U.S.         | New York, U.S.              | 100% owned by Westaim <sup>2</sup>                                     |
| Investments in Associates:       |                        |                             |  |
| - WAHII                          | Delaware, U.S.         | New York, U.S.              | 51% beneficially owned by Westaim, indirectly through WCA <sup>3</sup> |
| - ASOF-ON GP                     | Delaware, U.S.         | New York, U.S.              | 51% beneficially owned by Westaim, indirectly through WCA <sup>3</sup> |
| - ASOF-OFF II GP                 | Delaware, U.S.         | New York, U.S.              | 51% beneficially owned by Westaim <sup>3</sup>                         |

<sup>1</sup> Ownership subject to the vesting and conversion of Class M Units held by BP LLC (as hereinafter defined) described under "Investment in the Arena Group - Arena Finance".

<sup>2</sup> Ownership subject to the vesting and conversion of Class M Units held by BP LLC described under "Investment in the Arena Group - Arena Origination".

<sup>3</sup> Legal equity ownership is 100%, and beneficial ownership denotes profit percentage subject to change over time pursuant to the earn-in rights granted to BP LLC described under "Investment in the Arena Group - Arena Investors".

For additional information on the Company's corporate structure, see the Company's Annual Information Form dated March 30, 2017 for its fiscal year ended December 31, 2016 which is available on SEDAR at [www.sedar.com](http://www.sedar.com).

Houston International Insurance Group, Ltd.

The Company indirectly owns a significant interest in HIIG, through the HIIG Partnership, an Ontario limited partnership managed by Westaim HIIG GP Inc. HIIG is a U.S. based diversified specialty insurance company providing coverage primarily in the United States but also globally for certain risks. The Company's investment in HIIG (through the HIIG Partnership) is recorded in investments in private entities included under investments in the Company's consolidated financial statements.

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**3. INVESTMENTS (continued)**

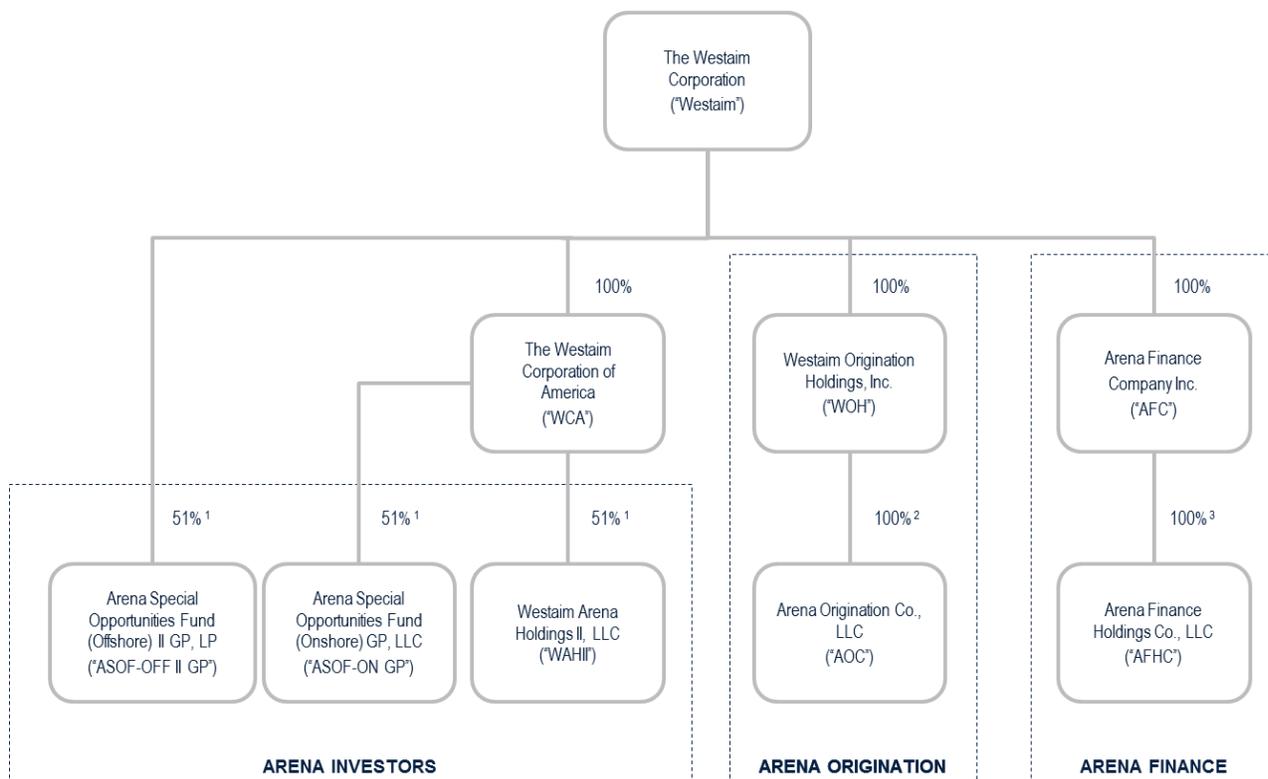
Arena Group

The Arena Group consists of the following three businesses:

- **Arena Investors** – WAHII, ASOF-ON GP and ASOF-OFF II GP (collectively, "Arena Investors") jointly operate as an investment manager offering clients access to fundamentals-based, asset-oriented credit investments. The Company's investment in Arena Investors is recorded as investments in associates included under investments in the Company's consolidated financial statements.
- **Arena Finance** – Arena Finance, through Arena Finance Holdings Co., LLC ("AFHC"), a Delaware limited liability company wholly-owned by Arena Finance, and AFHC's subsidiaries, is a specialty finance company that primarily purchases fundamentals-based, asset-oriented credit investments for its own account. The Company's investment in Arena Finance is recorded as investments in private entities included under investments in the Company's consolidated financial statements.
- **Arena Origination** – Arena Origination, through Arena Origination Co., LLC ("AOC"), a Delaware limited liability company wholly-owned by Arena Origination, facilitates the origination of fundamentals-based, asset-oriented credit investments for its own account and/or possible future sale to Arena Finance, clients of Arena Investors and/or other third parties. The Company's investment in Arena Origination is recorded as investments in private entities included under investments in the Company's consolidated financial statements.

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

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



<sup>1</sup> Legal equity ownership is 100%, and beneficial ownership denotes profit percentage subject to change over time pursuant to the earn-in rights granted to BP LLC described under "Investment in the Arena Group - Arena Investors".

<sup>2</sup> Ownership subject to the vesting and conversion of Class M Units held by BP LLC described under "Investment in the Arena Group - Arena Origination".

<sup>3</sup> Ownership subject to the vesting and conversion of Class M Units held by BP LLC described under "Investment in the Arena Group - Arena Finance".

For a detailed discussion of the business of the Arena Group, see the Company's Annual Information Form dated March 30, 2017 for its fiscal year ended December 31, 2016 which is available on SEDAR at [www.sedar.com](http://www.sedar.com).

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**3. INVESTMENTS (continued)**

Accounting for the Company's Investments

The Company's investments in private entities consist of its investments in HIIG (through the HIIG Partnership), Arena Finance and Arena Origination. Westaim qualifies as an investment entity under IFRS and uses fair value as the key measure to monitor and evaluate its primary investments. Accordingly, the Company's investments in private entities are accounted for at fair value through profit or loss ("FVTPL").

In determining the valuation of investments in private entities at September 30, 2017 and December 31, 2016, the Company used net asset value as the primary valuation technique. For a detailed description of the valuation of the Company's investments in private entities, see note 5 to the Company's audited annual consolidated financial statements for the years ended December 31, 2016 and 2015.

The Company's investments in associates consist of its investment in Arena Investors, including the Company's indirect investment in WAHII (through WCA), ASOF-ON GP (through WCA), and its direct investment in ASOF-OFF II GP. WAHII, ASOF-ON GP and ASOF-OFF II GP are collectively referred to as the "Associates". The Company's investments in Associates are accounted for using the equity method and consist of investments in corporations or limited partnerships where the Company has significant influence.

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

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

|                                  | Three months ended September 30, 2017 |                 |                 | Three months ended September 30, 2016 |                 |                 |
|----------------------------------|---------------------------------------|-----------------|-----------------|---------------------------------------|-----------------|-----------------|
|                                  | Opening balance                       | Unrealized gain | Ending balance  | Opening balance                       | Unrealized loss | Ending balance  |
| Investments in private entities: |                                       |                 |                 |                                       |                 |                 |
| - HIIG Partnership               | \$ 148.8                              | \$ 0.6          | \$ 149.4        | \$ 148.2                              | \$ (0.6)        | \$ 147.6        |
| - Arena Finance <sup>1</sup>     | 147.5                                 | 3.0             | 150.5           | 142.5                                 | (0.8)           | 141.7           |
| - Arena Origination <sup>2</sup> | 32.7                                  | 1.2             | 33.9            | 32.6                                  | (0.1)           | 32.5            |
|                                  | <u>\$ 329.0</u>                       | <u>\$ 4.8</u>   | <u>\$ 333.8</u> | <u>\$ 323.3</u>                       | <u>\$ (1.5)</u> | <u>\$ 321.8</u> |

<sup>1</sup> Ownership subject to the vesting and conversion of Class M Units held by BP LLC described under "Investment in the Arena Group - Arena Finance".

<sup>2</sup> Ownership subject to the vesting and conversion of Class M Units held by BP LLC described under "Investment in the Arena Group - Arena Origination".

|                                  | Nine months ended September 30, 2017 |                    |                        |                 |                 | Nine months ended September 30, 2016 |                        |                 |
|----------------------------------|--------------------------------------|--------------------|------------------------|-----------------|-----------------|--------------------------------------|------------------------|-----------------|
|                                  | Opening balance                      | Additions - Equity | Repayment of term loan | Unrealized gain | Ending balance  | Opening balance                      | Unrealized gain (loss) | Ending balance  |
| Investments in private entities: |                                      |                    |                        |                 |                 |                                      |                        |                 |
| - HIIG Partnership               | \$ 145.3                             | \$ -               | \$ -                   | \$ 4.1          | \$ 149.4        | \$ 146.0                             | \$ 1.6                 | \$ 147.6        |
| - Arena Finance <sup>1</sup>     | 142.8                                | -                  | -                      | 7.7             | 150.5           | 143.1                                | (1.4)                  | 141.7           |
| - Arena Origination <sup>2</sup> | 32.4                                 | 7.0                | (7.0)                  | 1.5             | 33.9            | 33.0                                 | (0.5)                  | 32.5            |
|                                  | <u>\$ 320.5</u>                      | <u>\$ 7.0</u>      | <u>\$ (7.0)</u>        | <u>\$ 13.3</u>  | <u>\$ 333.8</u> | <u>\$ 322.1</u>                      | <u>\$ (0.3)</u>        | <u>\$ 321.8</u> |

<sup>1</sup> Ownership subject to the vesting and conversion of Class M Units held by BP LLC described under "Investment in the Arena Group - Arena Finance".

<sup>2</sup> Ownership subject to the vesting and conversion of Class M Units held by BP LLC described under "Investment in the Arena Group - Arena Origination".

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

|                           | Three months ended September 30 |               | Nine months ended September 30 |               |
|---------------------------|---------------------------------|---------------|--------------------------------|---------------|
|                           | 2017                            | 2016          | 2017                           | 2016          |
| Investments in Associates |                                 |               |                                |               |
| Opening balance           | \$ (0.8)                        | \$ 2.7        | \$ 1.3                         | \$ 3.0        |
| Additions - Equity        | -                               | -             | -                              | 0.3           |
| Additions - Advances      | -                               | -             | -                              | 0.4           |
| Share of loss             | (0.6)                           | (0.8)         | (2.7)                          | (1.8)         |
| Ending balance            | <u>\$ (1.4)</u>                 | <u>\$ 1.9</u> | <u>\$ (1.4)</u>                | <u>\$ 1.9</u> |

### 3. INVESTMENTS (continued)

#### A. INVESTMENT IN HIIG

At September 30, 2017, the HIIG Partnership owned approximately 75.0% of the common shares of HIIG ("HIIG Shares") and the Company owned, directly and indirectly, approximately 58.5% of the HIIG Partnership, representing an approximate 43.9% indirect ownership interest in HIIG.

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

#### (i) Fair Value

The investment in HIIG (through the HIIG Partnership) is accounted for at FVTPL. The fair value of the Company's investment in the HIIG Partnership was determined to be \$149.4 million at September 30, 2017 and \$145.3 million at December 31, 2016.

Management used net asset value as the primary valuation technique to arrive at the fair value of the Company's investment in the HIIG Partnership of \$149.4 million at September 30, 2017. The fair value of the HIIG Partnership at September 30, 2017 was derived from a valuation of the HIIG Shares owned by the HIIG Partnership and other net assets of the HIIG Partnership at September 30, 2017. The carrying values of the HIIG Partnership's other net assets, consisting of monetary assets including cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, approximate their fair values due to the short maturity of these financial instruments. In valuing the HIIG Shares, using net asset value as the primary valuation technique, fair value was determined to be 1.0x the adjusted book value of HIIG, or 100% of the adjusted HIIG stockholders' equity, as at September 30, 2017. Management determined that this valuation technique produced the best indicator of the fair value of the HIIG Shares as at September 30, 2017 as it was also used in a number of HIIG share transactions with arm's length third parties since August 1, 2014. This same basis of valuation was used to determine the fair value of the Company's investment in the HIIG Partnership of \$145.3 million at December 31, 2016.

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

The Company recorded an unrealized gain of \$0.6 million and an unrealized loss of \$0.6 million in the three months ended September 30, 2017 and 2016, respectively, and unrealized gains of \$4.1 million and \$1.6 million in the nine months ended September 30, 2017 and 2016, respectively, on its investment in the HIIG Partnership.

#### (ii) Select Financial Information of HIIG for the three and nine months ended September 30, 2017 and 2016

The Company considers certain financial results of HIIG to be important measures for investors in assessing the Company's financial position and performance. In particular, premium volumes provide a measure of HIIG's growth; "net loss and LAE ratio" (calculated by dividing net loss and loss adjustment expenses by net premiums earned) and "combined ratio" (calculated by dividing the aggregate of net loss and loss adjustment expenses, net policy acquisition expenses and net operating expenses by net premiums earned) provide measures of HIIG's underwriting profitability; net income provides a measure of HIIG's overall profitability; and stockholders' equity is a measure that is generally used by investors to determine the value of insurance companies.

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

- Commercial - premiums from standard property and casualty lines underwritten by HIIG generally on an admitted basis for which rate filings are generally required. This segment includes insurance related to Texas workers' compensation, construction, security firms and pest control operators.
- Specialty - premiums underwritten by HIIG generally on non-admitted or surplus lines basis for which rate filings are generally not required. This segment includes HIIG's energy division, professional lines (home health care providers, community banks, E&O and D&O for title companies and insurance brokers), transactional property, hospitality, and commercial auto business (small risks primarily in Louisiana).
- MGU Partners - premiums from contracted managing general underwriters predominantly in specialty insurance lines. This segment includes primarily managing general underwriters ("MGUs") serving artisan contractors, lawyers E&O insurance, and auto dealerships.

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**3. INVESTMENTS (continued)**

- Accident and Health - premiums underwritten for medical stop loss business.
- Non-continuing lines - represent lines of business no longer underwritten by HIIG.

Set out in the table below is certain select financial information relating to HIIG. The HIIG Financial Information is unaudited and has been derived from the supporting schedules to the unaudited consolidated financial statements of HIIG for the three and nine months ended September 30, 2017 and 2016 which have been prepared in accordance with US GAAP. Such statements are the responsibility of the management of HIIG. Readers are cautioned that the HIIG financial information has not been reconciled to IFRS and so may not be comparable to the financial information of issuers that present their financial information in accordance with IFRS.

| <b>(unaudited)</b><br>(millions except for percentage) | Three months ended September 30 |                       | Nine months ended September 30 |                   |
|--|---------------------------------|-----------------------|--------------------------------|-------------------|
|  | 2017                            | 2016                  | 2017                           | 2016              |
| <b>Income Statement</b>                                |                                 |                       |                                |                   |
| Gross written premium                                  | \$ 144.1                        | \$ 133.9              | \$ 431.9                       | \$ 407.0          |
| Net premiums written                                   | \$ 61.6                         | \$ 71.3               | \$ 193.7                       | \$ 218.9          |
| Net premiums earned                                    | \$ 66.5                         | \$ 77.9               | \$ 200.8                       | \$ 239.6          |
| Net income (loss)                                      | \$ 1.7                          | \$ 1.8                | \$ 9.2                         | \$ (3.1)          |
| Combined ratio   | 107.9%                          | 109.8%                | 101.3%                         | 106.1%            |
| <b>Select Information</b>                              |                                 |                       |                                |                   |
| <b>Gross written premium:</b>                          |                                 |                       |                                |                   |
| Commercial   | \$ 25.6                         | \$ 20.0               | \$ 74.9                        | \$ 64.0           |
| Specialty  | 65.0                            | 55.7                  | 202.4                          | 176.0             |
| MGU Partners   | 33.4                            | 35.3                  | 95.4                           | 102.1             |
| Accident and Health                                    | 20.1                            | 22.9                  | 59.2                           | 65.0              |
| Non-continuing lines                                   | -                               | -                     | -                              | (0.1)             |
|  | <u>\$ 144.1</u>                 | <u>\$ 133.9</u>       | <u>\$ 431.9</u>                | <u>\$ 407.0</u>   |
| <b>Net premiums written:</b>                           |                                 |                       |                                |                   |
| Commercial   | \$ 12.1                         | \$ 10.7               | \$ 37.5                        | \$ 34.5           |
| Specialty  | 30.6                            | 25.7                  | 91.8                           | 78.2              |
| MGU Partners   | 11.2                            | 22.5                  | 42.7                           | 70.5              |
| Accident and Health                                    | 7.7                             | 12.4                  | 23.0                           | 37.1              |
| Non-continuing lines                                   | -                               | -                     | (1.3)                          | (1.4)             |
|  | <u>\$ 61.6</u>                  | <u>\$ 71.3</u>        | <u>\$ 193.7</u>                | <u>\$ 218.9</u>   |
| <b>Net premiums earned:</b>                            |                                 |                       |                                |                   |
| Commercial   | \$ 12.5                         | \$ 11.7               | \$ 36.5                        | \$ 36.7           |
| Specialty  | 28.9                            | 28.0                  | 83.6                           | 90.5              |
| MGU Partners   | 17.4                            | 25.8                  | 59.0                           | 76.7              |
| Accident and Health                                    | 7.7                             | 12.4                  | 23.0                           | 37.1              |
| Non-continuing lines                                   | -                               | -                     | (1.3)                          | (1.4)             |
|  | <u>\$ 66.5</u>                  | <u>\$ 77.9</u>        | <u>\$ 200.8</u>                | <u>\$ 239.6</u>   |
| <b>Net Loss and LAE Ratio:</b>                         |                                 |                       |                                |                   |
| Commercial   | 125.9%                          | 102.5%                | 89.0%                          | 75.0%             |
| Specialty  | 60.3%                           | 72.9%                 | 56.6%                          | 72.3%             |
| MGU Partners   | 68.6%                           | 63.7%                 | 67.3%                          | 62.0%             |
| Accident and Health                                    | 103.1%                          | 74.1%                 | 92.6%                          | 82.4%             |
| Non-continuing lines                                   | n.m. <sup>1</sup>               | n.m. <sup>1</sup>     | n.m. <sup>1</sup>              | n.m. <sup>1</sup> |
|  | <u>80.5%</u>                    | <u>74.9%</u>          | <u>70.8%</u>                   | <u>72.0%</u>      |
| <b>Balance Sheet Information</b>                       |                                 |                       |                                |                   |
|  | September 30, 2017              | December 31, 2016     |                                |                   |
| Investments, cash and cash equivalents                 | \$ 616.8                        | \$ 635.8 <sup>2</sup> |                                |                   |
| Stockholders' equity                                   | \$ 333.5                        | \$ 324.7              |                                |                   |

<sup>1</sup> Not material or meaningful, but included in the aggregate numbers.

<sup>2</sup> Adjusted to conform to the presentation of the current year.

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**3. INVESTMENTS (continued)**

Gross written premium was \$144.1 million for the three months ended September 30, 2017 compared to \$133.9 million for the three months ended September 30, 2016, an increase of 7.6%, and \$431.9 million for the nine months ended September 30, 2017 compared to \$407.0 million for the nine months ended September 30, 2016, an increase of 6.1%. The increase in gross written premium in the three and nine months ended September 30, 2017 compared to the same periods in the prior year was driven primarily by growth in the Commercial and Specialty segments, partially offset by reductions in gross written premium in the MGU Partners and Accident and Health segments.

Net premiums written was \$61.6 million for the three months ended September 30, 2017 compared to \$71.3 million for the three months ended September 30, 2016, a decrease of 13.6%, and \$193.7 million for the nine months ended September 30, 2017 compared to \$218.9 million for the nine months ended September 30, 2016, a decrease of 11.5%, resulting from an increased use of proportional reinsurance in all segments, offset in part by the increased gross written premiums in the Commercial and Specialty segments..

Net premiums earned was \$66.5 million for the three months ended September 30, 2017 compared to \$77.9 million for the three months ended September 30, 2016, a decrease of 14.6%, and \$200.8 million for the nine months ended September 30, 2017 compared to \$239.6 million for the nine months ended September 30, 2016, a decrease of 16.2%. The decrease in net premiums earned in the three and nine months ended September 30, 2017 compared to the same periods in the prior year was attributed to HIIG's increased use of proportional reinsurance in all segments.

The overall net loss and LAE ratio was 80.5% for the three months ended September 30, 2017 compared to 74.9% for the same period in the prior year, and 70.8% for the nine months ended September 30, 2017 compared to 72.0% for the same period in the prior year. HIIG recorded reserve strengthening for prior years of \$6.9 million in the three months ended September 30, 2017 and \$8.7 million in the nine months ended September 30, 2017 compared to \$10.4 million in the three months ended September 30, 2016 and \$24.9 million in the nine months ended September 30, 2016. In addition HIIG recorded catastrophe losses, net of reinsurance related to hurricanes Harvey, Irma and Maria of \$2.0 million in each of the three and nine months ended September 30, 2017.

In the three months ended September 30, 2017, the reserve strengthening for prior years mentioned above includes a reserve redundancy of \$0.1 million in the Specialty segment, more than offset by a reserve strengthening of \$4.6 million in the Commercial segment, \$1.3 million in the MGU Partners segment and \$1.1 million in the Accident and Health segment. In the three months ended September 30, 2016, HIIG experienced a reserve strengthening of \$5.0 million in the Commercial segment, \$4.9 million in the Specialty segment and \$0.5 million in other segments. In the nine months ended September 30, 2017, HIIG experienced a reserve strengthening of \$4.3 million in the Commercial segment, \$1.3 million in the MGU Partners segment, \$2.8 million in the Accident and Health segment and \$0.3 million in the other segments. In the nine months ended September 30, 2016, HIIG experienced a reserve strengthening of \$6.9 million in the Commercial segment, \$12.7 million in the Specialty segment, \$3.6 million in the Accident and Health segment and \$1.7 million in the other segments.

HIIG recorded net income of \$1.7 million for the three months ended September 30, 2017 compared to net income of \$1.8 million for the three months ended September 30, 2016, and net income of \$9.2 million for the nine months ended September 30, 2017 compared to net loss of \$3.1 million for the nine months ended September 30, 2016. As discussed above, the results for the three and nine months ended September 30, 2017 were impacted by reserve strengthening and catastrophe losses of \$5.8 million (\$8.9 million pre-tax) and \$6.9 million (\$10.7 million pre-tax), respectively. This compares to \$6.8 million (\$10.4 million pre-tax) and \$16.2 million (\$24.9 million pre-tax) of reserve strengthening for the three and nine months ended September 30, 2016, respectively. For the three and nine months ended September 30, 2017 this reserve strengthening was partially offset by non-recurring after-tax gains of \$3.0 million (\$3.6 million pre-tax) and \$4.2 million (\$4.8 million pre-tax), respectively, relating to an assessment refund received and the reduction of earn-out liabilities payable relating to prior acquisitions. In the three and nine months ended September 30, 2016, net income (loss) included an income tax benefit of \$1.8 million and \$3.0 million, respectively, as a result of a change in the deferred income tax valuation allowance.

HIIG stockholders' equity increased to \$333.5 million at September 30, 2017 from \$324.7 million at December 31, 2016. The increase of \$8.8 million resulted from net income for the period of \$9.2 million, and an increase in the unrealized gains on HIIG's investment portfolio for the period (net of income taxes) of \$0.6 million, partially offset by HIIG's net repurchase of the shares and settlement of loans from their employees' share purchase plan of \$1.0 million.

**B. INVESTMENT IN THE ARENA GROUP**

The Arena Group makes and manages fundamentals-based, asset-oriented credit investments. Fundamentals-based, asset-oriented credit investments refer to loans or credit arrangements which are generally secured by assets. These assets could include hard assets such as real estate, inventory, vehicles, aircraft, watercraft, oil and gas reserves, or a borrower's plant and equipment and other hard assets, or soft assets such as securities, receivables, contractual income streams, and certain intellectual property assets. Fundamentals-based, asset-oriented lenders and investors manage their risk and exposure by carefully assessing the value of the assets securing the loan or investment, receiving periodic and frequent reports on collateral value and the status of those assets, and tracking the financial performance of borrowers.

### **3. INVESTMENTS (continued)**

The Arena Group seeks to capitalize on opportunities in both private as well as public investments subject to approved investment policies. These investment strategies include:

#### **Corporate Private Credit**

Senior private corporate debt, bank debt, including secondary market bank debt, distressed debt such as senior secured bank debt before or during a Chapter 11 bankruptcy filing, bridge loans/transition financing, debtor-in-possession ("DIP") financings, junior secured loans, junior capital to facilitate restructurings, equity co-investments or warrants alongside corporate loans.

#### **Real Estate Private Credit and Real Estate Assets**

Real property, secured or unsecured mezzanine financings, DIP loans, "A-tranche" loans (senior secured loans) and "B-tranche" loans (junior secured loans) for real estate properties requiring near-term liquidity, structured letters of credit, real estate loans secured by office buildings, retail centers, hotels, land, single family homes, multi-family apartments, condominium towers, hospitality providers, health care service providers, and corporate campuses, leases and lease residuals.

#### **Commercial & Industrial Assets**

Commercial receivables, investments in entities (including start-up businesses) engaged, or to be engaged, in activities or investments such as distressed commercial and industrial loans, commercial and industrial assets such as small-scale asset-based loans, trade claims and vendor puts, specialized or other types of equipment leases and machinery, non-performing loans globally, hard assets (including airplanes and components, industrial machinery), commodities (physical and synthetic), reinsurance and premium finance within life and property casualty insurance businesses, legal-related finance including law firm loans, settled and appellate judgments and probate finance, royalties, trust certificates, intellectual property and other financial instruments that provide for the contractual or conditional payment of an obligation.

#### **Structured Finance Investments**

Thinly traded or more illiquid loans and securities backed by mortgages (commercial and residential), other small loans including equipment leases, auto loans, commercial mortgage-backed securities, residential mortgage-backed securities, manufactured housing-backed securities, collateralized loan obligations, collateralized debt obligations, other structured credits and consumer credit securitizations, aviation and other leased asset securitizations, esoteric asset securitization, revenue interests, synthetics, and catastrophe bonds.

#### **Consumer Assets**

Auto and title loans, credit cards, consumer installment loans, charged-off consumer obligations, consumer bills, consumer receivables, product-specific purchase finance, residential mortgages, tax liens, real estate owned homes, other consumer credit securitizations, retail purchase loans and unsecured consumer loans as well as distressed or charged-off obligations of all of these types, peer-to-peer originated loans of all types, manufactured housing, and municipal consumer obligations.

#### **Other Securities**

Hedged and unhedged investments in public securities (including public real estate), preferred stock, common stock, municipal bonds, senior public corporate debt, corporate bonds including bonds in liquidation or out-of-court exchange offers and trade claims of distressed companies in anticipation of a recapitalization, private investment in public equity, other industry relative value, merger arbitrage in transactions such as mergers, hedged investments in regulated utilities, integrated utilities, merchant energy providers, acquisitions, tender offers, spin-offs, recapitalizations and Dutch auctions, event-driven relative value equity investments in transactions such as corporate restructurings, strategic block, other clearly defined event, high-yield bonds, credit arbitrage and convertible bond arbitrage, in/post-bankruptcy equities, demutualizations, liquidations and litigation claims, real estate securities, business development companies, master limited partnership interests, royalty trusts, publicly traded partnerships, options and other equity derivatives.

#### **Arena Finance**

Arena Finance is a specialty finance company that primarily purchases fundamentals-based, asset-oriented credit investments for its own account. Arena Finance, through its subsidiaries, uses funds to primarily acquire loans and/or other credit investments from Arena Origination or other third parties at their fair market value. Arena Finance does not have a target range of investment; the size of the loans and/or other credit investments acquired from Arena Origination or other third parties depends on, among other things, any diversity requirements which may be imposed by any lender as well as the investment policy of Arena Finance. In the absence of such requirements, Arena Finance is not subject to concentration limitations but the management of Arena Finance will use its best judgment as to what is prudent in the circumstances. Arena Finance seeks to capitalize on opportunities in both private and public investments subject to its investment policy.

Before acquiring any such loans or other investments, Arena Finance reviews the nature of the loan, the creditworthiness of the borrower, the nature and extent of any collateral and the expected return on such loan or investment. Arena Finance acquires such loans or investments based on its assessment of the fair market value of the investment at the time of purchase.

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**3. INVESTMENTS (continued)**

On June 9, 2017, the Company used part of the proceeds from the Fairfax financing to loan C\$30 million to AFHC (the "AFHC Loan") on market terms. The AFHC Loan is denominated in C\$, repayable on demand (with a final repayment date not later than June 9, 2022) and secured by the assets of AFHC. The AFHC Loan carries interest at a rate of 4.5% per annum plus the greater of (i) 3-month LIBOR and (ii) 1%, with the applicable rate adjusted at the beginning of each quarter. Interest is due at the end of each calendar quarter. The AFHC Loan 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 (loss) and comprehensive income (loss). At September 30, 2017, the US\$ converted value of the AFHC Loan was \$24.1 million. The Company recorded an unrealized foreign exchange gain relating to the AFHC Loan of \$1.0 million and \$1.9 million in the three and nine months ended September 30, 2017, respectively. AFHC has used the loan proceeds for investment purposes.

The primary revenue of Arena Finance, through its subsidiaries, consists of interest income, dividend income and/or fees earned on the credit investments that it acquires. The operating results of Arena Finance also include gain (loss) on its investments.

Rights Granted to BP LLC

On August 31, 2015, Arena Finance and Bernard Partners, LLC ("BP LLC"), a limited liability company controlled by certain members of the Arena Group management team, entered into a limited liability company agreement in respect of AFHC (the "AFHC LLC Agreement") setting forth each of Arena Finance's and BP LLC's respective rights and obligations as members of AFHC. Under the AFHC LLC Agreement, BP LLC was issued Class M units which are convertible into Class A units, entitling BP LLC to acquire an equity interest of up to 20% (16.67% on a fully-diluted basis) in AFHC. The Class M units vest equally over 5 years from August 31, 2015 and carry escalating conversion prices which are in excess of the price paid by the Company for its investment in AFHC (through Arena Finance). No Class M units were converted into Class A units in the nine months ended September 30, 2017 and 2016.

Accounting for Arena Finance

The investment in Arena Finance is accounted for at FVTPL and is included in investments in private entities. The fair value of the Company's investment in Arena Finance was determined to be \$150.5 million at September 30, 2017 and \$142.8 million at December 31, 2016.

Management used net asset value as the primary valuation technique and arrived at the fair value of the Company's investment in Arena Finance of \$150.5 million at September 30, 2017. In valuing Arena Finance, using net asset value as the primary valuation technique, fair value was determined to be 1.0x the book value, or 100% of the shareholder's equity, of Arena Finance as at September 30, 2017. The Company determined that the shareholder's equity of Arena Finance at September 30, 2017 in the amount of \$150.5 million approximated the fair value, as the value of the Company's investment in Arena Finance was, through its subsidiaries, composed largely of cash and cash equivalents and investments, carried at fair value at September 30, 2017. This same basis of valuation was used to determine the fair value of the Company's investment in Arena Finance of \$142.8 million at December 31, 2016.

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

The Company recorded an unrealized gain of \$3.0 million and an unrealized loss of \$0.8 million in the three months ended September 30, 2017 and 2016, respectively, and an unrealized gain of \$7.7 million and an unrealized loss of \$1.4 million in the nine months ended September 30, 2017 and 2016, respectively, on its investment in Arena Finance.

Select Financial Information of Arena Finance

The Company considers certain financial results of Arena Finance, its subsidiary AFHC, and AFHC's subsidiaries to be important measures in assessing the Company's financial position and performance, in particular, the net assets which can be invested to generate investment income, and operating expenses. Select financial information related to Arena Finance, AFHC and AFHC's subsidiaries set out below is unaudited and has been derived from the unaudited financial statements of Arena Finance and the consolidated financial statements of AFHC for the three and nine months ended September 30, 2017 and 2016, which have been prepared in accordance with IFRS or US GAAP. Such statements are the responsibility of the management of Arena Finance and AFHC. Readers are cautioned that the financial information has not been reconciled to IFRS and so may not be comparable to the financial information of issuers that present their financial information in accordance with IFRS.

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**3. INVESTMENTS (continued)**

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

| (unaudited)<br>(millions except for percentage) | September 30, 2017 |  | December 31, 2016 |  |
|---|--------------------|--|-------------------|--|
|   | Fair value         | Percentage of net assets at fair value | Fair value        | Percentage of net assets at fair value |
| Cash and cash equivalents                       | \$ 51.6            | 34.2%                                  | \$ 30.5           | 21.3%                                  |
| Due from brokers, net                           | 7.3                | 4.8%                                   | 11.7              | 8.2%                                   |
| Investments:                                    |                    |  |                   |  |
| Loans / Private assets                          | 103.6              | 68.7%                                  | 93.8              | 65.5%                                  |
| Bonds   | 0.7                | 0.5%                                   | 1.4               | 1.0%                                   |
| Equity securities                               | 3.8                | 2.5%                                   | 1.4               | 1.0%                                   |
| Secondary bank debt                             | -                  | -                                      | 7.3               | 5.1%                                   |
| Private investment in public equity             | 7.5                | 5.0%                                   | 1.3               | 0.9%                                   |
| Fund investment                                 | 0.8                | 0.5%                                   | -                 | -                                      |
|   | <u>116.4</u>       | <u>77.2%</u>                           | <u>105.2</u>      | <u>73.5%</u>                           |
| Loan payable to Westaim                         | (24.1)             | (15.9)%                                | -                 | -                                      |
| Other net liabilities                           | (0.3)              | (0.3)%                                 | (4.4)             | (3.0)%                                 |
| Net assets of AFHC and AFHC's subsidiaries      | <u>\$ 150.9</u>    | <u>100.0%</u>                          | <u>\$ 143.0</u>   | <u>100.0%</u>                          |

Due from brokers consists of cash balances as well as net amounts due from brokers for unsettled securities transactions. Bonds and equity securities are net of short positions. In the normal course of AFHC's operations, AFHC enters into currency hedges to reduce its foreign currency exposure.

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

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

| (unaudited)<br>(millions)   | Three months ended September 30 |                 | Nine months ended September 30 |                 |
|---|---------------------------------|-----------------|--------------------------------|-----------------|
|   | 2017                            | 2016            | 2017                           | 2016            |
| Operating results of AFHC and AFHC's subsidiaries:                  |                                 |                 |                                |                 |
| Investment income, net  | \$ 2.8                          | \$ 1.2          | \$ 8.5                         | \$ 3.3          |
| Gain on investments   | 2.1                             | 0.4             | 4.8                            | 1.3             |
| Operating expenses:   |                                 |                 |                                |                 |
| Administrative and service fees                                     | (1.2)                           | (1.9)           | (4.2)                          | (5.2)           |
| Interest expense <sup>1</sup>                                       | (0.3)                           | -               | (0.4)                          | -               |
| Other operating expenses  | (0.3)                           | (0.4)           | (0.8)                          | (1.0)           |
|   | <u>3.1</u>                      | <u>(0.7)</u>    | <u>7.9</u>                     | <u>(1.6)</u>    |
| Operating results of Arena Finance:                                 |                                 |                 |                                |                 |
| Operating expenses:   |                                 |                 |                                |                 |
| Other operating expenses  | (0.1)                           | (0.1)           | (0.2)                          | (0.2)           |
| Deferred income tax recovery  | -                               | -               | -                              | 0.4             |
|   | <u>(0.1)</u>                    | <u>(0.1)</u>    | <u>(0.2)</u>                   | <u>0.2</u>      |
| Operating results of Arena Finance,<br>AFHC and AFHC's subsidiaries | <u>\$ 3.0</u>                   | <u>\$ (0.8)</u> | <u>\$ 7.7</u>                  | <u>\$ (1.4)</u> |

<sup>1</sup> On demand loan owed by AFHC to Westaim.

### 3. INVESTMENTS (continued)

#### *Arena Origination*

Arena Origination is a specialty finance company that, through its subsidiary AOC, originates fundamentals-based, asset-oriented credit investments for its own account and/or possible future sale to Arena Finance, clients of Arena Investors and/or third parties. Arena Origination is a taxable C-Corporation established in the state of Delaware and AOC is a U.S. based limited liability company established in the state of Delaware. Arena Origination invests in both debt and equity instruments, with an emphasis on debt instruments comprised of multiple investment strategies including, but not limited to, corporate private credit, real estate private credit and real estate assets, commercial & industrial assets, structured finance investments, consumer assets, and other securities. Arena Origination does not have a target range of investment; the size of the loans and/or other credit investments originated depends on, among other things, any diversity requirements which may be imposed by any lender as well as the investment policy of AOC. In the absence of such requirements, Arena Origination is not subject to concentration limitations but the management of Arena Origination will use its best judgment as to what is prudent in the circumstances. Arena Origination seeks to capitalize on opportunities in both private and public investments subject to its investment policy.

Before originating any such loans or other investments, Arena Origination reviews the nature of the loan, the creditworthiness of the borrower, the nature and extent of any collateral and the expected return on such loan or investment. Arena Origination originates such loans or investments based on its assessment of the fair market value of the investment at the time of purchase.

On June 6, 2017, the Company made an additional equity investment of \$7.0 million in Arena Origination by acquiring additional common shares of Arena Origination.

In connection with the original capitalization of Arena Origination, the Company loaned \$17 million to Arena Origination on August 31, 2015. The loan has a seven year term to August 31, 2022, is unsecured and carries interest at a rate of 7.25% per annum, with interest due on January 1 of each year during the term. On June 6, 2017, Arena Origination repaid \$7 million of the term loan to Westaim, with a remaining balance of \$10 million outstanding at September 30, 2017.

On June 9, 2017, the Company used part of the proceeds from the Fairfax financing to loan C\$20 million to AOC (the "AOC Loan") on market terms. The AOC Loan is denominated in C\$, repayable on demand (with a final repayment date not later than June 9, 2022) and secured by the assets of AOC. The AOC Loan carries interest at a rate of 4.5% per annum plus the greater of (i) 3-month LIBOR and (ii) 1%, with the applicable rate adjusted at the beginning of each quarter. Interest is due at the end of each calendar quarter. The AOC Loan 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 (loss) and comprehensive income (loss). At September 30, 2017, the US\$ converted value of the AOC Loan was \$16.0 million. The Company recorded an unrealized foreign exchange gain relating to the AOC Loan of \$0.6 million and \$1.2 million in the three and nine months ended September 30, 2017, respectively. AOC has used the loan proceeds for investment purposes.

The primary revenue of Arena Origination, through AOC, consists of interest income, dividend income and/or investment-related fees earned on the credit investments that it originates. The operating results of Arena Origination also include gain (loss) on its investments.

#### Rights Granted to BP LLC

On August 31, 2015, Arena Origination and BP LLC entered into a limited liability company agreement in respect of AOC (the "AOC LLC Agreement") setting forth each of Arena Origination's and BP LLC's respective rights and obligations as members of AOC. Under the AOC LLC Agreement, BP LLC was issued Class M units which are convertible into Class A units, entitling BP LLC to acquire an equity interest of up to 20% (16.67% on a fully-diluted basis) in AOC. The Class M units vest equally over 5 years from August 31, 2015 and carry escalating conversion prices which are in excess of the price paid by the Company for its investment in AOC (through Arena Origination). On June 5, 2017, a cash distribution of \$0.93 per Class A unit, totaling \$3.2 million, was made by AOC to Arena Origination, and in accordance with the AOC LLC Agreement, the escalating conversion prices of the Class M units were correspondingly reduced by \$0.93 per Class M unit. No Class M units were converted into Class A units in the nine months ended September 30, 2017 and 2016.

#### Accounting for Arena Origination

The investment in Arena Origination is accounted for at FVTPL and is included in investments in private entities. The fair value of the Company's investment in Arena Origination was determined to be \$33.9 million at September 30, 2017 and \$32.4 million at December 31, 2016.

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**3. INVESTMENTS (continued)**

Management used net asset value as the primary valuation technique and arrived at the fair value of the Company's investment in Arena Origination of \$33.9 million at September 30, 2017. In valuing Arena Origination, using net asset value as the primary valuation technique, management determined that 1.0x the book value, or 100% of the shareholder's equity, of Arena Origination of \$23.9 million at September 30, 2017 and the fair value of the term loan of \$10 million, totaling \$33.9 million, approximated the fair value of the Company's investment in Arena Origination. The Company's investment in Arena Origination, through AOC, was composed largely of cash and cash equivalents and investments, carried at fair value at September 30, 2017. This same basis of valuation was used to determine the fair value of the Company's investment in Arena Origination of \$32.4 million at December 31, 2016.

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

The Company recorded an unrealized gain of \$1.2 million and an unrealized loss of \$0.1 million in the three months ended September 30, 2017 and 2016, respectively, and an unrealized gain of \$1.5 million and an unrealized loss of \$0.5 million in the nine months ended September 30, 2017 and 2016, respectively, on its investment in Arena Origination.

Select Financial Information of Arena Origination

The Company considers certain financial results of Arena Origination and its subsidiary, AOC, to be important measures in assessing the Company's financial position and performance, in particular, the net assets which can be invested to generate investment income, and operating expenses. Select financial information related to Arena Origination and AOC set out below is unaudited and has been derived from the unaudited financial statements of Arena Origination and AOC for the three and nine months ended September 30, 2017 and 2016, which have been prepared in accordance with IFRS or US GAAP. Such statements are the responsibility of the management of Arena Origination and AOC. Readers are cautioned that the financial information has not been reconciled to IFRS and so may not be comparable to the financial information of issuers that present their financial information in accordance with IFRS.

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

| (unaudited)<br>(millions except for percentage) | September 30, 2017 |  | December 31, 2016 |  |
|---|--------------------|--|-------------------|--|
|   | Fair value         | Percentage of net assets at fair value | Fair value        | Percentage of net assets at fair value |
| Cash and cash equivalents                       | \$ 3.3             | 9.8%                                   | \$ 8.1            | 23.5%                                  |
| Due from brokers, net                           | 2.2                | 6.7%                                   | 7.5               | 21.8%                                  |
| Investments:                                    |                    |  |                   |  |
| Loans / Private assets                          | 37.6               | 111.7%                                 | 18.2              | 52.8%                                  |
| Bonds   | 0.2                | 0.5%                                   | 0.4               | 1.0%                                   |
| Equity securities                               | 1.6                | 4.7%                                   | 0.3               | 1.0%                                   |
| Private investment in public equity             | 4.0                | 11.9%                                  | -                 | -                                      |
|   | <u>43.4</u>        | <u>128.8%</u>                          | <u>18.9</u>       | <u>54.8%</u>                           |
| Loan payable to Westaim                         | (16.0)             | (47.6)%                                | -                 | -                                      |
| Other net assets (liabilities)                  | 0.8                | 2.3%                                   | (0.1)             | (0.1)%                                 |
| Net assets of AOC                               | <u>\$ 33.7</u>     | <u>100.0%</u>                          | <u>\$ 34.4</u>    | <u>100.0%</u>                          |

Due from brokers consists of cash balances as well as net amounts due from brokers for unsettled securities transactions. Bonds and equity securities are net of short positions. In the normal course of AOC's operations, AOC enters into currency hedges to reduce its foreign currency exposure.

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**3. INVESTMENTS (continued)**

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

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

| <b>(unaudited)</b><br>(millions)                      | Three months ended September 30 |                 | Nine months ended September 30 |                 |
|---|---------------------------------|-----------------|--------------------------------|-----------------|
|   | 2017                            | 2016            | 2017                           | 2016            |
| Operating results of AOC:                             |                                 |                 |                                |                 |
| Investment income, net                                | \$ 1.4                          | \$ 0.8          | \$ 3.1                         | \$ 1.9          |
| Gain on investments                                   | 0.8                             | -               | 1.0                            | 0.2             |
| Operating expenses:                                   |                                 |                 |                                |                 |
| Administrative and service fees                       | 0.1                             | (0.2)           | 0.3                            | (0.5)           |
| Interest expense <sup>1</sup>                         | (0.2)                           | -               | (0.2)                          | -               |
| Other operating expenses                              | (0.6)                           | (0.4)           | (1.7)                          | (1.1)           |
|   | <u>1.5</u>                      | <u>0.2</u>      | <u>2.5</u>                     | <u>0.5</u>      |
| Operating results of Arena Origination:               |                                 |                 |                                |                 |
| Operating expenses:                                   |                                 |                 |                                |                 |
| Interest expense <sup>2</sup>                         | (0.2)                           | (0.3)           | (0.8)                          | (0.9)           |
| Other operating expenses                              | (0.1)                           | -               | (0.2)                          | (0.1)           |
|   | <u>(0.3)</u>                    | <u>(0.3)</u>    | <u>(1.0)</u>                   | <u>(1.0)</u>    |
| <b>Operating results of Arena Origination and AOC</b> | <b>\$ 1.2</b>                   | <b>\$ (0.1)</b> | <b>\$ 1.5</b>                  | <b>\$ (0.5)</b> |

<sup>1</sup> On demand loan owed by AOC to Westaim.

<sup>2</sup> On term loan owed by WOH to Westaim.

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

| <b>(unaudited)</b><br>(millions)     | Three months ended September 30 |                | Nine months ended September 30 |                |
|--------------------------------------|---------------------------------|----------------|--------------------------------|----------------|
|                                      | 2017                            | 2016           | 2017                           | 2016           |
| Carrying value of Arena Origination: |                                 |                |                                |                |
| Opening balance                      | \$ 32.7                         | \$ 32.6        | \$ 32.4                        | \$ 33.0        |
| Addition - equity                    | -                               | -              | 7.0                            | -              |
| Repayment of term loan               | -                               | -              | (7.0)                          | -              |
| Unrealized gain (loss)               | 1.2                             | (0.1)          | 1.5                            | (0.5)          |
| Ending balance                       | <u>\$ 33.9</u>                  | <u>\$ 32.5</u> | <u>\$ 33.9</u>                 | <u>\$ 32.5</u> |

**Arena Investors**

Arena Investors consists of the Associates including the Company's indirect investment in WAHII (through WCA), ASOF-ON GP (through WCA), and its direct investment in ASOF-OFF II GP. WAHII is the sole limited partner of Arena Investors, LP, a limited partnership established under the laws of Delaware to carry on the third-party investment management business of the Arena Group.

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

Arena Investors generates revenues primarily from Management Fees, Performance Fees and Asset Servicing Fees. "Management Fees" are the fees generally calculated on Arena Investors' various segregated client accounts and managed funds as a percentage of assets under management ("AUM"). "Performance Fees" are the fees or profit allocation earned by Arena Investors calculated annually as a percentage of the appreciation (net of Management Fees and other expenses) in each of the client accounts and funds managed by Arena Investors, subject to a "high water mark" in respect of such client or fund, as determined from time to time. "Asset Servicing Fees" are the fees generally calculated on Arena Investors' various segregated client accounts and managed funds as a percentage of the fair value of the illiquid portion of the loan portfolios managed by Arena Investors.

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**3. INVESTMENTS (continued)**

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

In connection with the Private Placement, Fairfax also agreed to invest up to \$500 million in investments sourced by Arena Investors, LP. Fairfax's commitment to invest an initial \$125 million with Arena Investors, LP was triggered by Fairfax purchasing C\$50 million of Preferred Securities on June 2, 2017. See discussion in Section 4, *Financing* of this MD&A for additional information on the Private Placement. Subject to the satisfaction of certain conditions (including Westaim's compliance with the indenture governing the Preferred Securities), Fairfax has agreed to invest an additional \$125 million with Arena Investors, LP upon the next C\$25 million drawdown of Preferred Securities by Westaim, and an additional \$250 million upon the final C\$25 million drawdown of Preferred Securities by Westaim.

As of September 30, 2017, the Arena Group had committed AUM of approximately \$745 million. This amount includes the net assets of Arena Finance and Arena Origination totaling \$185 million and the initial committed AUM by Fairfax of \$125 million, but does not include any future investments which may be made by Fairfax as discussed above.

Rights Granted to BP LLC

On August 31, 2015, agreements were entered into between the Company (through WCA) and BP LLC in respect of WAHII and ASOF-ON GP and between Westaim and BP LLC in respect of ASOF-OFF II GP (the "Associate Agreements"). The Associate Agreements set forth the members' respective rights and obligations, as well as BP LLC's right to participate in distributions of the capital and profits of the Associates. BP LLC's initial profit sharing percentage is 49%, and under the Associate Agreements, BP LLC has the right to earn-in up to 75% equity ownership percentage in the Associates and share up to 75% of the profits of the Associates based on achieving certain AUM and cash flow (measured by the margin of trailing twelve months earnings before interest, income taxes, depreciation and amortization to trailing twelve month revenues) thresholds in accordance with the Associate Agreements.

Accounting for Arena Investors

The Company's investments in the Associates (Arena Investors) are accounted for using the equity method. On June 30, 2016, the Company made an additional equity investment of \$0.3 million in Arena Investors. The carrying amount of the Company's investments in the Associates was \$(1.4) million at September 30, 2017 and \$1.3 million at December 31, 2016. The total of the Company's 51% share of losses of the Associates of \$0.6 million and \$0.8 million in the three months ended September 30, 2017 and 2016, respectively, and \$2.7 million and \$1.8 million in the nine months ended September 30, 2017 and 2016, respectively, was reported under "Net results of investments" in the consolidated statements of profit (loss) and comprehensive income (loss).

Select Financial Information of Arena Investors

The Company considers certain financial results of Arena Investors to be important measures in assessing the Company's financial position and performance, in particular, the AUM used in the calculation of revenues from the provision of investment management services, and operating expenses. Select financial information related to Arena Investors set out below is unaudited and has been derived from the unaudited financial statements of WAHII, ASOF-ON GP and ASOF-OFF II GP for the three and nine months ended September 30, 2017 and 2016, which have been prepared in accordance with US GAAP. Such statements are the responsibility of the management of Arena Investors. Management of the Company concluded that any reconciling items to IFRS are not material.

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**3. INVESTMENTS (continued)**

Select financial information of Arena Investors is as follows:

Statement of Financial Position <sup>1</sup>

| <b>(unaudited)</b><br>(millions)                                  | September 30, 2017 | December 31, 2016 |
|---|--------------------|-------------------|
| Cash and cash equivalents   | \$ 0.5             | \$ 0.6            |
| Restricted cash   | 6.6                | 2.9               |
| Advances from Westaim   | (4.4)              | (4.4)             |
| Loan from AFHC  | (6.5)              | (2.0)             |
| Other net liabilities   | (7.9)              | (3.5)             |
| <b>Net liabilities</b>  | <b>\$ (11.7)</b>   | <b>\$ (6.4)</b>   |
| <br>  |                    |                   |
| Company's share   | \$ (5.8)           | \$ (3.1)          |
| Advances to Arena Investors                                       | 4.4                | 4.4               |
| <b>Carrying amount of the Company's investments in Associates</b> | <b>\$ (1.4)</b>    | <b>\$ 1.3</b>     |

<sup>1</sup> Includes the accounts of WAHII, ASOF-ON GP and ASOF-OFF II GP prepared in accordance with US GAAP with no material reconciling differences to IFRS. The restricted cash includes deposits related to investment loans received in advance.

Westaim and AFHC have provided funding of \$4.4 million and \$6.5 million, respectively, to Arena Investors for working capital purposes. These funding amounts are expected to be repaid in priority to any profit distribution or cash flow participation by the owners or profit participants of Arena Investors.

Statement of Loss and Comprehensive Loss <sup>1</sup>

| <b>(unaudited)</b><br>(millions)                     | Three months ended September 30 |                 | Nine months ended September 30 |                 |
|--|---------------------------------|-----------------|--------------------------------|-----------------|
|  | 2017                            | 2016            | 2017                           | 2016            |
| Management, asset servicing and performance fees     | \$ 2.4                          | \$ 0.4          | \$ 5.4                         | \$ 0.9          |
| Administrative and service fees                      | 1.1                             | 2.0             | 3.9                            | 5.6             |
| Operating expenses                                   | (4.7)                           | (4.0)           | (14.6)                         | (10.0)          |
| <b>Loss and comprehensive loss</b>                   | <b>\$ (1.2)</b>                 | <b>\$ (1.6)</b> | <b>\$ (5.3)</b>                | <b>\$ (3.5)</b> |
| <br>   |                                 |                 |                                |                 |
| <b>Company's share of losses of Associates (51%)</b> | <b>\$ (0.6)</b>                 | <b>\$ (0.8)</b> | <b>\$ (2.7)</b>                | <b>\$ (1.8)</b> |

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

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

Operating expenses of \$4.7 million for the three months ended September 30, 2017 included \$3.3 million in salaries and benefits, \$0.6 million in professional fees and \$0.8 million in general, administrative and other expenses. Operating expenses of \$4.0 million for the three months ended September 30, 2016 included \$3.2 million in salaries and benefits, \$0.2 million in professional fees, and \$0.6 million in general, administrative and other expenses.

Operating expenses of \$14.6 million for the nine months ended September 30, 2017 included \$9.3 million in salaries and benefits, \$1.7 million in professional fees, \$1.5 million in foreign exchange loss, and \$2.1 million in general, administrative and other expenses. Operating expenses of \$10.0 million for the nine months ended September 30, 2016 included \$7.9 million in salaries and benefits, \$0.7 million in professional fees, and \$1.4 million in general, administrative and other expenses.

**C. OTHER INVESTMENTS**

The Company's investment in ASOF LP, a fund managed by Arena Investors, LP, with a fair value of \$2.1 million at September 30, 2017 and \$1.9 million at December 31, 2016, was included in other assets in the consolidated statements of financial position. The Company's unrealized gain on its investment in ASOF LP was \$0.1 million and \$0.2 million in the three and nine months ended September 30, 2017, respectively (2016 - nominal).

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**4. FINANCING**

Preferred Securities

Fairfax agreed to purchase, on a private placement basis, up to 10,000,000 Preferred Securities for aggregate proceeds of up to C\$100 million. 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 issuable in tranches of not less than 2,500,000 Preferred Securities.

On June 2, 2017, the Company closed the sale to Fairfax of 5,000,000 Preferred Securities for C\$50 million, and has discretion until January 1, 2018 to require Fairfax to purchase all or part of the remaining 5,000,000 Preferred Securities. The Preferred Securities are subordinate secured securities that will mature on May 26, 2116 but may be repaid, in whole or in part, by the Company at any time after June 2, 2022 and at any time after June 2, 2020 if the volume-weighted average trading price of Westaim's common shares for any 10 day period prior to the date on which the applicable redemption notice is given is at least C\$5.60.

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 (loss) and comprehensive income (loss). At September 30, 2017, the US\$ converted amount of the Preferred Securities was \$40.1 million, and the Company recorded an unrealized foreign exchange loss of \$1.6 million and \$3.1 million relating to the Preferred Securities in the three and nine months ended September 30, 2017, respectively.

Interest on the Preferred Securities amounted to \$0.5 million and \$0.7 million in the three and nine months ended September 30, 2017, respectively. At September 30, 2017, interest of \$0.5 million (December 31, 2016 - \$nil) was accrued in the consolidated statements of financial position.

Transaction costs incurred for the issuance of the Preferred Securities was nominal in the three months ended September 30, 2017 and \$0.5 million in the nine months ended September 30, 2017, respectively, and were recorded as an expense in the consolidated statements of profit (loss) and comprehensive income (loss).

Warrants

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

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

Changes to the derivative warrant liability are as follows:

|                                  | Three months ended<br>September 30, 2017 | Nine months ended<br>September 30, 2017 |
|----------------------------------|--|---|
| Opening balance                  | \$ 9.0                                   | \$ -                                    |
| Expense upon initial recognition | -  | 9.0                                     |
| Change in fair value             | (3.3)                                    | (3.6)                                   |
| Unrealized foreign exchange loss | 0.4                                      | 0.7                                     |
| Ending balance                   | \$ 6.1                                   | \$ 6.1                                  |

The Company recorded an expense of \$9.0 million upon initial recognition of the vested Warrants on June 2, 2017. In the three and nine months ended September 30, 2017, the Company recognized unrealized gains of \$3.3 million and \$3.6 million, respectively, resulting from a change in the fair value of the vested Warrants. The Company also recorded unrealized foreign exchange losses with respect to the vested Warrants of \$0.4 million and \$0.7 million in the three and nine months ended September 30, 2017, respectively, under foreign exchange in the consolidated statements of profit (loss) and comprehensive income (loss). At September 30, 2017, a liability of \$6.1 million had been accrued with respect to the vested Warrants in the consolidated statements of financial position.

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**4. FINANCING (continued)**

The fair value of the vested Warrants at September 30, 2017 of \$6.1 million was estimated using the Monte Carlo pricing model assuming no dividends are paid on the common shares, a risk-free interest rate of 1.62%, an expiration date between June 2, 2020 and June 2, 2024, and a volatility of 25.79%. The amounts computed according to the Monte Carlo pricing model may not be indicative of the actual values realized upon the exercise of the vested Warrants by Fairfax.

**5. ANALYSIS OF FINANCIAL RESULTS**

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

| (millions)                                    | Three months ended September 30 |          | Nine months ended September 30 |          |
|---|---------------------------------|----------|--------------------------------|----------|
|   | 2017                            | 2016     | 2017                           | 2016     |
| Revenue                                       | \$ 1.1                          | \$ 0.6   | \$ 2.5                         | \$ 2.0   |
| Net results of investments                    | 4.3                             | (2.3)    | 10.8                           | (2.1)    |
| Expenses                                      |                                 |          |                                |          |
| Salaries and benefits                         | 1.0                             | 0.9      | 2.8                            | 2.6      |
| General, administrative and other             | 0.2                             | 0.2      | 0.8                            | 0.8      |
| Professional fees                             | 0.2                             | 0.1      | 0.6                            | 0.8      |
| Site restoration provision                    | (0.6)                           | (0.2)    | (0.3)                          | 1.0      |
| Share-based compensation                      | 0.4                             | 1.0      | 2.7                            | 1.7      |
| Foreign exchange loss                         | 0.8                             | -        | 1.4                            | 0.4      |
| Interest on preferred securities              | 0.5                             | -        | 0.7                            | -        |
| Derivative warrants                           | (3.3)                           | -        | 5.4                            | -        |
| Preferred securities issuance costs           | -                               | -        | 0.5                            | -        |
|   | \$ (0.8)                        | \$ 2.0   | \$ 14.6                        | \$ 7.3   |
| Profit (loss) and comprehensive income (loss) | \$ 6.2                          | \$ (3.7) | \$ (1.3)                       | \$ (7.4) |

**5.1 Revenue**

Revenue for the three months ended September 30, 2017 of \$1.1 million (2016 - \$0.6 million) consisted of interest income of \$0.7 million (2016 - \$0.3 million) and advisory fees of \$0.4 million (2016 - \$0.3 million). In the three months ended September 30, 2017, the Company earned interest on loans made to the Arena Group of \$0.7 million (2016 - \$0.3 million). In the same period, the Company earned advisory fees from HIIG of \$0.2 million (2016 - \$0.2 million) and from the Arena Group of \$0.2 million (2016 - \$0.1 million).

Revenue for the nine months ended September 30, 2017 of \$2.5 million (2016 - \$2.0 million) consisted of interest income of \$1.4 million (2016 - \$0.9 million) and advisory fees of \$1.1 million (2016 - \$1.1 million). In the nine months ended September 30, 2017, the Company earned interest on loans made to the Arena Group of \$1.4 million (2016 - \$0.9 million). In the same period, the Company earned advisory fees from HIIG of \$0.7 million (2016 - \$0.7 million) and from the Arena Group of \$0.4 million (2016 - \$0.4 million).

**5.2 Net Results of Investments**

Net results of investments were a gain of \$4.3 million for the three months ended September 30, 2017 (2016 - loss of \$2.3 million), consisting of an unrealized gain on the Company's investments in private entities of \$4.8 million (2016 - loss of \$1.5 million), an unrealized gain on other investments of \$0.1 million (2016 - \$nil) and the Company's share of losses of its Associates of \$0.6 million (2016 - \$0.8 million).

Net results of investments were a gain of \$10.8 million for the nine months ended September 30, 2017 (2016 - loss of \$2.1 million), consisting of an unrealized gain on the Company's investments in private entities of \$13.3 million (2016 - loss of \$0.3 million), an unrealized gain on other investments of \$0.2 million (2016 - \$nil) and the Company's share of losses of its Associates of \$2.7 million (2016 - \$1.8 million).

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

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**5. ANALYSIS OF FINANCIAL RESULTS (continued)**

*Investments in Private Entities*

The Company's investments in private entities are accounted for at FVTPL. In the three months ended September 30, 2017, the Company recorded unrealized gains of \$0.6 million on its investment in the HIIG Partnership (2016 - loss of \$0.6 million), \$3.0 million on its investment in Arena Finance (2016 - loss of \$0.8 million), and \$1.2 million on its investment in Arena Origination (2016 - loss of \$0.1 million). In the nine months ended September 30, 2017, the Company recorded unrealized gains of \$4.1 million on its investment in the HIIG Partnership (2016 - \$1.6 million), \$7.7 million on its investment in Arena Finance (2016 - loss of \$1.4 million), and \$1.5 million on its investment in Arena Origination (2016 - loss of \$0.5 million).

*Investments in Associates*

The Company's investments in the Associates are accounted for using the equity method. In the three months ended September 30, 2017, the Associates earned management, performance and asset servicing fees of \$2.4 million (2016 - \$0.4 million) and administrative and service fees of \$1.1 million (2016 - \$2.0 million) and incurred operating expenses of \$4.7 million (2016 - \$4.0 million), resulting in a loss of \$1.2 million (2016 - \$1.6 million). In the nine months ended September 30, 2017, the Associates earned management, performance and asset servicing fees of \$5.4 million (2016 - \$0.9 million) and administrative and service fees of \$3.9 million (2016 - \$5.6 million) and incurred operating expenses of \$14.6 million (2016 - \$10.0 million), resulting in a loss of \$5.3 million (2016 - \$3.5 million). Operating expenses included a \$1.5 million charge relating to a non-recurring foreign currency hedging transaction in the nine months ended September 30, 2017.

The total of the Company's 51% share of losses of the Associates amounted to \$0.6 million and \$0.8 million in the three months ended September 30, 2017 and 2016, respectively, and \$2.7 million and \$1.8 million in the nine months ended September 30, 2017 and 2016, respectively.

*5.3 Expenses*

Salaries and benefits and general, administrative and other expenses in the three and nine months ended September 30, 2017 were comparable to the corresponding periods in the prior year.

Professional fees generally include legal, accounting and consulting fees and the expense in the three months ended September 30, 2017 was comparable to the expense in the three months ended September 30, 2016. Professional fees were \$0.2 million lower in the nine months ended September 30, 2017 when compared to the nine months ended September 30, 2016, primarily due to additional professional services rendered in the first quarter of 2016 for general corporate matters.

The Company has provided indemnifications to third parties with respect to future site restoration costs to be incurred on industrial sites formerly owned by the Company. Variations in the Company's site restoration provision expense from period to period are generally attributed to changes in the discount and inflation rates used to arrive at the site restoration provision. Reimbursements of site restoration costs are recorded when received.

Changes in share-based compensation expense from period to period result from the vesting of RSUs, the issuance of DSUs in lieu of director fees, as well as movement in the Company's share price which affects the per unit valuation of outstanding RSUs and DSUs. Share-based compensation expense in the three and nine months ended September 30, 2017 also included compensation expense for stock options of \$0.6 million (2016 - \$0.3 million) and \$1.4 million (2016 - \$0.5 million), respectively. See Section 8, *Liquidity and Capital Resources* of this MD&A for additional information on the Company's share-based compensation plans.

The Company holds C\$ denominated assets and liabilities and the Company's operating results include foreign exchange gains or losses arising from the revaluation of the Company's C\$ denominated net liabilities into US\$ at period end exchange rates. The following is a breakdown of the major components of the foreign exchange loss in the three and nine months ended September 30, 2017 and 2016:

| (millions)                                | Three months ended<br>September 30 |      | Nine months ended<br>September 30 |          |
|---|------------------------------------|------|-----------------------------------|----------|
|   | 2017                               | 2016 | 2017                              | 2016     |
| Foreign exchange (loss) gain relating to: |                                    |      |                                   |          |
| - site restoration provision              | \$ (0.2)                           | \$ - | \$ (0.3)                          | \$ (0.2) |
| - liabilities for RSUs and DSUs           | (0.3)                              | -    | (0.5)                             | (0.3)    |
| - Preferred securities                    | (1.6)                              | -    | (3.1)                             | -        |
| - AFHC and AOC loans receivable           | 1.6                                | -    | 3.1                               | -        |
| - derivative warrant liability            | (0.4)                              | -    | (0.7)                             | -        |
| - other                                   | 0.1                                | -    | 0.1                               | 0.1      |
|   | \$ (0.8)                           | \$ - | \$ (1.4)                          | \$ (0.4) |

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**5. ANALYSIS OF FINANCIAL RESULTS (continued)**

In the three and nine months ended September 30, 2017, interest on preferred securities was \$0.5 million and \$0.7 million, respectively, derivative warrants were an unrealized gain of \$3.3 million and a net expense of \$5.4 million, respectively, and preferred securities issuance costs were nominal and \$0.5 million, respectively. See discussion in Section 4, *Financing* of this MD&A for additional information on these expense items.

**6. ANALYSIS OF FINANCIAL POSITION**

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

| (millions)  | September 30, 2017 | December 31, 2016 |
|---|--------------------|-------------------|
| <b>Assets</b>                                     |                    |                   |
| Cash and cash equivalents                         | \$ 2.8             | \$ 3.0            |
| AFHC and AOC loans receivable                     | 40.1               | -                 |
| Other assets                                      | 2.7                | 4.4               |
| Investments                                       | 332.4              | 321.8             |
|   | \$ 378.0           | \$ 329.2          |
| <b>Liabilities</b>                                |                    |                   |
| Accounts payable and accrued liabilities          | \$ 9.8             | \$ 7.3            |
| Preferred securities                              | 40.1               | -                 |
| Derivative warrant liability                      | 6.1                | -                 |
| Site restoration provision                        | 3.4                | 3.4               |
|   | 59.4               | 10.7              |
| Shareholders' equity                              | 318.6              | 318.5             |
| <b>Total liabilities and shareholders' equity</b> | <b>\$ 378.0</b>    | <b>\$ 329.2</b>   |

**6.1 Cash and Cash Equivalents**

At September 30, 2017, the Company had cash and cash equivalents of \$2.8 million compared to \$3.0 million at December 31, 2016.

**6.2 Loans Receivable**

On June 9, 2017, the Company used the proceeds from the Fairfax financing to loan C\$30 million to AFHC and C\$20 million to AOC on market terms. For additional information on these loans, see discussion in Section 3, *Investments* of this MD&A. At September 30, 2017, the carrying amount of the loans totaled \$40.1 million.

**6.3 Other Assets**

Other assets at September 30, 2017 included the Company's portfolio investment in ASOP LP with a fair value of \$2.1 million (December 31, 2016 - \$1.9 million). Other assets at September 30, 2017 also included \$0.1 million of capital assets (December 31, 2016 - \$0.1 million). Depreciation expense for the capital assets was nominal for the three and nine months ended September 30, 2017 and 2016.

**6.4 Investments**

*Investments in Private Entities*

The Company's investments in private entities consist of its investments in HIIG (through the HIIG Partnership), Arena Finance and Arena Origination, which are accounted for at FVTPL. The fair values of the HIIG Partnership, Arena Finance and Arena Origination at September 30, 2017 were determined to be \$149.4 million, \$150.5 million and \$33.9 million, respectively (December 31, 2016 - \$145.3 million, \$142.8 million and \$32.4 million, respectively). See discussion in Section 3, *Investments* of this MD&A.

*Investments in Associates*

The Company's investments in associates consist of the Company's indirect investment in Arena Investors. These investments are accounted for using the equity method. The carrying value of the Company's investments in the Associates at September 30, 2017 was \$(1.4) million (December 31, 2016 - \$1.3 million). See discussion in Section 3, *Investments* of this MD&A.

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**6. ANALYSIS OF FINANCIAL POSITION (continued)**

6.5 Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities were \$9.8 million at September 30, 2017 and \$7.3 million at December 31, 2016. Accounts payable and accrued liabilities at September 30, 2017 included liabilities related to accrued employee bonuses of \$1.2 million (December 31, 2016 - \$0.8 million), RSUs of \$6.7 million (December 31, 2016 - \$5.4 million), DSUs of \$0.9 million (December 31, 2016 - \$0.8 million), and interest accrued on the Preferred Securities of \$0.5 million (December 31, 2016 - \$nil). See Section 8, *Liquidity and Capital Resources* of this MD&A for additional information on the Company's share-based compensation plans.

6.6 Preferred Securities

On June 2, 2017, the Company closed the sale to 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 September 30, 2017 of \$40.1 million. See discussion in Section 4, *Financing* of this MD&A.

6.7 Derivative Warrant Liability

In conjunction with the purchase by Fairfax of C\$50 million in Preferred Securities on June 2, 2017, Westaim also issued to Fairfax 28,571,430 Warrants, with 14,285,715 Warrants having vested on June 2, 2017. The Warrants are subject to a cashless exercise at the discretion of Fairfax and are classified as a derivative liability and measured at FVTPL. At September 30, 2017, a liability of \$6.1 million (December 31, 2016 - \$nil) representing the estimated fair value of the vested Warrants had been accrued in the consolidated statements of financial position. No liability has been accrued with respect to the unvested Warrants. See discussion in Section 4, *Financing* of this MD&A.

6.8 Site Restoration Provision

The site restoration provision of \$3.4 million at September 30, 2017 and December 31, 2016 relates to future site restoration costs associated with soil and groundwater reclamation and remediation costs relating to industrial sites previously owned by the Company.

The Company conducts periodic reviews of the underlying assumptions supporting the provision, taking into consideration the anticipated method and extent of the remediation consistent with regulatory requirements, industry practices, current technology and possible uses of the site. The amount of the provision is the present value of the estimated future restoration costs discounted using interest rates of high quality government bonds in relation to the estimated timing of cash outflows.

Future reimbursements of costs resulting from indemnifications provided to the Company by previous owners of the industrial sites have not been recognized in the Company's consolidated financial statements. Reimbursements are recorded when received.

6.9 Shareholders' Equity

The details of shareholders' equity are as follows:

| (millions)                           | September 30, 2017 | December 31, 2016 |
|--------------------------------------|--------------------|-------------------|
| Common shares                        | \$ 382.2           | \$ 382.2          |
| Contributed surplus                  | 13.6               | 12.2              |
| Accumulated other comprehensive loss | (2.2)              | (2.2)             |
| Deficit                              | (75.0)             | (73.7)            |
| Shareholders' equity                 | \$ 318.6           | \$ 318.5          |

*Common Shares*

The Company had 143,186,718 common shares outstanding at September 30, 2017 and December 31, 2016.

*Contributed Surplus*

The increase in contributed surplus of \$1.4 million resulted from compensation expense relating to stock options in the nine months ended September 30, 2017.

## 6. ANALYSIS OF FINANCIAL POSITION (continued)

### *Accumulated Other Comprehensive Loss*

Accumulated other comprehensive loss of \$2.2 million at September 30, 2017 and December 31, 2016 comprised cumulative exchange differences from currency restatement as a result of a change in presentation currency from the C\$ to the US\$ on August 31, 2015.

### *Deficit*

The increase in deficit of \$1.3 million from December 31, 2016 to September 30, 2017 is due to the loss for the nine months ended September 30, 2017.

## 7. OUTLOOK

The focus of Arena's management team is to continue to expand Arena's diversified portfolio of quality senior ranking credit investments, increase its pipeline of investment opportunities, and grow its AUM primarily by attracting new third-party investors. Arena's investments are performing at or above expectations and Arena had 40 employees as at September 30, 2017.

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

The Company is continuing to seek additional investment opportunities to create shareholder value through partnering with other aligned and experienced management teams to build profitable businesses that generate attractive returns over the long term.

## 8. LIQUIDITY AND CAPITAL RESOURCES

### Capital Management Objectives

The Company's capital currently consists of the Preferred Securities and common shareholders' equity. It may have different components in the future.

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

The Company monitors the mix and adequacy of its capital on a continuous basis using internal metrics. The capital of the Company is not subject to any restrictions.

### Share Capital

The Company's authorized share capital consists of an unlimited number of common shares, Class A preferred shares and Class B preferred shares.

At September 30, 2017 and December 31, 2016, the Company had 143,186,718 common shares outstanding, with a stated capital of \$382.2 million.

There were no Class A or Class B preferred shares outstanding at September 30, 2017 and December 31, 2016.

### Dividends

No dividends were paid in the nine months ended September 30, 2017 and 2016.

### Share-based Compensation Plans

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

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**8. LIQUIDITY AND CAPITAL RESOURCES (continued)**

On March 31, 2016, the Company's Board of Directors approved amendments to the Incentive Plan which, among other things, increased the maximum number of common shares which may be issued under the Incentive Plan from 7,042,150 to 14,318,671. Such amendments were approved by the shareholders of the Company at the annual and special meeting of shareholders held on May 12, 2016. The Option Plan is a "rolling plan" which provides that the aggregate number of common shares which may be reserved for issuance under the Option Plan is limited to not more than 10% of the aggregate number of common shares outstanding. However, each of the Incentive Plan and the Option Plan provide that under no circumstances shall there be common shares issuable under such plan, together with all other security-based compensation arrangements of the Company, which exceed 10% of the aggregate number of common shares outstanding.

At September 30, 2017, the Company had 6,613,337 stock options outstanding (December 31, 2016 - 2,754,940 stock options outstanding). On April 1, 2016, 2,752,940 options were granted to certain officers and employees of the Company. These options have a term of seven years, vest in three equal instalments on April 1, 2017, April 1, 2018 and April 1, 2019, and have an exercise price of C\$3.25. At September 30, 2017, 917,646 of these 2,752,940 outstanding options had vested. On April 3, 2017, 3,860,397 additional options were granted to certain officers and employees of the Company. The options have a term of seven years, vest in three equal instalments on December 31, 2017, December 31, 2018 and December 31, 2019, and have an exercise price of C\$3.00. At September 30, 2017, none of these 3,860,397 additional options had vested.

In the three and nine months ended September 30, 2017, compensation expense relating to options was \$0.6 million (2016 - \$0.3 million) and \$1.4 million (2016 - \$0.5 million), respectively, with an offsetting increase to contributed surplus.

At September 30, 2017, the Company had 392,412 DSUs outstanding (December 31, 2016 - 398,731 DSUs outstanding). DSUs are issued to certain directors in lieu of director fees, at their election, at the market value of the Company's common shares at the date of grant and, with respect to the DSUs that are outstanding, are paid out in cash no later than the end of the calendar year following the year the participant ceases to be a director. In the nine months ended September 30, 2017, 92,525 DSUs were exercised for a cash payment of C\$2.99 per DSU and the DSU liability was correspondingly reduced by \$0.2 million.

The Company also had 3,034,261 RSUs outstanding at September 30, 2017 (December 31, 2016 - 3,082,073 RSUs outstanding). On November 14, 2014, an aggregate of 2,375,000 RSUs were granted to certain officers, employees and consultants. At September 30, 2017, all of these RSUs had vested, of which 265,937 units had been exercised and 2,109,063 units were outstanding. On April 1, 2016, 925,198 additional RSUs were granted to certain officers and employees of the Company. These RSUs vest in three equal instalments on April 1, 2017, April 1, 2018 and December 31, 2018 and, once vested, may be settled, at the election of the holder, in common shares of the Company or cash based on the prevailing market price of the common shares on the settlement date. At September 30, 2017, 308,399 of these 925,198 outstanding RSUs had vested.

At September 30, 2017, accounts payable and accrued liabilities included amounts related to outstanding DSUs of \$0.9 million (December 31, 2016 - \$0.8 million) and outstanding RSUs of \$6.7 million (December 31, 2016 - \$5.4 million).

Market for Securities

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

Cash Flow Objectives

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

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**8. LIQUIDITY AND CAPITAL RESOURCES (continued)**

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

| September 30, 2017 (millions)                        | One year or less | One to five years | No specific date | Total           |
|--|------------------|-------------------|------------------|-----------------|
| <b>Financial assets:</b>                             |                  |                   |                  |                 |
| Cash and cash equivalents                            | \$ 2.8           | \$ -              | \$ -             | \$ 2.8          |
| AFHC and AOC loans receivable                        | -                | 40.1              | -                | 40.1            |
| Other assets (excluding capital assets)              | 0.5              | -                 | 2.1              | 2.6             |
| Investments  | -                | -                 | 332.4            | 332.4           |
| Total financial assets                               | 3.3              | 40.1              | 334.5            | 377.9           |
| <b>Financial obligations:</b>                        |                  |                   |                  |                 |
| Accounts payable and accrued liabilities             | 2.0              | -                 | 7.8              | 9.8             |
| Preferred securities                                 | -                | -                 | 40.1             | 40.1            |
| Site restoration provision                           | -                | -                 | 3.4              | 3.4             |
| Total financial obligations                          | 2.0              | -                 | 51.3             | 53.3            |
| <b>Financial assets net of financial obligations</b> | <b>\$ 1.3</b>    | <b>\$ 40.1</b>    | <b>\$ 283.2</b>  | <b>\$ 324.6</b> |

| December 31, 2016 (millions)                         | One year or less | One to five years | No specific date | Total           |
|--|------------------|-------------------|------------------|-----------------|
| <b>Financial assets:</b>                             |                  |                   |                  |                 |
| Cash and cash equivalents                            | \$ 3.0           | \$ -              | \$ -             | \$ 3.0          |
| Other assets (excluding capital assets)              | 2.4              | -                 | 1.9              | 4.3             |
| Investments  | -                | -                 | 321.8            | 321.8           |
| Total financial assets                               | 5.4              | -                 | 323.7            | 329.1           |
| <b>Financial obligations:</b>                        |                  |                   |                  |                 |
| Accounts payable and accrued liabilities             | 1.1              | -                 | 6.2              | 7.3             |
| Site restoration provision                           | -                | -                 | 3.4              | 3.4             |
| Total financial obligations                          | 1.1              | -                 | 9.6              | 10.7            |
| <b>Financial assets net of financial obligations</b> | <b>\$ 4.3</b>    | <b>\$ -</b>       | <b>\$ 314.1</b>  | <b>\$ 318.4</b> |

The Company's investment guidelines stress preservation of capital and market liquidity to support payment of liabilities. The matching of the duration of financial assets and liabilities is monitored to ensure that all obligations will be met.

**9. RELATED PARTY TRANSACTIONS**

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

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

| (millions)               | Three months ended September 30 |        | Nine months ended September 30 |        |
|--------------------------|---------------------------------|--------|--------------------------------|--------|
|                          | 2017                            | 2016   | 2017                           | 2016   |
| Salaries and benefits    | \$ 0.9                          | \$ 0.8 | \$ 2.5                         | \$ 2.3 |
| Share-based compensation | 0.3                             | 0.9    | 2.6                            | 1.6    |
|                          | \$ 1.2                          | \$ 1.7 | \$ 5.1                         | \$ 3.9 |

Fees paid to Hartford Consulting, Inc. (the "Consultant"), a company owned by William R. Andrus, a director of HIIG, for insurance industry related consulting services and compensation expense relating to RSUs issued to the Consultant were \$0.1 in each of the nine months ended September 30, 2017 and 2016. At September 30, 2017, a liability of \$0.1 million (December 31, 2016 - \$0.1 million) had been accrued in the consolidated statements of financial position with respect to outstanding RSUs held by the Consultant.

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**9. RELATED PARTY TRANSACTIONS (continued)**

On September 28, 2016, AFHC granted a \$10 million revolving loan facility to the Associates to fund the working capital needs of Arena Investors. The loan facility has a term of 36 months and bears interest at a rate of 5.25% per annum. On August 2, 2017, the limit of the facility was increased to \$15 million. At September 30, 2017, WAHII had drawn down the loan facility by \$6.5 million. The loan facility is secured by the assets of certain of the Associates.

The Company earned interest on the term loan to WOH of \$0.2 million and \$0.8 million in the three and nine months ended September 30, 2017, respectively, and 0.3 million and \$0.9 million in the three and nine months ended September 30, 2016, respectively. The Company earned interest on the demand loans to AFHC and AOC totaling \$0.6 million and \$0.7 million in the three and nine months ended September 30, 2017, respectively.

The Company earned advisory fees from the Arena Group of \$0.1 million in each of the three months ended September 30, 2017 and 2016 and \$0.4 million in each of the nine months ended September 30, 2017 and 2016. The Company also earned advisory fees from HIIG of \$0.2 million in each of the three months ended September 30, 2017 and 2016 and \$0.7 million in each of the nine months ended September 30, 2017 and 2016.

**10. CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS**

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

Management used net asset value as the primary valuation technique in determining the fair value of the Company's investments in private entities at September 30, 2017. Management determined that this valuation technique produced the best indicator of the fair value of the HIIG Partnership, Arena Finance and Arena Origination at September 30, 2017. The significant unobservable inputs used in the valuation of the HIIG Partnership, Arena Finance and Arena Origination at September 30, 2017 were the equity of each of the entities at September 30, 2017 and the multiple applied. Management applied a multiple of 1.0x as the equity (adjusted where applicable) of each of the HIIG Partnership, Arena Finance and Arena Origination approximated the net assets of the respective entity which were carried at fair value at September 30, 2017. For a detailed description of the valuation of the Company's investments in private entities, see note 5 to the Company's audited annual consolidated financial statements for the years ended December 31, 2016 and 2015. Due to the inherent uncertainty of valuation, management's estimated values may differ significantly from the values that would have been used had a ready market for the investment existed, and the differences could be material.

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

Other key estimates include the Company's provision for site restoration, fair value of share-based compensation, and unrecognized deferred tax assets. Details of these items are disclosed in note 7, note 10 and note 12, respectively, to the Company's audited annual consolidated financial statements for the years ended December 31, 2016 and 2015.

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

A description of the Company's accounting policies and other recently adopted and pending accounting pronouncements are disclosed in note 2 and note 3, respectively, to the audited annual consolidated financial statements for the years ended December 31, 2016 and 2015.

**12. QUARTERLY FINANCIAL INFORMATION**

|   | Q3     | Q2       | Q1     | Q4       | Q3       | Q2       | Q1     | Q4       |
|---|--------|----------|--------|----------|----------|----------|--------|----------|
| (millions)                                    | 2017   | 2017     | 2017   | 2016     | 2016     | 2016     | 2016   | 2015     |
| Revenue                                       | \$ 1.1 | \$ 0.7   | \$ 0.7 | \$ 0.7   | \$ 0.6   | \$ 0.7   | \$ 0.7 | \$ 0.5   |
| Net results of investments - gain (loss)      | 4.3    | 3.3      | 3.2    | (1.9)    | (2.3)    | (2.8)    | 3.0    | (3.2)    |
| Net recovery of expenses (expenses)           | 0.8    | (13.5)   | (1.9)  | 0.3      | (2.0)    | (3.0)    | (2.3)  | (3.0)    |
| Profit (loss) and comprehensive income (loss) | \$ 6.2 | \$ (9.5) | \$ 2.0 | \$ (0.9) | \$ (3.7) | \$ (5.1) | \$ 1.4 | \$ (5.7) |

## 12. QUARTERLY FINANCIAL INFORMATION (continued)

Revenue consisted of investment income and advisory fee income.

Net results of investments in Q3, 2017 included an unrealized gain on investments in private entities of \$4.8 million, an unrealized gain on other investments of \$0.1 million and share of losses of Associates of \$0.6 million. Net results of investments in Q2, 2017 included an unrealized gain on investments in private entities of \$4.8 million and share of losses of Associates of \$1.5 million. Net results of investments in Q1, 2017 included an unrealized gain on investments in private entities of \$3.7 million, an unrealized gain on other investments of \$0.1 million and share of losses of Associates of \$0.6 million. Net results of investments in Q4, 2016 included an unrealized loss on investments in private entities of \$1.3 million and share of losses of Associates of \$0.6 million. Net results of investments in Q3, 2016 included an unrealized loss on investments in private entities of \$1.5 million and share of losses of Associates of \$0.8 million. Net results of investments in Q2, 2016 included an unrealized loss on investments in private entities of \$2.2 million and share of losses of Associates of \$0.6 million. Net results of investments in Q1, 2016 included an unrealized gain on investments in private entities of \$3.4 million and share of losses of Associates of \$0.4 million. Net results of investments in Q4, 2015 included an unrealized loss on investments in private entities of \$2.7 million and share of losses of Associates of \$0.5 million.

Net recovery of expenses in Q3, 2017 comprised salaries and general and administrative costs of \$1.2 million, share-based compensation expense of \$0.4 million, professional fees of \$0.2 million, site restoration provision recovery of \$0.6 million, a foreign exchange loss of \$0.8 million, interest on preferred securities of \$0.5 million and an unrealized derivative warrant gain of \$3.3 million. Net expenses in Q2, 2017 comprised salaries and general and administrative costs of \$1.1 million, share-based compensation expense of \$2.0 million, professional fees of \$0.2 million, site restoration provision expense of \$0.3 million, a foreign exchange loss of \$0.5 million, interest on preferred securities of \$0.2 million, derivative warrant expense of \$8.7 million, and preferred securities issuance cost of \$0.5 million. Net expenses in Q1, 2017 comprised salaries and general and administrative costs of \$1.3 million, share-based compensation expense of \$0.3 million, professional fees of \$0.2 million and a foreign exchange loss of \$0.1 million.

Net recovery of expenses in Q4, 2016 comprised salaries and general and administrative costs of \$0.4 million, site restoration provision recovery of \$1.5 million, share-based compensation expense of \$0.9 million, professional fees of \$0.1 million and a foreign exchange gain of \$0.2 million. Net expenses in Q3, 2016 comprised salaries and general and administrative costs of \$1.1 million, site restoration provision recovery of \$0.2 million which was net of a reimbursement of \$0.4 million, share-based compensation expense of \$1.0 million and professional fees of \$0.1 million. Net expenses in Q2, 2016 comprised salaries and general and administrative costs of \$1.2 million, site restoration provision expense of \$0.9 million, share-based compensation expense of \$0.5 million, professional fees of \$0.3 million and a foreign exchange loss of \$0.1 million. Net expenses in Q1, 2016 comprised salaries and general and administrative costs of \$1.1 million, site restoration provision expense of \$0.3 million, professional fees of \$0.4 million, share-based compensation expense of \$0.2 million, and a foreign exchange loss of \$0.3 million.

Net expenses in Q4, 2015 comprised salaries and general and administrative costs of \$1.7 million, site restoration provision expense of \$0.7 million, professional fees of \$0.5 million and share-based compensation expense of \$0.2 million, net of a foreign exchange gain of \$0.1 million.

Other comprehensive income (loss) arose from exchange differences from currency restatement as a result of a change in presentation currency from the C\$ to the US\$ on August 31, 2015.

## 13. RISKS

The Company is subject to a number of risks which could affect its business, prospects, financial condition, results of operations and cash flows, including risks relating to lack of significant revenues, regulatory risks, foreign exchange risks and risks relating to the businesses of HIIG and Arena. A detailed description of the risk factors associated with the Company and its business is contained in the Company's Annual Information Form dated March 30, 2017 for its fiscal year ended December 31, 2016 which is available on SEDAR at [www.sedar.com](http://www.sedar.com).

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**14. ADDITIONAL ARENA GROUP INVESTMENT SCHEDULES**

ARENA FINANCE

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

| <b>Investments by Strategy</b>                           |                     |          |            | <b>September 30, 2017</b>               |                    |                      |
|--|---------------------|----------|------------|---|--------------------|----------------------|
| <b>(unaudited)</b>                                       |                     |          |            |   |                    |                      |
| (millions except for number of positions and percentage) | Number of positions | Cost     | Fair value | Percentage of investments at fair value | % Debt investments | % Equity investments |
| Corporate Private Credit                                 | 16                  | \$ 38.6  | \$ 39.9    | 34.3%                                   | 34.1%              | 0.2%                 |
| Real Estate Private Credit and Real Estate Assets        | 18                  | 15.7     | 15.7       | 13.5%                                   | 13.5%              | -                    |
| Structured Finance <sup>1</sup>                          | 25                  | 46.4     | 48.0       | 41.2%                                   | 41.0%              | 0.2%                 |
| Other Securities   | 20                  | 10.5     | 12.8       | 11.0%                                   | 0.6%               | 10.4%                |
|  | 79                  | \$ 111.2 | \$ 116.4   | 100.0%                                  | 89.2%              | 10.8%                |

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

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

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

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

| <b>Investments by Geographic Breakdown</b> | <b>September 30, 2017</b> |            |   | <b>December 31, 2016</b> |            |   |
|--|---------------------------|------------|---|--------------------------|------------|---|
|  | <b>(unaudited)</b>        |            |   |                          |            |   |
| (millions except for percentage)           | Cost                      | Fair value | Percentage of investments at fair value | Cost                     | Fair value | Percentage of investments at fair value |
| <b>Loans / Private Assets</b>              |                           |            |   |                          |            |   |
| United States                              | \$ 89.1                   | \$ 91.1    | 78.2%                                   | \$ 87.9                  | \$ 87.9    | 83.5%                                   |
| Canada                                     | 0.2                       | -          | -                                       | 0.3                      | -          | -                                       |
| Europe                                     | 11.4                      | 12.5       | 10.8%                                   | 6.2                      | 5.9        | 5.6%                                    |
|  | 100.7                     | 103.6      | 89.0%                                   | 94.4                     | 93.8       | 89.1%                                   |
| <b>Other Securities <sup>(1)</sup></b>     |                           |            |   |                          |            |   |
| United States                              | 2.5                       | 2.3        | 2.0%                                    | 8.2                      | 7.6        | 7.3%                                    |
| Europe                                     | 7.5                       | 10.0       | 8.6%                                    | 1.5                      | 2.5        | 2.4%                                    |
| Other                                      | 0.5                       | 0.5        | 0.4%                                    | 1.4                      | 1.3        | 1.2%                                    |
|  | 10.5                      | 12.8       | 11.0%                                   | 11.1                     | 11.4       | 10.9%                                   |
|  | \$ 111.2                  | \$ 116.4   | 100.0%                                  | \$ 105.5                 | \$ 105.2   | 100.0%                                  |

<sup>1</sup> Net of short positions

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**14. ADDITIONAL ARENA GROUP INVESTMENT SCHEDULES (continued)**

ARENA FINANCE

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

| Investments by Industry<br>(unaudited)                   | September 30, 2017               |                 |               | December 31, 2016                       |                 |               |   |
|--|----------------------------------|-----------------|---------------|---|-----------------|---------------|---|
|  | (millions except for percentage) | Cost            | Fair value    | Percentage of investments at fair value | Cost            | Fair value    | Percentage of investments at fair value |
| <b>Loans / Private Assets</b>                            |                                  |                 |               |   |                 |               |   |
| Corporate Private Credit                                 |                                  |                 |               |   |                 |               |   |
| Business Services  | \$ 12.4                          | \$ 12.9         | 11.1%         | \$ 11.8                                 | \$ 11.8         | 11.3%         |   |
| Consumer Products  | 1.2                              | 1.2             | 1.0%          | 3.6                                     | 3.6             | 3.4%          |   |
| Financial Services                                       | 6.5                              | 6.5             | 5.6%          | 4.5                                     | 4.5             | 4.2%          |   |
| Healthcare Services                                      | 3.5                              | 3.5             | 3.0%          | 9.5                                     | 9.5             | 9.1%          |   |
| Industrial   | -                                | -               | -             | 2.3                                     | 2.3             | 2.2%          |   |
| Manufacturing  | 2.7                              | 2.7             | 2.3%          | 2.9                                     | 2.9             | 2.7%          |   |
| Oil and Gas  | 7.0                              | 7.2             | 6.2%          | 3.0                                     | 3.0             | 2.8%          |   |
| Other Assets   | 5.1                              | 5.9             | 5.1%          | -                                       | -               | -             |   |
| Retail   | 0.2                              | -               | -             | 3.7                                     | 3.4             | 3.3%          |   |
|  | <u>38.6</u>                      | <u>39.9</u>     | <u>34.3%</u>  | <u>41.3</u>                             | <u>41.0</u>     | <u>39.0%</u>  |   |
| <b>Real Estate Private Credit and Real Estate Assets</b> |                                  |                 |               |   |                 |               |   |
| Hospitality  | 2.1                              | 2.2             | 1.9%          | 1.9                                     | 1.8             | 1.7%          |   |
| Industrial   | 0.4                              | 0.4             | 0.3%          | 0.4                                     | 0.4             | 0.4%          |   |
| Land   |                                  |                 |               |   |                 |               |   |
| - Commercial Development                                 | 5.3                              | 5.2             | 4.5%          | 0.4                                     | 0.3             | 0.3%          |   |
| Land   |                                  |                 |               |   |                 |               |   |
| - Multi-Family Development                               | 2.0                              | 2.0             | 1.7%          | 2.4                                     | 2.4             | 2.2%          |   |
| Land   |                                  |                 |               |   |                 |               |   |
| - Single-Family Development                              | 1.9                              | 1.9             | 1.6%          | 2.8                                     | 2.8             | 2.7%          |   |
| Mixed Use  | -                                | -               | -             | 0.3                                     | 0.3             | 0.3%          |   |
| Multi Family   | 0.3                              | 0.3             | 0.3%          | 0.4                                     | 0.4             | 0.3%          |   |
| Residential  | 3.4                              | 3.5             | 3.0%          | 3.4                                     | 3.4             | 3.2%          |   |
| Retail   | 0.3                              | 0.2             | 0.2%          | 0.3                                     | 0.2             | 0.2%          |   |
| Commercial   | -                                | -               | -             | 2.0                                     | 2.0             | 1.9%          |   |
|  | <u>15.7</u>                      | <u>15.7</u>     | <u>13.5%</u>  | <u>14.3</u>                             | <u>14.0</u>     | <u>13.2%</u>  |   |
| <b>Structured Finance</b>                                |                                  |                 |               |   |                 |               |   |
| Commercial & Industrial                                  | 2.0                              | 2.1             | 1.8%          | 2.0                                     | 2.0             | 1.9%          |   |
| Consumer   | 14.9                             | 15.5            | 13.3%         | 16.2                                    | 16.4            | 15.6%         |   |
| Lease/Equipment  | 15.0                             | 15.3            | 13.2%         | 4.6                                     | 4.6             | 4.4%          |   |
| Other Assets   | 14.5                             | 15.1            | 12.9%         | 12.0                                    | 11.8            | 11.2%         |   |
| Real Estate-related                                      | -                                | -               | -             | 4.0                                     | 4.0             | 3.8%          |   |
|  | <u>46.4</u>                      | <u>48.0</u>     | <u>41.2%</u>  | <u>38.8</u>                             | <u>38.8</u>     | <u>36.9%</u>  |   |
| <b>Total Loans / Private Assets</b>                      | <b>100.7</b>                     | <b>103.6</b>    | <b>89.0%</b>  | <b>94.4</b>                             | <b>93.8</b>     | <b>89.1%</b>  |   |
| <b>Other Securities <sup>(1)</sup></b>                   |                                  |                 |               |   |                 |               |   |
| Consumer Products  | 3.3                              | 3.5             | 3.0%          | 1.4                                     | 1.4             | 1.4%          |   |
| Financial Services                                       | 0.8                              | 0.9             | 0.7%          | 0.5                                     | 0.5             | 0.5%          |   |
| Healthcare Services                                      | 0.8                              | 0.9             | 0.8%          | 0.3                                     | 0.4             | 0.3%          |   |
| Industrial   | 3.3                              | 3.7             | 3.2%          | (0.1)                                   | (0.3)           | (0.3)%        |   |
| Information Technology                                   | 0.6                              | 0.6             | 0.5%          | -                                       | -               | -             |   |
| Oil and Gas  | 1.2                              | 2.6             | 2.3%          | 9.0                                     | 9.4             | 9.0%          |   |
| Telecommunications                                       | 0.5                              | 0.6             | 0.5%          | -                                       | -               | -             |   |
|  | <u>10.5</u>                      | <u>12.8</u>     | <u>11.0%</u>  | <u>11.1</u>                             | <u>11.4</u>     | <u>10.9%</u>  |   |
|  | <b>\$ 111.2</b>                  | <b>\$ 116.4</b> | <b>100.0%</b> | <b>\$ 105.5</b>                         | <b>\$ 105.2</b> | <b>100.0%</b> |   |

<sup>1</sup> Net of short positions

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**14. ADDITIONAL ARENA GROUP INVESTMENT SCHEDULES (continued)**

ARENA FINANCE

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

| Details of Loan and Private Asset Positions              |                             |                          |                     |                           |                     |                               |   | September 30, 2017 |  |
|--|-----------------------------|--------------------------|---------------------|---------------------------|---------------------|-------------------------------|---|--------------------|--|
| (unaudited)  |                             |                          |                     |                           |                     |                               |   |                    |  |
| (millions except for percentage)                         |                             |                          |                     |                           |                     |                               |   |                    |  |
| Ref. no.   | Investments by industry     | Principal <sup>(1)</sup> | Investments at cost | Investments at fair value | Geographic location | Collateral                    | Total coupon (including PIK) <sup>(2)</sup> | LTV <sup>(3)</sup> |  |
| <b>Corporate Private Credit</b>                          |                             |                          |                     |                           |                     |                               |   |                    |  |
| CPC-ARENARC1   | Financial Services          | \$ 10.0 <sup>(4)</sup>   | \$ 6.5              | \$ 6.5                    | United States       | First Lien                    | 5.25%                                       | n/a <sup>(4)</sup> |  |
| CPC-2209   | Other Assets                | 5.1                      | 5.1                 | 5.9                       | Europe              | First Lien                    | 10.02%                                      | 53.0%              |  |
| CPC-1571   | Business Services           | 4.8                      | 4.3                 | 4.4                       | Europe              | First Lien                    | 30.00%                                      | 56.0%              |  |
| CPC-1266TL   | Business Services           | 3.1                      | 3.1                 | 3.2                       | United States       | First Lien                    | 8.23%                                       | 36.0%              |  |
| CPC-1361TL   | Healthcare Services         | 2.7                      | 2.7                 | 2.7                       | United States       | First Lien                    | 12.00%                                      | 50.0%              |  |
| CPC-1101   | Manufacturing               | 2.7                      | 2.7                 | 2.7                       | United States       | Second Lien                   | 16.33%                                      | 55.0%              |  |
| CPC-1781   | Business Services           | 2.4                      | 2.4                 | 2.6                       | United States       | Second Lien                   | 11.00%                                      | 10.3%              |  |
| CPC-2208   | Business Services           | 2.3                      | 2.3                 | 2.4                       | United States       | Second Lien                   | 10.50%                                      | 11.0%              |  |
| CPC-2051   | Oil and Gas                 | 2.4                      | 2.3                 | 2.3                       | United States       | Second Lien                   | 12.73%                                      | 50.0%              |  |
| CPC-1450   | Oil and Gas                 | 2.3                      | 2.3                 | 2.3                       | United States       | First Lien                    | 10.78%                                      | 43.0%              |  |
| CPC-1783   | Oil and Gas                 | 2.3                      | 2.2                 | 2.2                       | United States       | First Lien                    | 12.66%                                      | 68.0%              |  |
| CPC-1265TL   | Consumer Products           | 1.0                      | 1.0                 | 1.0                       | United States       | First Lien                    | 8.33%                                       | 37.0%              |  |
| CPC-1630   | Healthcare Services         | 0.8                      | 0.8                 | 0.8                       | United States       | First Lien <sup>(5)</sup>     | 11.77%                                      | 50.0%              |  |
| CPC-1266RC   | Business Services           | 0.5                      | 0.3                 | 0.3                       | United States       | First Lien                    | 8.23%                                       | 36.0%              |  |
| CPC-1039   | Oil and Gas                 | -                        | -                   | 0.2                       | United States       | Unsecured                     | n/a <sup>(6)</sup>                          | n/a <sup>(6)</sup> |  |
| CPC-1010   | Oil and Gas                 | 0.2                      | 0.2                 | 0.2                       | United States       | First Lien                    | 14.00%                                      | 43.0%              |  |
| CPC-1265RC   | Consumer Products           | 0.4                      | 0.2                 | 0.2                       | United States       | First Lien                    | 8.33%                                       | 37.0%              |  |
| CPC-1009RC   | Retail                      | 0.2                      | 0.2                 | -                         | Canada              | First Lien                    | 6.70%                                       | 100.0%             |  |
| CPC-1009A  | Retail                      | -                        | -                   | -                         | Canada              | First Lien                    | 10.95%                                      | 100.0%             |  |
| CPC-1009B  | Retail                      | -                        | -                   | -                         | Canada              | First Lien                    | 12.95%                                      | 100.0%             |  |
| Subtotal / Weighted average %                            |                             | 43.2                     | 38.6                | 39.9                      |                     |                               | 12.33%                                      | 44.6%              |  |
| <b>Real Estate Private Credit and Real Estate Assets</b> |                             |                          |                     |                           |                     |                               |   |                    |  |
| REPC-2277  | Land                        |                          |                     |                           |                     |                               |   |                    |  |
|  | - Commercial Development    | 4.9                      | 4.9                 | 4.9                       | United States       | First Mortgage                | 12.50%                                      | 45.0%              |  |
| REPC-1207  | Hospitality                 | 2.5                      | 2.1                 | 2.2                       | Europe              | First Mortgage                | 7.00%                                       | 44.8%              |  |
| REPC-1082  | Land                        |                          |                     |                           |                     |                               |   |                    |  |
|  | - Single-Family Development | 1.9                      | 1.9                 | 1.9                       | United States       | First Mortgage                | 12.23%                                      | 51.0%              |  |
| REPC-1068S4  | Residential                 | 1.9                      | 1.9                 | 1.9                       | United States       | First Mortgage                | 10.73%                                      | 47.0%              |  |
| REPC-1766  | Residential                 | 0.9                      | 0.9                 | 1.0                       | United States       | First Mortgage                | 15.73%                                      | 67.0%              |  |
| REPC-1068S5  | Land                        |                          |                     |                           |                     |                               |   |                    |  |
|  | - Multi-Family Development  | 1.0                      | 1.0                 | 1.0                       | United States       | First Mortgage                | 12.00%                                      | 71.0%              |  |
| REPC-1068S3  | Land                        |                          |                     |                           |                     |                               |   |                    |  |
|  | - Multi-Family Development  | 1.0                      | 1.0                 | 1.0                       | United States       | First Mortgage <sup>(5)</sup> | 11.73%                                      | 70.0%              |  |
| REPC-1068  | Residential                 | 0.5                      | 0.5                 | 0.5                       | United States       | First Mortgage                | n/a <sup>(7)</sup>                          | 54.0%              |  |
| REPC-1029  | Multi-Family                | 0.3                      | 0.2                 | 0.2                       | United States       | First Mortgage                | 9.00%                                       | 35.0%              |  |
| REPC-1025  | Industrial                  | 0.2                      | 0.2                 | 0.2                       | United States       | Real Property                 | n/a <sup>(7)</sup>                          | n/a <sup>(8)</sup> |  |
| REPC-1017  | Land                        |                          |                     |                           |                     |                               |   |                    |  |
|  | - Commercial Development    | 0.2                      | 0.2                 | 0.2                       | United States       | First Mortgage                | 15.00%                                      | 66.0%              |  |
| REPC-1046  | Industrial                  | 0.2                      | 0.2                 | 0.2                       | United States       | First Mortgage                | 15.00%                                      | 55.0%              |  |
| REPC-1036  | Retail                      | 0.3                      | 0.3                 | 0.2                       | United States       | First Mortgage                | 2.75%                                       | 38.0%              |  |
| REPC-1047  | Land                        |                          |                     |                           |                     |                               |   |                    |  |
|  | - Commercial Development    | 0.1                      | 0.1                 | 0.1                       | United States       | First Mortgage                | 15.00%                                      | 50.0%              |  |
| REPC-1042  | Residential                 | 0.1                      | 0.1                 | 0.1                       | United States       | First Mortgage                | 15.00%                                      | 32.0%              |  |
| REPC-1031  | Multi-Family                | 0.1                      | 0.1                 | 0.1                       | United States       | First Mortgage                | 6.75%                                       | 53.0%              |  |
| REPC-1041  | Mixed Use                   | -                        | -                   | -                         | United States       | First Mortgage                | 13.00%                                      | 27.0%              |  |
| REPC-1015  | Land                        |                          |                     |                           |                     |                               |   |                    |  |
|  | - Commercial Development    | 0.2                      | 0.1                 | -                         | United States       | Real Property                 | n/a <sup>(7)</sup>                          | n/a <sup>(8)</sup> |  |
| Subtotal / Weighted average %                            |                             | 16.3                     | 15.7                | 15.7                      |                     |                               | 11.47%                                      | 51.1%              |  |

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**14. ADDITIONAL ARENA GROUP INVESTMENT SCHEDULES (continued)**

ARENA FINANCE

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

| Details of Loan and Private Asset Positions (continued) |                         |                          |                     |                           |                     |             |   | September 30, 2017  |  |
|---|-------------------------|--------------------------|---------------------|---------------------------|---------------------|-------------|---|---------------------|--|
| (unaudited)   |                         |                          |                     |                           |                     |             |   |                     |  |
| (millions except for percentage)                        |                         |                          |                     |                           |                     |             |   |                     |  |
| Ref. no.  | Investments by industry | Principal <sup>(1)</sup> | Investments at cost | Investments at fair value | Geographic location | Collateral  | Total coupon (including PIK) <sup>(2)</sup> | LTV <sup>(3)</sup>  |  |
| <b>Structured Finance</b>                               |                         |                          |                     |                           |                     |             |   |                     |  |
| SF-1793   | Lease/Equipment         | 9.6                      | 9.6                 | 9.6                       | United States       | Hard Asset  | n/a <sup>(9)</sup>                          | n/a <sup>(9)</sup>  |  |
| SF-2253   | Other assets            | 6.3                      | 6.3                 | 6.6                       | United States       | First Lien  | 14.00%                                      | 75.0%               |  |
| SF-2201   | Lease/Equipment         | 3.7                      | 3.7                 | 3.8                       | United States       | Hard Asset  | n/a <sup>(9)</sup>                          | n/a <sup>(9)</sup>  |  |
| SF-1788/1933  | Consumer                | 2.9                      | 2.9                 | 3.3                       | United States       | First Lien  | n/a <sup>(7)</sup>                          | 54.0%               |  |
| SF-1052F  | Consumer                | 3.3                      | 3.3                 | 3.3                       | United States       | First Lien  | 12.00%                                      | 82.0%               |  |
| SF-1245   | Consumer                | 2.2                      | 2.2                 | 2.2                       | United States       | Second Lien | 13.00%                                      | 14.0%               |  |
| SF-1520   | Commercial & Industrial | 2.0                      | 2.0                 | 2.1                       | United States       | First Lien  | n/a <sup>(10)</sup>                         | 41.0%               |  |
| SF-1800   | Other assets            | 2.0                      | 2.0                 | 2.0                       | United States       | First Lien  | 14.00%                                      | 85.0%               |  |
| SF-1811   | Other assets            | 3.6                      | 2.0                 | 2.0                       | United States       | Second Lien | 15.00%                                      | 98.0%               |  |
| SF-1716   | Lease/Equipment         | 1.5                      | 1.5                 | 1.7                       | United States       | Hard Asset  | n/a <sup>(9)</sup>                          | n/a <sup>(9)</sup>  |  |
| SF-1052S  | Consumer                | 1.5                      | 1.5                 | 1.5                       | United States       | First Lien  | 25.00%                                      | 82.0%               |  |
| SF-1519   | Other assets            | 1.4                      | 1.4                 | 1.4                       | United States       | Second Lien | 15.00%                                      | 34.0%               |  |
| SF-2414   | Other assets            | 1.0                      | 0.9                 | 1.0                       | United States       | First Lien  | n/a <sup>(11)</sup>                         | n/a <sup>(11)</sup> |  |
| SF-2139   | Consumer                | 0.8                      | 0.8                 | 0.9                       | United States       | First Lien  | n/a <sup>(7)</sup>                          | 63.0%               |  |
| SF-2204   | Consumer                | 4.7                      | 0.9                 | 0.9                       | United States       | First Lien  | 14.33%                                      | 85.0%               |  |
| SF-1933REO  | Consumer                | 0.8                      | 0.8                 | 0.8                       | United States       | First Lien  | n/a <sup>(7)</sup>                          | 54.0%               |  |
| SF-2373   | Consumer                | 0.7                      | 0.8                 | 0.8                       | United States       | First Lien  | 12.00%                                      | 56.0%               |  |
| SF-1934   | Consumer                | 0.6                      | 0.6                 | 0.7                       | United States       | First Lien  | n/a <sup>(7)</sup>                          | 54.0%               |  |
| SF-1007   | Other assets            | 0.8                      | 0.5                 | 0.5                       | United States       | First Lien  | 13.00%                                      | 100.0%              |  |
| SF-1788REOS3  | Consumer                | 0.5                      | 0.5                 | 0.5                       | United States       | First Lien  | n/a <sup>(7)</sup>                          | 54.0%               |  |
| SF-1788REO  | Consumer                | 0.4                      | 0.4                 | 0.4                       | United States       | First Lien  | n/a <sup>(7)</sup>                          | 54.0%               |  |
| SF-1035   | Other assets            | 0.5                      | 0.4                 | 0.4                       | United States       | First Lien  | 10.97%                                      | 100.0%              |  |
| SF-2323   | Lease/Equipment         | 0.2                      | 0.2                 | 0.2                       | United States       | Hard Asset  | n/a <sup>(9)</sup>                          | n/a <sup>(9)</sup>  |  |
| SF-2000   | Other assets            | 0.2                      | 0.2                 | 0.2                       | United States       | First Lien  | 14.83%                                      | n/a <sup>(12)</sup> |  |
| SF-1038   | Other assets            | 0.2                      | 0.2                 | 0.2                       | United States       | First Lien  | n/a <sup>(10)</sup>                         | 16.0%               |  |
| SF-1788REO  | Consumer                | 0.2                      | 0.2                 | 0.2                       | United States       | First Lien  | n/a <sup>(7)</sup>                          | 62.7%               |  |
| SF-1018   | Other assets            | 0.2                      | 0.2                 | 0.2                       | United States       | First Lien  | 8.72%                                       | 100.0%              |  |
| SF-1282S2   | Other assets            | -                        | -                   | 0.1                       | United States       | First Lien  | n/a <sup>(13)</sup>                         | n/a <sup>(13)</sup> |  |
| SF-1282S3   | Other assets            | -                        | -                   | 0.1                       | United States       | First Lien  | n/a <sup>(13)</sup>                         | n/a <sup>(13)</sup> |  |
| SF-1282S5   | Other assets            | -                        | -                   | 0.1                       | United States       | First Lien  | n/a <sup>(13)</sup>                         | n/a <sup>(13)</sup> |  |
| SF-1282S4   | Other assets            | -                        | -                   | 0.1                       | United States       | First Lien  | n/a <sup>(13)</sup>                         | n/a <sup>(13)</sup> |  |
| SF-1002   | Other assets            | 0.3                      | 0.3                 | 0.1                       | United States       | First Lien  | 11.00%                                      | 100.0%              |  |
| SF-1282   | Other assets            | -                        | -                   | 0.1                       | United States       | First Lien  | n/a <sup>(13)</sup>                         | n/a <sup>(13)</sup> |  |
| SF-1282S7   | Other assets            | -                        | -                   | -                         | United States       | First Lien  | n/a <sup>(13)</sup>                         | n/a <sup>(13)</sup> |  |
| SF-1282S8   | Other assets            | -                        | -                   | -                         | United States       | First Lien  | n/a <sup>(13)</sup>                         | n/a <sup>(13)</sup> |  |
| SF-1037   | Other assets            | 0.1                      | 0.1                 | -                         | United States       | First Lien  | n/a <sup>(14)</sup>                         | 100.0%              |  |
| SF-1020   | Consumer                | -                        | -                   | -                         | United States       | Unsecured   | n/a <sup>(15)</sup>                         | 100.0%              |  |
| SF-1282S6   | Other assets            | -                        | -                   | -                         | United States       | First Lien  | n/a <sup>(13)</sup>                         | n/a <sup>(13)</sup> |  |
| Subtotal / Weighted average %                           |                         | 52.2                     | 46.4                | 48.0                      |                     |             | 14.30%                                      | 65.8%               |  |
| Total / Weighted average %                              |                         | \$ 111.7                 | \$ 100.7            | \$ 103.6                  |                     |             | 12.72%                                      | 54.1%               |  |

<sup>1</sup> 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.

<sup>2</sup> Some investments bear interest at a rate that may be determined by reference to London Interbank Offered Rate ("LIBOR") or Prime which reset daily, monthly, quarterly, or semi-annually and may be subject to a floor. For each, the Company has provided the current contractual interest rate in effect at September 30, 2017. Interest rates listed are inclusive of PIK, where applicable. PIK is interest paid in kind through an increase in the principal amount of the loan. The internal rate of return for many investments is generally greater than or equal to the total coupon (additional yield resulting from original issue discounts and/or some form of profit sharing, e.g. warrants). In the event that the internal rate of return on the investment is less than the stated rate, the lower rate is noted.

<sup>3</sup> 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 September 30, 2017.

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

<sup>5</sup> Denotes subordinate position within the structure.

<sup>6</sup> Warrants related to repaid loan.

<sup>7</sup> Interest not accrued on loans purchased as non-performing.

<sup>8</sup> Investment represents owned real estate acquired through lender default.

<sup>9</sup> Investment represents an aircraft purchased. Coupon and LTV not applicable to hard assets.

<sup>10</sup> Investment in litigation claim proceeds with no stated coupon rate.

<sup>11</sup> Investment is a pool of receivables purchased at a discount with no stated coupon rate.

<sup>12</sup> Investment represents a preferred equity investment.

<sup>13</sup> Investment is the remaining profit participation on a repaid loan.

<sup>14</sup> Investment is in default past its maturity date and has an uncertain holding period as of September 30, 2017.

<sup>15</sup> Investment with no stated coupon rate.

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**14. ADDITIONAL ARENA GROUP INVESTMENT SCHEDULES (continued)**

ARENA FINANCE

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

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

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**14. ADDITIONAL ARENA GROUP INVESTMENT SCHEDULES (continued)**

ARENA FINANCE

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

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

<sup>1</sup> 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.

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

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

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

<sup>5</sup> Denotes subordinate position within the structure.

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

<sup>7</sup> Coupon and LTV not applicable to real property.

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

<sup>9</sup> Interest not accrued on loans purchased as non-performing.

<sup>10</sup> Investment in litigation claim proceeds with no stated coupon rate.

<sup>11</sup> Investment with no stated coupon rate.

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**14. ADDITIONAL ARENA GROUP INVESTMENT SCHEDULES (continued)**

ARENA ORIGINATION

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

| <b>Investments by Strategy</b>                           |                     |         |            | <b>September 30, 2017</b>               |                    |                      |
|--|---------------------|---------|------------|---|--------------------|----------------------|
| <b>(unaudited)</b>                                       |                     |         |            |   |                    |                      |
| (millions except for number of positions and percentage) | Number of positions | Cost    | Fair value | Percentage of investments at fair value | % Debt investments | % Equity investments |
| Investments by strategy:                                 |                     |         |            |   |                    |                      |
| Corporate Private Credit                                 | 3                   | \$ 6.6  | \$ 6.6     | 15.3%                                   | 15.3%              | -                    |
| Real Estate Private Credit and Real Estate Assets        | 10                  | 13.1    | 12.9       | 29.8%                                   | 29.8%              | -                    |
| Structured Finance <sup>1</sup>                          | 11                  | 18.4    | 18.1       | 41.6%                                   | 41.6%              | -                    |
| Other Securities   | 17                  | 4.2     | 5.8        | 13.3%                                   | 0.4%               | 12.9%                |
|  | 41                  | \$ 42.3 | \$ 43.4    | 100.0%                                  | 87.1%              | 12.9%                |

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

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

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

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

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

| <b>Investments by Geographic Breakdown</b> | <b>September 30, 2017</b> |            |   | <b>December 31, 2016</b> |            |   |
|--|---------------------------|------------|---|--------------------------|------------|---|
|  | <b>(unaudited)</b>        |            |   |                          |            |   |
| (millions except for percentage)           | Cost                      | Fair value | Percentage of investments at fair value | Cost                     | Fair value | Percentage of investments at fair value |
| Loans / Private Assets                     |                           |            |   |                          |            |   |
| United States                              | \$ 38.1                   | \$ 37.6    | 86.7%                                   | \$ 18.1                  | \$ 18.2    | 96.4%                                   |
| Other Securities <sup>(1)</sup>            |                           |            |   |                          |            |   |
| United States                              | 0.9                       | 0.9        | 1.9%                                    | 0.3                      | 0.1        | 0.5%                                    |
| Europe                                     | 2.0                       | 2.6        | 6.0%                                    | 0.1                      | 0.3        | 1.5%                                    |
| Australia                                  | 1.0                       | 2.0        | 4.7%                                    | 0.1                      | 0.3        | 1.5%                                    |
| Other                                      | 0.3                       | 0.3        | 0.7%                                    | 0.3                      | 0.3        | 1.6%                                    |
|  | 4.2                       | 5.8        | 13.3%                                   | 0.7                      | 0.7        | 3.6%                                    |
|  | \$ 42.3                   | \$ 43.4    | 100.0%                                  | \$ 18.8                  | \$ 18.9    | 100.0%                                  |

<sup>1</sup> Net of short positions

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**14. ADDITIONAL ARENA GROUP INVESTMENT SCHEDULES (continued)**

ARENA ORIGINATION

The investments of AOC shown by industry are as follows:

| Investments by Industry<br>(unaudited)                       | September 30, 2017 |             |   | December 31, 2016 |             |   |
|--|--------------------|-------------|---|-------------------|-------------|---|
|  | Cost               | Fair value  | Percentage of<br>investments at<br>fair value | Cost              | Fair value  | Percentage of<br>investments at<br>fair value |
| (millions except for percentage)                             |                    |             |   |                   |             |   |
| <b>Loans / Private Assets</b>                                |                    |             |   |                   |             |   |
| Corporate Private Credit                                     |                    |             |   |                   |             |   |
| Business services  | \$ 4.1             | \$ 4.1      | 9.5%  | \$ -              | \$ -        | -   |
| Financial services   | 1.3                | 1.3         | 3.1%  | -                 | -           | -   |
| Oil and Gas  | -                  | -           | -   | 3.5               | 3.5         | 18.5%   |
| Retail   | 1.2                | 1.2         | 2.7%  | -                 | -           | -   |
|  | 6.6                | 6.6         | 15.3%   | 3.5               | 3.5         | 18.5%   |
| <b>Real Estate Private Credit<br/>and Real Estate Assets</b> |                    |             |   |                   |             |   |
| Commercial   | 5.3                | 5.1         | 11.9%   | -                 | -           | -   |
| Hospitality  | 1.5                | 1.5         | 3.5%  | -                 | -           | -   |
| Land   |                    |             |   |                   |             |   |
| - Commercial Development                                     | -                  | -           | -   | 4.4               | 4.5         | 23.6%   |
| - Multi-Family Development                                   | 2.3                | 2.3         | 5.3%  | 2.2               | 2.2         | 11.9%   |
| - Single-Family Development                                  | 0.1                | 0.1         | 0.2%  | -                 | -           | -   |
| Residential  | 2.4                | 2.4         | 5.4%  | -                 | -           | -   |
| Retail   | 1.5                | 1.5         | 3.5%  | -                 | -           | -   |
|  | 13.1               | 12.9        | 29.8%   | 6.6               | 6.7         | 35.5%   |
| <b>Structured Finance</b>                                    |                    |             |   |                   |             |   |
| Consumer   | 8.2                | 7.8         | 18.0%   | 6.2               | 6.2         | 32.8%   |
| Lease/Equipment  | 1.1                | 1.0         | 2.3%  | -                 | -           | -   |
| Real Estate-related  | 1.1                | 1.1         | 2.5%  | -                 | -           | -   |
| Other assets   | 8.0                | 8.2         | 18.8%   | 1.8               | 1.8         | 9.6%  |
|  | 18.4               | 18.1        | 41.6%   | 8.0               | 8.0         | 42.4%   |
| <b>Total Loans / Private Assets</b>                          | <b>38.1</b>        | <b>37.6</b> | <b>86.7%</b>                                  | <b>18.1</b>       | <b>18.2</b> | <b>96.4%</b>                                  |
| <b>Other Securities <sup>(1)</sup></b>                       |                    |             |   |                   |             |   |
| Consumer Products  | 1.0                | 1.1         | 2.5%  | -                 | -           | -   |
| Financial Services   | 0.5                | 0.5         | 1.0%  | 0.1               | 0.1         | 0.5%  |
| Healthcare Services  | 0.2                | 0.3         | 0.6%  | 0.1               | 0.1         | 0.5%  |
| Industrial   | 2.0                | 3.0         | 7.0%  | -                 | -           | -   |
| Information Technology                                       | 0.1                | 0.1         | 0.3%  | -                 | -           | -   |
| Oil and Gas  | 0.3                | 0.6         | 1.5%  | 0.5               | 0.5         | 2.6%  |
| Telecommunications   | 0.1                | 0.2         | 0.4%  | -                 | -           | -   |
|  | 4.2                | 5.8         | 13.3%   | 0.7               | 0.7         | 3.6%  |
|  | \$ 42.3            | \$ 43.4     | 100.0%  | \$ 18.8           | \$ 18.9     | 100.0%  |

<sup>1</sup> Net of short positions

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**14. ADDITIONAL ARENA GROUP INVESTMENT SCHEDULES (continued)**

ARENA ORIGINATION

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

| Details of Loan and Private Asset Positions<br>(unaudited)<br>(millions except for percentage) |                             |                          |                     |                           |                     |                | September 30, 2017                          |                    |
|--|-----------------------------|--------------------------|---------------------|---------------------------|---------------------|----------------|---|--------------------|
| Ref. no.   | Investments by industry     | Principal <sup>(1)</sup> | Investments at cost | Investments at fair value | Geographic location | Collateral     | Total coupon (including PIK) <sup>(2)</sup> | LTV <sup>(3)</sup> |
| <b>Corporate Private Credit</b>  |                             |                          |                     |                           |                     |                |   |                    |
| CPC-104  | Business Services           | \$ 4.2                   | \$ 4.1              | \$ 4.1                    | United States       | First Lien     | 12.73%                                      | 13.0%              |
| CPC-1927   | Financial Services          | 1.4                      | 1.3                 | 1.3                       | United States       | First Lien     | 12.00%                                      | 29.0%              |
| CPC-2364TL   | Retail                      | 1.2                      | 1.2                 | 1.2                       | United States       | First Lien     | 10.51%                                      | 43.0%              |
| CPC-2364DD   | Retail                      | 1.5                      | -                   | -                         | United States       | First Lien     | 10.51%                                      | 43.0%              |
| Subtotal / Weighted average %  |                             | 8.3                      | 6.6                 | 6.6                       |                     |                | 12.19%                                      | 21.6%              |
| <b>Real Estate Private Credit and Real Estate Assets</b>                                       |                             |                          |                     |                           |                     |                |   |                    |
| REPC-2556  | Residential                 | 2.3                      | 2.4                 | 2.4                       | United States       | First Mortgage | 8.99%                                       | 54.0%              |
| REPC-2683  | Land                        |                          |                     |                           |                     |                |   |                    |
|  | - Multi-Family Development  | 1.8                      | 1.8                 | 1.8                       | United States       | First Mortgage | 12.00%                                      | 58.0%              |
| REPC-2159  | Commercial                  | 1.8                      | 1.7                 | 1.7                       | United States       | First Mortgage | 12.00%                                      | 31.0%              |
| REPC-2427  | Commercial                  | 1.8                      | 1.8                 | 1.7                       | United States       | First Mortgage | 11.23%                                      | 74.0%              |
| REPC-1942  | Commercial                  | 1.8                      | 1.8                 | 1.7                       | United States       | Real Property  | n/a <sup>(4)</sup>                          | n/a <sup>(4)</sup> |
| REPC-2187  | Retail                      | 1.5                      | 1.5                 | 1.5                       | United States       | First Mortgage | 9.43%                                       | 74.0%              |
| REPC-2214  | Hospitality                 | 1.5                      | 1.5                 | 1.5                       | United States       | First Mortgage | 9.98%                                       | 69.0%              |
| REPC-2162  | Land                        |                          |                     |                           |                     |                |   |                    |
|  | - Multi-Family Development  | 0.5                      | 0.5                 | 0.5                       | United States       | First Mortgage | 15.00%                                      | 55.0%              |
| REPC-2249  | Land                        |                          |                     |                           |                     |                |   |                    |
|  | - Single-Family Development | 0.4                      | 0.1                 | 0.1                       | United States       | First Mortgage | 9.00%                                       | 43.0%              |
| REPC-2342  | Land                        |                          |                     |                           |                     |                |   |                    |
|  | - Single-Family Development | 0.3                      | -                   | -                         | United States       | First Mortgage | 9.00%                                       | 41.0%              |
| Subtotal / Weighted average %  |                             | 13.7                     | 13.1                | 12.9                      |                     |                | 10.74%                                      | 58.8%              |
| <b>Structured Finance</b>  |                             |                          |                     |                           |                     |                |   |                    |
| SF-1839  | Consumer                    | 4.5                      | 4.5                 | 4.5                       | United States       | First Lien     | 18.00%                                      | 72.0%              |
| SF-2620  | Consumer                    | 3.7                      | 3.7                 | 3.3                       | United States       | Consumer       | n/a <sup>(5)</sup>                          | 29.4%              |
| SF-1999  | Other assets                | 3.1                      | 3.1                 | 3.3                       | United States       | First Lien     | 14.00%                                      | 74.0%              |
| SF-2651  | Other assets                | 3.1                      | 3.1                 | 3.1                       | United States       | Hard Asset     | 8.00%                                       | 75.0%              |
| SF-2000TLA   | Other assets                | 1.1                      | 1.1                 | 1.1                       | United States       | First Lien     | 13.98%                                      | 76.0%              |
| SF-2259  | Real Estate-related         | 1.1                      | 1.1                 | 1.1                       | United States       | First Mortgage | 14.00%                                      | 58.0%              |
| SF-2398  | Lease/Equipment             | 1.1                      | 1.1                 | 1.0                       | United States       | First Lien     | 14.50%                                      | 66.0%              |
| SF-2000TLB   | Other assets                | 0.3                      | 0.3                 | 0.3                       | United States       | First Lien     | 18.23%                                      | 76.0%              |
| SF-2147  | Other assets                | 0.2                      | 0.2                 | 0.2                       | United States       | First Lien     | 13.00%                                      | 50.0%              |
| SF-1294  | Other assets                | 0.1                      | 0.1                 | 0.1                       | United States       | First Lien     | n/a <sup>(6)</sup>                          | 9.0%               |
| SF-2064  | Other assets                | 0.6                      | 0.1                 | 0.1                       | United States       | First Lien     | 12.23%                                      | 37.0%              |
| SF-2147TL2   | Other assets                | -                        | -                   | -                         | United States       | First Lien     | 13.00%                                      | 50.0%              |
| SF-2228DD1   | Other assets                | 1.5                      | -                   | -                         | United States       | First Lien     | 16.00%                                      | n/a <sup>(7)</sup> |
| Subtotal / Weighted average %  |                             | 20.4                     | 18.4                | 18.1                      |                     |                | 14.03%                                      | 63.4%              |
| Total / Weighted average %   |                             | \$ 42.4                  | \$ 38.1             | \$ 37.6                   |                     |                | 12.52%                                      | 53.9%              |

<sup>1</sup> 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.

<sup>2</sup> Some investments bear interest at a rate that may be determined by reference to London Interbank Offered Rate ("LIBOR") or Prime which reset daily, monthly, quarterly, or semi-annually and may be subject to a floor. For each, the Company has provided the current contractual interest rate in effect at September 30, 2017. Interest rates listed are inclusive of PIK, where applicable. PIK is interest paid in kind through an increase in the principal amount of the loan. The internal rate of return for many investments is generally greater than or equal to the total coupon (additional yield resulting from original issue discounts and/or some form of profit sharing, e.g. warrants). In the event that the internal rate of return on the investment is less than the stated rate, the lower rate is noted.

<sup>3</sup> 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 September 30, 2017.

<sup>4</sup> Coupon and LTV not applicable to real property.

<sup>5</sup> Investment not accrued on loans purchased as non-performing.

<sup>6</sup> Investment in litigation claim proceeds with no stated coupon rate.

<sup>7</sup> Investment is unfunded as of September 30, 2017.

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**14. ADDITIONAL ARENA GROUP INVESTMENT SCHEDULES (continued)**

ARENA ORIGINATION

Details of the loan and Private Asset positions of AOC are as follows (continued):

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

<sup>1</sup> 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.

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

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

<sup>4</sup> Coupon and LTV not applicable to real property.

<sup>5</sup> Investment in litigation claim proceeds with no stated coupon rate.

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**15. NON-GAAP MEASURES**

Book value per share

Book value per share is computed as book value divided by the adjusted number of common shares. Management believes book value per share is a useful financial performance measure of the Company as, at this time, the relative increase or decrease from period to period in book value per share should approximate over the long term the relative increase or decrease in the intrinsic value of the Company's businesses, in large part because book value reflects the fair value of the Company's primary investments which are accounted for at fair value through profit or loss under IFRS. However, book value is not necessarily equivalent to the net realizable value of the Company's assets per share.

The table below provides the reconciliation of the Company's shareholders' equity at the end of the period, determined on an IFRS basis, to book value, and the number of common shares outstanding at the end of the period to the adjusted number of common shares:

| (millions except share and per share data) | September 30, 2017 | December 31, 2016  | September 30, 2016 |
|--|--------------------|--------------------|--------------------|
| Book value:                                |                    |                    |                    |
| Shareholders' equity per IFRS              | \$ 318.6           | \$ 318.5           | \$ 319.2           |
| Adjustments:                               |                    |                    |                    |
| RSU liability <sup>1</sup>                 | 6.7                | 5.4                | 4.9                |
| Derivative warrant liability <sup>2</sup>  | 6.1                | -                  | -                  |
|  | <u>\$ 331.4</u>    | <u>\$ 323.9</u>    | <u>\$ 324.1</u>    |
| Number of common shares:                   |                    |                    |                    |
| Number of common shares outstanding        | 143,186,718        | 143,186,718        | 143,186,718        |
| Adjustments for assumed exercise of:       |                    |                    |                    |
| Outstanding RSUs <sup>1</sup>              | 3,034,261          | 3,082,073          | 3,082,073          |
| Adjusted number of common shares           | <u>146,220,979</u> | <u>146,268,791</u> | <u>146,268,791</u> |
| Book value per share - in US\$             | \$ 2.27            | \$ 2.21            | \$ 2.22            |
| Book value per share - in C\$ <sup>3</sup> | \$ 2.83            | \$ 2.97            | \$ 2.91            |
| Westaim TSXV closing share price - in C\$  | \$ 2.98            | \$ 2.80            | \$ 2.70            |

<sup>1</sup> See note 13 to the Company's unaudited consolidated financial statements for the three and nine months ended September 30, 2017 and 2016. Liability related to RSUs converted from C\$ to US\$ at period end exchange rates.

<sup>2</sup> See note 9 to the Company's unaudited consolidated financial statements for the three and nine months ended September 30, 2017 and 2016. Derivative warrant liability converted from C\$ to US\$ at period end exchange rates. The vested Warrants were not in-the-money.

<sup>3</sup> Book value per share converted from US\$ to C\$ at period end exchange rates. Period end exchange rates: 1.2470 at September 30, 2017, 1.3427 at December 31, 2016 and 1.3117 at September 30, 2016.

## 16. CAUTIONARY NOTE REGARDING FUTURE ORIENTED FINANCIAL INFORMATION

Certain portions of this MD&A, as well as other public statements by the Company, contain forward-looking statements. In particular, the words "strategy", "may", "will", "continue", "developed", "objective", "potential", "exploring", "could", "expect", "expected", "expects", "tends", "indicates", and words and expressions of similar import, are intended to identify forward-looking statements. Such forward-looking statements include but are not limited to statements concerning: strategies, alternatives and objectives to maximize value for shareholders; expectations and assumptions relating to the Company's business plan; expectations and assumptions relating to the business and operations of HIIG and the Arena Group; expectations regarding the Company's assets and liabilities; the Company's ability to retain key employees; management's belief that its estimates for determining the valuation of the Company's assets and liabilities are appropriate; the Company's views regarding potential future remediation costs; the effect of changes to interpretations of tax legislation on income tax provisions in future periods; and the Company's determination that the adoption of new accounting standards will not have a material impact on its consolidated financial statements.

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

The Company's actual results or financial position could differ materially from those anticipated by these forward-looking statements for various reasons generally beyond the Company's control, including, without limitation, the following factors: risks inherent in acquisitions generally; the volatility of the stock market and other factors affecting the Company's share price; future sales of a substantial number of the Company's common shares; the Company's ability to generate revenue from its investments; the Company's ability to raise additional capital; environmental risks; regulatory requirements may delay or deter a change in control of the Company; fluctuations in the US\$ to C\$ exchange rate; the potential treatment of the Company as a passive foreign investment company for U.S. federal income tax purposes; the occurrence of catastrophic events including terrorist attacks and weather related natural disasters; the cyclical nature of the property and casualty insurance industry; HIIG's ability to adequately maintain loss reserves to cover its estimated liability for unpaid losses and loss adjustment expenses; the effects of emerging claim and coverage issues on HIIG's business; the effect of government regulations designed to protect policyholders and creditors rather than investors; the effect of climate change on the risks that HIIG insures; HIIG's reliance on brokers and third parties to sell its products to clients; the effect of intense competition and/or industry consolidation; HIIG's ability to accurately assess underwriting risk; the effect of risk retentions on HIIG's risk exposure; HIIG's ability to alleviate risk through reinsurance; dependence by HIIG on key employees; the effect of litigation and regulatory actions; HIIG's ability to successfully manage credit risk (including credit risk related to the financial health of reinsurers); HIIG's ability to compete against larger more well-established competitors; unfavourable capital market developments or other factors which may affect the investments of HIIG; HIIG's ability to maintain its financial strength and issuer credit ratings; HIIG's ability to obtain additional funding; HIIG's ability to successfully pursue its acquisition strategy; HIIG's possible exposure to goodwill or intangible asset impairment in connection with its acquisitions; HIIG's ability to receive dividends from its subsidiaries; HIIG's reliance on information technology and telecommunications systems; dependence by HIIG on certain third party service providers; Arena's limited operating history; Arena's ability to mitigate operational and due diligence risks; the subjective nature of the valuation methods for certain of Arena's investments; Arena's ability to mitigate regulatory and other legal risks; Arena's ability to find appropriate investment opportunities; Arena Investors' ability to successfully navigate and secure compliance with regulations applicable to it and its business; the performance of the investments of Arena; Arena's investment in illiquid investments; Arena's ability to manage risks related to its risk management procedures; dependence by Arena on key management and staff; Arena Investors' ability to compete against current and potential future competitors; conflicts of interest; employee error or misconduct; Arena's ability to finance borrowers in a variety of industries; dependence by Arena Origination and Arena Finance on the creditworthiness of borrowers; the ability of Arena Origination and/or Arena Finance to mitigate the risk of default by and bankruptcy of a borrower; the ability of Arena Origination and/or Arena Finance to adequately obtain, perfect and secure loans; the ability of Arena Origination and/or Arena Finance to limit the need for enforcement or liquidation procedures; the ability of Arena Origination and/or Arena Finance to protect against fraud; changes to the regulation of the asset-based lending industry; United States tax law implications relating to the conduct of a U.S. trade or business; and other risk factors set forth herein or in the Company's annual report or other public filings.

The Company disclaims any intention or obligation to revise forward-looking statements whether as a result of new information, future developments or otherwise except as required by law. All forward-looking statements are expressly qualified in their entirety by this cautionary statement.