

FORM 51-102F3
MATERIAL CHANGE REPORT

ITEM 1 Name and Address of Company

The Westaim Corporation (“**Westaim**” or the “**Corporation**”)
70 York Street, Suite 1700
Toronto, Ontario M5J 1S9

ITEM 2 Date of Material Change

June 2, 2017.

ITEM 3 News Release

A news release disclosing the material change was issued on June 2, 2017 through the facilities of CNW Group and filed on the System for Electronic Document Analysis and Retrieval (SEDAR).

ITEM 4 Summary of Material Change

On June 2, 2017 (the “**Closing Date**”), Westaim announced that it had successfully closed its previously announced transaction (the “**Private Placement**”) with Fairfax Financial Holdings Limited, through certain of its subsidiaries (collectively, “**Fairfax**”).

Fairfax has agreed to purchase, on a private placement basis, up to 10,000,000 5% interest rate subordinate preferred securities of Westaim (the “**Preferred Securities**”) for aggregate subscription proceeds of up to C\$100 million, each issuable for a principal amount of C\$10. The Preferred Securities must be issued in tranches of not less than 2,500,000 Preferred Securities, and for not less than C\$25 million aggregate subscription proceeds. On the Closing Date, Westaim closed an initial sale of 5,000,000 Preferred Securities for C\$50 million (the “**Initial Tranche**”), and has discretion until January 1, 2018 to require Fairfax to purchase all or part of the remaining 5,000,000 Preferred Securities, for up to C\$50 million, any such purchase to be completed not less than 20 business days following the giving of notice of such purchase. The Preferred Securities are subordinate secured securities that will mature on May 26, 2116 but may be repaid, in whole or in part, by Westaim at any time after June 2, 2022 and at any time after June 2, 2020 if the volume-weighted average trading price of its common shares (the “**Common Shares**”) for any 10 day period prior to the date on which the applicable redemption notice is given is at least C\$5.60.

As part of the Private Placement, Westaim also issued 28,571,430 common share purchase warrants (the “**Warrants**”), each exercisable for one 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 under the Private Placement with an aggregate of 14,285,715 having vested on the Closing Date based on the closing of the Initial Tranche. 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 the Common Shares for the 10 day period ending on June 2, 2022 is less than C\$5.60. After June 2, 2020, Westaim can also elect to require early exercise of the Warrants if the volume-weighted average trading price of its Common Shares for any 10 day period prior to the election is at least C\$5.60.

Fairfax has also agreed to invest up to US\$500 million in investments sourced by Westaim's affiliate, Arena Investors, LP ("**Arena Investors**"). Fairfax's commitment to invest an initial US\$125 million with Arena Investors was triggered by the purchase of the Initial Tranche of Preferred Securities on the Closing Date. 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 US\$125 million with Arena Investors upon the next C\$25 million drawdown of Preferred Securities by Westaim, and an additional US\$250 million upon the final C\$25 million drawdown of Preferred Securities by Westaim.

The proceeds from the Private Placement will be used by Westaim for potential acquisitions and for general corporate purposes.

Fairfax will have the right to nominate one director to the board of directors of Westaim as long as it owns, directly and indirectly, 5% of all outstanding Common Shares (determined on a partially diluted basis).

The Private Placement was originally announced on April 3, 2017.

ITEM 5 Full Description of Material Change

On June 2, 2017, Westaim announced that it had successfully completed the Private Placement with Fairfax pursuant to which Fairfax has agreed to invest up to C\$100 million in Westaim.

Fairfax has agreed to purchase, on a private placement basis, up to 10,000,000 Preferred Securities for aggregate subscription proceeds of up to C\$100 million, each issuable for a principal amount of C\$10. The Preferred Securities must be issued in tranches of not less than 2,500,000 Preferred Securities, and for not less than C\$25 million aggregate subscription proceeds. On the Closing Date, Westaim closed the sale the Initial Tranche 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, for up to C\$50 million, any such purchase to be completed not less than 20 business days following the giving of notice of such purchase. The TSX Venture Exchange (the "**TSXV**") has granted conditional approval of the listing of the Preferred Securities subject to certain conditions, including expiry of the customary four month hold period for such Preferred Securities.

The Preferred Securities bear interest at a rate of 5% per annum payable on the 15th day of the month immediately following each calendar quarter with the first interest period being the period from the Closing Date until June 30, 2017 and the first interest payment date being July 17, 2017. The Preferred Securities are direct secured obligations of Westaim subordinate to all present and future obligations, indebtedness and liabilities of Westaim, except obligations, indebtedness and liabilities which by their terms rank in right of payment equally with or subordinate to the Preferred Securities. The Preferred Securities are secured by a security interest over (i) all present and after-acquired personal and real property of Westaim and (ii) the investment property owned by certain of its subsidiaries.

The Preferred Securities will not be redeemable at the option of Westaim on or before

June 2, 2022 (the “**Call Date**”). After the Call Date, the Preferred Securities may be redeemed in whole or in part from time to time at the option of Westaim on not more than 60 days nor less than 30 days prior notice, at a price per Preferred Security equal to ten (C\$10) dollars, being the principal amount thereof, plus all accrued and unpaid interest on such Preferred Security (including any unpaid deferred interest, if any) up to but excluding the redemption date.

Westaim may elect to defer payment of all or part of any accrued interest otherwise due on the Preferred Securities for a period not to exceed two (2) years from the date of the initial issuance of the Preferred Securities. Interest will continue to accrue during any period of time in which payment of interest is deferred.

For more information respecting the Preferred Securities, see the indenture between Westaim and Computershare Trust Company of Canada dated June 2, 2017, a copy of which is available on SEDAR at www.sedar.com.

In connection with the Private Placement, Westaim has also issued 28,571,430 Warrants, each exercisable for one Common Share at an exercise price of C\$3.50. The Warrants will vest proportionately based on the aggregate percentage of Preferred Securities purchased by Fairfax entities under the Private Placement with an aggregate of 14,285,715 having vested on the Closing Date based on the closing of the Initial Tranche. Each vested Warrant will be 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 the Common Shares for the 10 day period ending on June 2, 2022 is less than C\$5.60. After June 2, 2020, Westaim can also elect to require early exercise of the Warrants if the volume-weighted average trading price of its Common Shares for any 10 day period prior to the election is at least C\$5.60. If Fairfax exercises its Warrants, or a portion thereof, Fairfax may, in its discretion, cancel Preferred Securities having an aggregate outstanding amount of principal and interest equal to the aggregate exercise price payable upon exercise of such Warrants, rather than using cash consideration. Customary anti-dilution rights will apply to the Warrants. The TSXV has granted conditional approval of the listing of the Common Shares issuable upon the exercise of the Warrants.

If the Warrants are fully exercised, Fairfax would own approximately 16.6% (9.1% if only the Warrants which vested on the Closing Date are exercised) of the issued and outstanding Common Shares (calculated based on the number of Common Shares issued and outstanding on the Closing Date being 143,186,718 and assuming the exercise in full of the Warrants). Prior to the transactions described above, Fairfax did not own any securities of Westaim.

The Preferred Securities and the Common Shares of Westaim issuable upon exercise of the Warrants are subject to a four-month hold period from the date of closing of the Private Placement.

Fairfax has also agreed to invest up to US\$500 million in investments sourced by Westaim’s affiliate, Arena Investors. Fairfax’s commitment to invest an initial US\$125 million with Arena Investors was triggered by the purchase of the Initial Tranche of Preferred Securities. 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 US\$125 million with Arena Investors upon the next C\$25 million drawdown of Preferred Securities by Westaim, and an additional US\$250 million

upon the final C\$25 million drawdown of Preferred Securities by Westaim.

In connection with the closing of the Private Placement, Westaim entered into a governance agreement (the “**Governance Agreement**”) with Fairfax, pursuant to which Westaim granted certain nomination and pre-emptive rights to Fairfax. Under the terms of the Governance Agreement, at the next annual general or special meeting of Westaim’s shareholders at which directors of Westaim are to be elected, and at each annual general or special meeting of Westaim’s shareholders at which directors of Westaim are to be elected thereafter, Westaim will, at the request of Fairfax, nominate for election to the board of directors of Westaim one individual designated by Fairfax. Shortly following the closing of the Private Placement, Westaim intends to appoint one individual designated by Fairfax as an additional director of Westaim. If Fairfax ceases to own at least 5% of the outstanding Common Shares (calculated on a partially-diluted basis), its right to nominate any directors of Westaim will immediately terminate. In addition, if Westaim proposes to issue any equity securities, other than pursuant to certain excluded issuances, Fairfax will have the right to subscribe for and purchase such number of equity securities at the price at which such equity securities are proposed to be offered as will enable Fairfax to maintain its ownership percentage of Common Shares (calculated on a partially-diluted basis). A copy of the Governance Agreement is available on SEDAR at www.sedar.com.

The proceeds raised from the Private Placement will be used by Westaim for potential acquisitions and for general corporate purposes.

ITEM 6 Reliance on subsection 7.1(2) of National Instrument 51-102

Not applicable.

ITEM 7 Omitted Information

Not applicable.

ITEM 8 Executive Officer

For additional information with respect to the material change referred to herein, the following person may be contacted:

J. Cameron MacDonald, President and Chief Executive Officer
Telephone number: (416) 969-3333

ITEM 9 Date of Report

June 6, 2017.