



THE WESTAIM CORPORATION

ANNUAL INFORMATION FORM

in respect of the year ended December 31, 2020

MARCH 25, 2021

TABLE OF CONTENTS

INTERPRETATION	1
FORWARD-LOOKING STATEMENTS	1
CORPORATE STRUCTURE	2
Name and Incorporation	2
Intercorporate Relationships	3
BUSINESS OF THE COMPANY	4
General Development of the Business	4
Summary Description of the Business	6
CURRENT INVESTMENTS	8
Skyward Specialty	8
Arena	11
RISK FACTORS	16
Risks Relating to Westaim	17
Risks Relating to Skyward Specialty's Business	20
Risks Related to Arena	27
Risks Related to the Arena FINCOs	32
DESCRIPTION OF CAPITAL STRUCTURE	33
Common Shares	33
Class A Preferred Shares	34
Class B Preferred Shares	35
MARKET FOR SECURITIES	35
Trading Price and Volume	35
DIVIDENDS AND DISTRIBUTIONS	36
DIRECTORS AND EXECUTIVE OFFICERS	36
Name, Residency and Principal Occupation	36
Shareholdings of Directors and Executive Officers	37
Cease Trade Orders, Bankruptcies, Penalties or Sanctions	37
Conflicts of Interest	38
AUDIT COMMITTEE	38
The Audit Committee's Charter	38
Composition of the Audit Committee	38
Relevant Education and Experience	39
Pre-Approval of Audit and Non-Audit Services by Independent Auditors	40
Audit Committee Oversight	40
Audit Fees	40
Exemption	40
PROMOTERS	40
LEGAL PROCEEDINGS AND REGULATORY ACTIONS	40
Legal Proceedings	40
Regulatory Actions	40
INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS	41
TRANSFER AGENT AND REGISTRAR	41
MATERIAL CONTRACTS	41
INTERESTS OF EXPERTS	41
ADDITIONAL INFORMATION	41
APPENDIX "A" - AUDIT COMMITTEE CHARTER	A - 1

INTERPRETATION

As used in this Annual Information Form (the “AIF”), unless the context indicates or requires otherwise, the term(s): (a) “**Company**” or “**Westaim**” refer to The Westaim Corporation (including, where applicable, its predecessor entities) and its subsidiaries; (b) “**Skyward Specialty**” refers to Skyward Specialty Insurance Group, Inc. and its subsidiaries; (c) “**Arena Investors**” refers to Arena Investors Group Holdings, LLC (“**AIGH**”) and its subsidiaries (including, but not limited to Arena Investors, LP (“**AI**”)); (d) “**Arena FINCOs**” refers collectively to Westaim Origination Holdings, Inc. (“**WOH**”) and Arena Finance Holdings Co., LLC, (“**AFHC**”) and each of their respective subsidiaries; and (e) “**Arena**” refers collectively to Arena Investors and the Arena FINCOs. Unless otherwise stated, the information contained in this AIF is as of March 25, 2021.

All dollar amounts herein are expressed in United States dollars unless otherwise indicated. Unless otherwise indicated, financial information in this AIF regarding the Company has been prepared in accordance with International Financial Reporting Standards (“**IFRS**”), as issued by the International Accounting Standards Board. Skyward Specialty and Arena maintain their accounts in United States dollars. The annual consolidated financial statements of Skyward Specialty are prepared in accordance with United States generally accepted accounting principles (“**U.S. GAAP**”) and the annual financial statements of Arena are prepared in accordance with either IFRS or U.S. GAAP.

FORWARD-LOOKING STATEMENTS

This AIF contains certain “forward-looking statements” and “forward-looking information” which reflect the current expectations of management regarding the Company’s future growth, results of operations, performance and business prospects and opportunities. Such forward-looking statements include but are not limited to statements concerning: strategies; alternatives and objectives to maximize value for shareholders; expectations and assumptions relating to the Company’s business plan; expectations and assumptions relating to the business and operations of Skyward Specialty and Arena; 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 Westaim can give no assurance that these expectations are correct.

The Company’s actual results or financial position could differ materially from those anticipated by these forward-looking statements for various reasons generally beyond the Company’s control, including, without limitation, the following factors: risks inherent in acquisitions generally; fluctuations in the United States dollar to Canadian dollar exchange rate; the Company’s cash flow; future sales of a substantial number of the Company’s common shares (the “**Common Shares**”); the Company’s ability to raise additional capital; regulatory requirements may delay or deter a change in control of the Company; the potential treatment of the Company as a passive foreign investment company (“**PFIC**”) for U.S. federal income tax purposes; environmental risks; the occurrence of catastrophic events including terrorist attacks and weather related natural disasters; the cyclical nature of the property and casualty (“**P&C**”) insurance industry; market turmoil, risk of volatile markets and market disruption risk; exposure to epidemics; Company employee error or misconduct; the Company’s cybersecurity; Skyward Specialty’s reserves may prove to be inadequate; the effects of emerging claim and coverage issues on Skyward Specialty’s business; the effect of government regulations designed to protect policyholders and creditors rather than investors; the effect of climate change on the risks that Skyward Specialty insures; Skyward Specialty’s reliance on brokers and third parties to sell its products to clients; the effect of intense competition and/or industry consolidation; Skyward Specialty’s reliance on a select group of managing general underwriters (“**MGUs**”) and managing general agents (“**MGAs**”); Skyward Specialty’s ability to accurately assess underwriting risk; the effect of retentions in various lines of business; Skyward Specialty’s ability to alleviate risk through reinsurance; dependence by Skyward Specialty on key employees; the effect of litigation and regulatory actions; Skyward Specialty’s ability to successfully manage credit risk (including credit risk related to the financial health of reinsurers); Skyward Specialty’s ability to compete against larger more well-established competitors; unfavourable capital market developments or other factors which may affect the investments of Skyward Specialty; Skyward Specialty’s ability to maintain its financial strength and

issuer credit ratings; Skyward Specialty's ability to manage growth effectively; Skyward Specialty's ability to obtain additional capital; Skyward Specialty's ability to successfully pursue its acquisition strategy; Skyward Specialty's possible exposure to goodwill or intangible asset impairment in connection with its acquisitions; Skyward Specialty's ability to receive dividends from its subsidiaries; Skyward Specialty employee error or misconduct; Skyward Specialty's reliance on information technology and telecommunications systems; dependence by Skyward Specialty on certain third party service providers; Arena's ability to mitigate operational and due diligence risks; the subjective nature of the valuation 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 FINCOs; Arena FINCO'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; Arena employee error or misconduct; Arena's ability to finance borrowers in a variety of industries; dependence by the Arena FINCOs on the creditworthiness of borrowers; the ability of the Arena FINCOs to mitigate the risk of default by and bankruptcy of a borrower; the ability of the Arena FINCOs to adequately obtain, perfect and secure loans; the ability of the Arena FINCOs to limit the need for enforcement or liquidation procedures; the ability of the Arena FINCOs to protect against fraud; changes to the regulation of the asset-based lending industry; United States tax law implications relating to the conduct of a U.S. trade or business; Arena's cybersecurity; and other risk factors set forth herein or in the Company's annual report or other public filings.

Westaim 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. Although Westaim has attempted to identify important factors that could cause actual actions, events or results to differ materially from those described in forward-looking statements, there may be other factors that cause unanticipated actions, events or results. There can be no assurance that forward-looking statements will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements. The reader is cautioned not to place undue reliance on forward-looking statements.

CORPORATE STRUCTURE

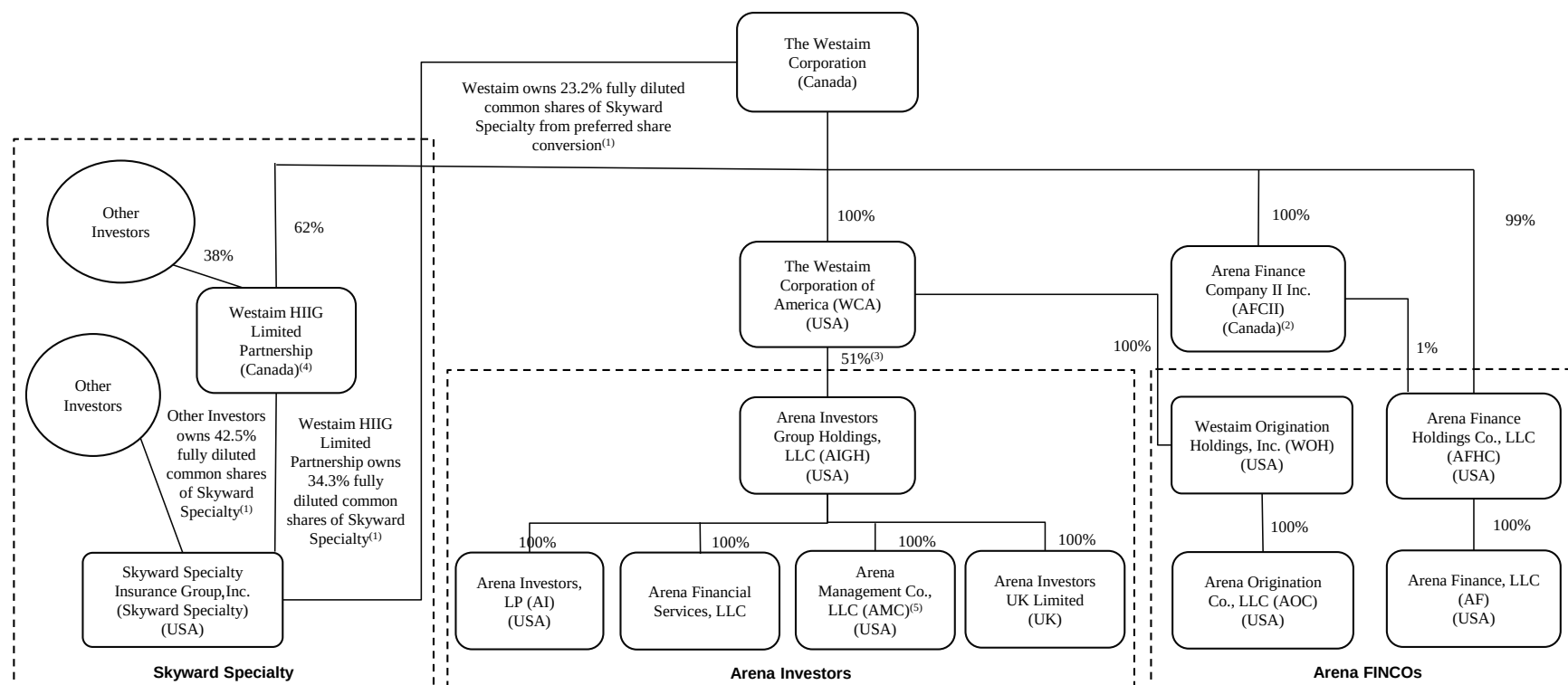
Name and Incorporation

Westaim was incorporated under the *Business Corporations Act* (Alberta) (the "**ABCA**") by Articles of Incorporation dated May 7, 1996 (the "**Articles**"). The Articles were amended effective June 26, 1996 to remove the private company restrictions on the transfer of securities, to create preferred share classes designated as Class A preferred shares and Class B preferred shares and to increase the maximum number of directors to fifteen. Restated Articles of Incorporation were issued under the ABCA on April 17, 2000 and the Articles were further amended on May 24, 2000 to permit meetings of shareholders to be held in certain specified cities outside of Alberta, or in any other city in Canada or the United States and to allow the board of directors of the Company (the "**Board**") to appoint additional directors between annual meetings, subject to certain limitations. The Articles were amended again on February 8, 2010, February 26, 2010 and September 11, 2012 in connection with the creation of the Non-Voting Shares (as defined herein) and the removal of the conversion restrictions attaching thereto. On October 1, 2013, the Articles were further amended to effect a 50:1 share consolidation of the Common Shares.

Westaim's registered office is located at 1500, 850 – 2 Street SW, Calgary, AB T2P 0R8 and its head office is located at 70 York Street, Suite 1700, Toronto, Ontario M5J 1S9.

Intercorporate Relationships

The following chart sets forth the organizational structure of Westaim, including each of the material entities directly and indirectly owned and/or controlled by Westaim or in which it has a material interest.



Notes:

- (1) At December 31, 2020, Westaim owned 44.5% of Skyward Specialty's preferred shares which are convertible into Skyward Specialty common shares representing 23.2% of the fully diluted Skyward Specialty's common shares. Westaim also owns 21.3% of Skyward Specialty's fully diluted common shares through Westaim HIIG Limited Partnership (the "**Partnership**"). Accordingly, the Company's total look-through ownership interest in Skyward Specialty is 44.5%. At December 31, 2019, the Company's total look-through ownership interest in Skyward Specialty, through the Partnership, was 44.0%.
- (2) On April 1, 2019, Arena Finance Company ("**AFC**") transferred 1% of its interest to Arena Finance Company II Inc., a newly incorporated, wholly-owned subsidiary of AFC. On October 1, 2019, AFC was dissolved and Westaim assumed AFC's net assets.
- (3) Subject to "earn-in" rights held by Bernard Partners, LLC ("**BP LLC**"). See "*Current Investments – Arena Group – Arena Investors*".
- (4) Westaim owns 100% of Westaim HIIG GP Inc., which is the general partner of the Partnership.
- (5) Arena Management Co., LLC ("**AMC**") is the 100% owner of subsidiaries: Arena Investor Management Group, LLC, Quaestor Advisors LLC, Arena Investment Canada Inc. and AIMG UK Limited. AMC is the 50% owner of Arena Technology Services LLC.

BUSINESS OF THE COMPANY

General Development of the Business

Fairfax Private Placement

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

Fairfax 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 had 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, which it did not exercise. 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 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 Fairfax Private Placement, Westaim also issued to Fairfax 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 Fairfax 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 the Common Shares for any 10 day period prior to the election is at least C\$5.60. All Warrants that had not vested on or before 11:59 p.m. on January 31, 2018 were cancelled. As a result, on January 31, 2018, 14,285,715 Warrants were cancelled. Accordingly, there are currently 14,285,715 Warrants issued to Fairfax which are outstanding and vested.

On June 9, 2017, the Company used the proceeds from the Fairfax Private Placement to loan C\$50 million to the Arena FINCOs (the “**Arena FINCOs Demand Loan**”) on market terms. The Arena FINCOs Demand Loan was repayable on demand (with a final repayment date not later than June 9, 2022) and secured by the assets of the Arena FINCOs. The Arena FINCOs Demand Loan carried interest at a rate of 4.5% per annum plus the greater of (a) 3-month LIBOR; and (b) 1%, with the applicable rate adjusted at the beginning of each quarter. Interest was due at the end of each calendar quarter. The Arena FINCOs Demand Loan was repaid in full in 2019.

Skyward Specialty Rights Offering

Convertible preferred shares of Skyward Specialty were acquired by Westaim on April 20, 2020 as Skyward Specialty completed a rights offering (“**Rights Offering**”) that resulted in total gross proceeds of \$100 million to Skyward Specialty. In order to help fund the Rights Offering, the Company received a cash distribution in January and early March totalling \$35 million from the Arena FINCOs. As part of the Rights Offering, Westaim purchased \$44 million of the Skyward Specialty convertible preferred shares offered.

The convertible preferred shares were initially convertible into Skyward Specialty common shares based on a conversion price equal to \$1.74 per share. The conversion price is subject to adjustments from time to time based on the occurrence of certain events. At December 31, 2020, the adjustments, if effective, would result in a conversion price of approximately \$1.38 per share. The fair value of Westaim’s ownership of the Skyward Specialty convertible preferred shares was \$94.1 million.

Skyward Specialty LPT

In 2020, Skyward Specialty closed a Loss Portfolio Transfer (“**LPT**”), which provides reinsurance protection of approximately \$127.4 million above the net ceded loss and loss adjustment expense reserves, primarily related to 2017 and prior policy years and is subject to co-participation layers from Skyward Specialty above specific amounts. As at December 31, 2020, the LPT cost impact after tax was \$47.2 million, which includes the initial cost of \$43.5 million plus the adverse development on prior years’ claims reserves subject to the LPT of \$49.0 million, less recoveries from the LPT reinsurer of \$32.7 million and less an income tax recovery, at a 21% tax rate, of \$12.6 million. The Company recognized its share of the impact of the initial cost of the LPT before tax charge of \$43.5 million (after tax - \$34.3 million) in its valuation of Skyward Specialty at December 31, 2019.

Other

Name Changes

On November 5, 2020, Westaim Arena Holdings II, LLC changed its name to “Arena Investors Group Holdings, LLC”.

On November 17, 2020, Houston International Insurance Group changed its name to “Skyward Specialty Insurance Group, Inc.”.

Revolving Loan

On December 21, 2017, the Company, through The Westaim Corporation of America (“**WCA**”), a wholly-owned Delaware subsidiary of Westaim, granted a \$20 million revolving loan facility (the “**Revolving Loan**”) to Arena Investors in order to: (a) fund growth initiatives and working capital needs of Arena Investors; and (b) enable AIGH to repay \$4.4 million owed to the Company and \$7.8 million owed to AHFC. The loan facility had a term of 36 months, which has been extended to March 31, 2023 and bears interest at a rate of 5.25% per annum. On March 6, 2019, the Company amended the Revolving Loan from the limit of \$20 million to \$25 million in order to continue funding growth initiatives and working capital needs of Arena Investors. On December 22, 2020, the Company further amended the Revolving Loan from the limit of \$25 million to \$35 million and amended the interest rate of 5.25% to 5.60%. The loan facility is secured by all the assets of Arena Investors. At December 31, 2020, AIGH had drawn \$28 million under the loan facility and forms part of the Company’s investment in its associates (Arena Investors).

FX Contracts

On December 21, 2017, the Company entered into a one year Canadian dollar currency forward contract (the “**2018 FX Contract**”) to buy C\$20 million to manage the Canadian dollar currency exposures including the currency exposure arising from the Preferred Securities. The 2018 FX Contract matured on December 21, 2018 and resulted in a realized foreign exchange loss of \$1.0 million. On December 20, 2018, the Company entered into a new Canadian dollar currency forward contract (the “**2019 FX Contract**”) to buy C\$35 million to manage the Canadian dollar currency exposures including the currency exposure arising from the Preferred Securities. The 2019 FX Contract matured on December 20, 2019 and resulted in a realized foreign exchange gain of \$0.4 million. During 2020, the Company entered into one 90 day Canadian dollar currency forward contract (the “**2020 FX Contract**”) to buy C\$40 million to manage the Canadian dollar currency exposures including the currency exposure arising from the Preferred Securities. The 2020 FX Contract matured on December 21, 2020 and resulted in a realized foreign exchange gain of \$0.7 million. During the first quarter of 2021, the Company entered into two 90 day Canadian dollar currency forward contracts (the “**2021 FX Contracts**”) to buy C\$40 million to manage the Canadian dollar currency exposures including the currency exposure arising from the Preferred Securities. The 2021 FX Contracts have a term to maturity of approximately 90 days and may be renewed at market rates.

Summary Description of the Business

Overview

Westaim is a Canadian investment company specializing in providing long-term capital to businesses operating primarily within the financial services industry. Westaim 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 financial services industry and to grow shareholder value over the long term.

Westaim's senior management team and Board have extensive experience in sourcing, executing and financing businesses, and providing strategic advice to businesses in order to help them grow. Accordingly, Westaim expects to provide its portfolio companies with advisory services including, but not limited to, advice on capital allocation, financing strategy, performance measurement and merger and acquisition support. As part of its financing strategy, Westaim also intends to partner with like-minded providers of third party capital to help supplement Westaim's own capital when completing acquisitions. Any fees generated from managing this capital are expected to provide cash flow to the Company to support its operations and augment the return for Westaim's shareholders.

Investment Policy

On September 25, 2013, the Board approved a business acquisition and investment policy for the Company (the "**Investment Policy**"), which policy was amended in August 2014, April 2015 and March 2019. A summary of the Investment Policy and Westaim's approach to investment appears below.

Investment Objective

Westaim's investment objective is to maximize the growth of its intrinsic business value on a per share basis over the long-term. Westaim intends to seek to accomplish this objective through:

- Utilizing value investing principles and the expertise and experience of management to opportunistically acquire all or part of high quality businesses that (a) it understands; (b) are expected to generate superior returns on invested capital; and (c) are expected to have long-term prospects for growth;
- Providing acquired businesses with strategic, financial and capital allocation related advice and support to help accelerate their growth;
- Acquiring debt and equity securities of both public and private companies on an opportunistic basis; and
- Maintaining a conservative balance sheet that is expected to allow Westaim to withstand adversity and capitalize on opportunities when they arise.

Business Acquisition and Investment Strategy

To achieve its objectives, the following guidelines will be considered for Westaim's investment strategy:

- Westaim may invest in both public and non-public businesses and assets that have the potential for superior investment returns;
- As Westaim expects a significant majority of revenues and costs to be sourced and incurred in US\$, it changed its functional and presentation currency from Canadian dollars to United States dollars, prospectively from the date of change of August 31, 2015. To reduce the impact on Westaim's book value due to the movement of currency exchange rates between foreign currencies and Westaim's functional currency, from time to time, Westaim may enter into foreign exchange forward contracts;
- Availability and quality of operating management with whom to partner will be a critical consideration of the attractiveness of an investment opportunity;

- Westaim intends to invest opportunistically in debt, equity and derivative securities, with a preference for equity and equity-related securities;
- While the Company will consider the liquidity of a particular investment in its evaluation, this will not be an immediate requirement, and will be a secondary consideration to the quality of the business, and the attractiveness of the investment opportunity. While the Company believes that there may be significant potential returns in less liquid investments, where longer time horizons are required, the Company will generally seek to hold its investments for no more than 7 to 15 years;
- Over time, the Company intends to assemble a concentrated portfolio of businesses where its expertise and experience can be utilized to maximize returns on invested capital to the benefit of its shareholders; and
- Pending an investment, consistent with its long-term strategy, the Company expects to invest its surplus cash in interest bearing demand or deposit obligations or Government of Canada short-term debt obligations, other short-term debt obligations, or public equity securities as the Company may determine in accordance with limitations and guidelines established by the Board from time to time.

Investment Process

Westaim's senior management team is responsible for identifying and investigating investment opportunities, including conducting business, tax and legal due diligence and preparing financial models. If a potential investment appears to be consistent with Westaim's investment objective, the opportunity will typically be brought to the Board either at a regularly scheduled or special Board meeting to gauge the Board's view of the merits of the investment. If the Board's feedback is positive, management proceeds to negotiate the definitive terms of the transaction including any required financing. Once the terms are negotiated, the transaction is brought to the Board for final approval and, if approved, is completed and announced.

Implementation

In reaching an investment decision regarding a particular investment, the Company expects to consider, amongst others, the following factors:

- Availability and quality of operating management, and the ability to align management's interest with Westaim's shareholders;
- The ability of management to use their expertise to help grow the business organically and through prudent acquisitions;
- The financial condition and financial performance of the investee company; and
- The size of the investment, its price and valuation, and the Company's ability to efficiently finance its purchase.

Conflicts of Interest

Prior to making an investment, all members of senior management and the Board are obligated to disclose any interest in the potential investment. In the event that a conflict is determined to exist, the person having the conflicted interest is required to abstain from making further decisions concerning the investment.

Monitoring and Reporting

The investment activities of Westaim will be monitored by senior management, and by the Board through regular reporting from the Company's management, no less than quarterly. Investments will be monitored, evaluated and communicated to management and the Board on a fair value basis in accordance with the Company's status as an investment company.

Financing

Westaim expects to raise capital from time to time through the public offering of its securities, by private placement, or through the incurrence of debt obligations. The Company expects to maintain a conservative balance sheet in order to provide the flexibility to make opportunistic investments as they arise.

On September 29, 2020, the Arena FINCOs secured a private placement of \$45 million of 6.75% senior secured notes to improve net returns by leveraging invested assets. The net proceeds received from these notes are being used by Arena Finance II, LLC, a subsidiary of Arena Finance, LLC (“AF”), in accordance with their investment objectives.

Dividends

Westaim does not expect to declare dividends in the near future, as it intends to reinvest cash flows and/or proceeds of investment sales in new opportunities in accordance with its strategy. See “*Dividends and Distributions*”.

Investments

Westaim currently has two significant investments, each of which is in the financial services industry. For a description of these investments, see “*Current Investments*”.

Competition

There is significant competition for investments sought by the Company from strategic and financial buyers including pension funds and private equity groups. Some of these entities have greater financial, technical, personnel and operational resources than Westaim. In addition, some of these competitors may also have access to lower costs of capital and to funding sources not available to the Company, thereby providing them with a competitive advantage.

Employees

As at December 31, 2020, Westaim had seven full-time employees. In addition, management has an extensive network of relationships, and from time-to-time retains the services of consultants who provide the Company with specific expertise in certain niche areas. As at December 31, 2020, Westaim had two consultants.

CURRENT INVESTMENTS

Skyward Specialty

Overview

Skyward Specialty is a U.S. based property & casualty diversified specialty insurance company group providing coverage primarily in the United States but also globally for certain risks. The majority of Skyward Specialty’s business is written in the United States while the transactional property division may include selective business underwritten for risks outside the United States. Skyward Specialty’s strategy includes in-house underwriting expertise for certain classes of business as well as utilizing MGUs or MGAs where the underwriting and policy service are effectively outsourced. Skyward Specialty manages its claims with both in-house professionals as well as through third party administrators. At December 31, 2020, Skyward Specialty’s assets were approximately \$2 billion and stockholders’ equity was approximately \$395 and for the year ended December 31, 2020, Skyward Specialty had aggregate gross written premiums of approximately \$874 million.

In May of 2020, Mr. Andrew Robinson was appointed Chief Executive Officer of Skyward Specialty to replace Stephen L. Way who retired from his positions of Chief Executive Officer and Chair of the board of directors of Skyward Specialty. Mr. Way remains a director of Skyward Specialty. Mr. Robinson is a highly experienced and successful global insurance executive with a 30+ year track record of growth, financial improvement and strategic

and operational leadership working globally in the insurance industry and in management and strategic consulting. His career includes significant time with The Hanover Insurance Group, Inc. and Diamond (now PWC) Consulting.

Skyward Specialty's subsidiaries include Houston Specialty Insurance Company ("**HSIC**"), Imperium Insurance Company ("**IIC**"), Great Midwest Insurance Company ("**GMIC**"), Boston Indemnity Company, Inc. ("**BIC**"), Oklahoma Specialty Insurance Company ("**OSIC**"), HIIG Re ("**HIIG Re**"), Skyward Underwriting Agency, Inc. ("**Skyward U**") and Skyward Service Company ("**SSC**").

HSIC is a Texas-domiciled insurance company that writes commercial auto, commercial property and general liability policies as a non-admitted carrier in 50 states.

IIC is a Texas-domiciled insurance company that primarily writes workers' compensation, commercial auto, commercial property, and general liability policies. IIC is licensed to write direct insurance and reinsurance in 50 states plus the District of Columbia.

GMIC is a Texas-domiciled insurance company that primarily writes workers' compensation, auto liability, property, general liability, surety, accident and health (medical stop-loss ("**MSL**")) and general and professional liability policies. GMIC is licensed to write direct insurance and reinsurance in 50 states and the District of Columbia, and is a Treasury Department approved listed insurer.

BIC is a South Dakota-domiciled insurance company that writes surety business acquired by Skyward Specialty in 2018. BIC is licensed in 46 states and is a Treasury Department approved insurer.

OSIC is an Oklahoma-domiciled insurance company that writes commercial auto, commercial property and general liability policies as a non-admitted carrier in 47 states and the District of Columbia.

HIIG Re, which was established in January 2020, is a Cayman Islands captive reinsurer which provides capacity to Skyward Specialty for specified business transactions that benefit from such an arrangement.

Skyward U, a Texas corporation, is a MGA for property and casualty risks in specialty niche markets, including MSL.

SSC, a Delaware corporation, provides various administrative services to the Skyward Specialty insurance company subsidiaries.

Skyward Specialty is headquartered in Houston (Texas) with offices in Atlanta (Georgia), Birmingham (Alabama), Chicago (Illinois), Dallas (Texas), Morristown (New Jersey), Oklahoma City (Oklahoma), Malvern (Pennsylvania), Scottsdale (Arizona), Pierre (South Dakota), Wakefield (Massachusetts), Nashville (Tennessee) and Toronto (Ontario).

Strategy

Skyward Specialty's strategy is to lead in those specialty segments where it chooses to compete. The key pillars of this strategy are to:

- Drive market leading performance through daily excellence and technical mastery of the elements of Skyward Specialty's business from underwriting to claims. Skyward Specialty constantly focuses on those components of its business which drive its profits and margins, using robust data and metrics to guide its decisions.
- Retain and expand Skyward Specialty's high calibre and diverse team of talent. Skyward Specialty has a strong and experienced leadership team, as well as expertise and engagement throughout the organization to drive performance in all aspects of its business.

- Activate advanced technology to drive superior outcomes in underwriting, risk management and claims, as well as operational efficiency. As technology continues to become more and more prevalent within the insurance industry, Skyward Specialty is positioned to take advantage of these new tools.
- Sustain Skyward Specialty's nimble and creative entrepreneurial culture and continue to capitalize on market place disruption. This includes expanding where Skyward Specialty is positioned for growth, adding profitable adjacencies to its current business mix and pursuing new specialties aligned to its strategy.
- Leverage a differentiated approach to asset management to generate better yield outcomes while maintaining conservative liquidity and market risk positions.

Employees

As at December 31, 2020, Skyward Specialty had 357 full-time employees.

Competition

The property & casualty insurance industry is highly competitive and there are many factors that drive this competition, including:

- premium rates;
- claims handling;
- financial strength ratings assigned by independent rating agencies (for example, A.M. Best);
- coverage;
- type of insurance;
- availability of reinsurance;
- policy terms;
- strength of client and distribution relationships; and
- reputation.

Skyward Specialty competes with a number of insurance companies, MGUs and MGAs which vary based on the line of business, volume of premium and geography. Competitors include: Markel Corporation; W.R. Berkley Corporation; American Financial Group Inc.; Tokio Marine HCC; CNA Financial Corporation; Hiscox, Ltd.; RLI Corp.; OneBeacon Insurance Group, Ltd.; Argo Group International Holdings, Ltd.; Amerisafe, Inc.; Employers Holdings, Inc.; Kinsale Capital Group; and James River Group Holdings, Ltd.

Some of these entities have greater resources including financial, marketing and personnel. Increased competition could result in lower premium rates and less favorable policy terms, which could adversely affect Skyward Specialty.

Distribution

The distribution channels for the property & casualty insurance industry are wholesale and retail brokers and producers, MGUs and MGAs, direct distribution and captive agents. Brokers act as intermediaries between property & casualty insurance companies and customers who wish to purchase property & casualty insurance. Insurance brokers and wholesale producers represent the vast majority of the distribution of Skyward Specialty's business. Insurance brokers and wholesale producers typically distribute insurance policies of multiple insurance companies and act on behalf of customers.

Regulation

The business of insurance is extensively regulated. In the United States, the insurance business is regulated primarily by individual states. Although the extent of the regulation varies, it relates to, among other things: (a) standards of solvency; (b) licensing of insurers and insurance agents; (c) approval of policy forms; (d) restrictions on the size of

risks that may be insured under a single policy; (e) regulation of market conduct and claim practices; (f) premium rates; (g) reserves and provisions for unearned premium, losses and other obligations; (h) the nature of and limitations on investments; and (h) usage of certain methods of accounting for statutory reporting purposes. In all jurisdictions, the applicable laws and regulations are subject to amendment or interpretation by regulatory authorities.

Arena

Overview

The business of Arena consists of two separate businesses, namely (a) Arena Investors, including AI, an investment manager making fundamentals-based, asset-oriented credit investments on behalf of third-party investors; and (b) the Arena FINCOs, which include specialty finance companies that primarily purchase fundamentals-based, asset-oriented credit investments for their own account and Arena Origination Co., LLC (“**AOC**”), which facilitates the origination of fundamentals-based, asset-oriented credit investments for its own account and/or possible future sale to its specialty finance companies, clients of Arena Investors and/or other third parties. Arena is managed by Daniel B. Zwirn as Chief Executive Officer and Chief Investment Officer.

Below is a description of each of the Arena businesses.

Arena Investors

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

Arena Investors generates revenues primarily from Management Fees, Incentive Fees and Asset Servicing Fees (as such terms are defined herein).

- “**Management Fees**” are the fees generally calculated on Arena Investors’ various segregated client accounts and private pooled investment vehicles, as a percentage of assets under management (“**AUM**”), and the fees generally calculated on Arena FINCOs, as a percentage of net assets.
- “**Incentive Fees**” are the fees generally calculated as a percentage of net profits earned by clients of Arena Investors, including the Arena FINCOs, as of the end of each fiscal year or applicable withdrawal date related to client accounts subject to a “high water mark” and loss carryforward provisions for each measurement date.
- “**Asset Servicing Fees**” are the fees generally earned in connection with the monitoring and servicing of the illiquid portion of clients’ investment portfolio, including the Arena FINCOs.

Arena Investors has established U.S. onshore funds Arena Special Opportunities Fund, LP, Arena Special Opportunities Partners I, LP and Arena Special Opportunities Partners (Feeder) I, LP as well as offshore funds, Arena Special Opportunities Fund (Cayman), LP, Arena Special Opportunities Fund (Cayman 2), LLC and Arena Special Opportunities Partners (Cayman) I, LP, as commingled investment vehicles. Arena Investors continues to be in discussions with potential clients for additional capital to invest in its various pools, in accordance with its business strategy, including separately managed accounts.

AI, an Arena Investors entity, is a limited partnership established under the laws of Delaware. Arena Investors GP, LLC (“**AIGP**”), a limited liability company established under the laws of Delaware, is the general partner of AI. AIGH, a Delaware LLC, is the sole limited partner of AI and the sole member of AIGP. WCA and BP LLC are currently the only members of AIGH. BP LLC has been provided with certain rights to receive an equity ownership position in AIGH.

The membership interests in AIGH include both an equity percentage, which represents a right to participate in distributions of the capital of AIGH (“**Equity Percentage**”) and a profit percentage, which represents a right to participate in distributions of the profits of AIGH (“**Profit Percentage**”). Initially, 100% of the Equity Percentage in AIGH was held by Westaim (through its wholly-owned subsidiary, WCA) with 51% of the Profit Percentage held by WCA and 49% of the Profit Percentage held by BP LLC.

Under the limited liability company agreement of AIGH dated as of August 31, 2015 among WCA and BP LLC, as amended and restated as of May 23, 2016, as further amended and restated as of November 27, 2019 (the “**Second Amended and Restated AIGH LLCA**”), BP LLC was provided with the right to “earn-in” to up to a 75% equity ownership position in AIGH based on meeting certain pre-established thresholds of Arena Investors’ AUM and profitability measured by TTM EBITDA Margin (as defined in the Second Amended and Restated AIGH LLCA). The initial earn-in entitlement of 49% of the equity ownership will be achieved once Arena Investor’s AUM reaches or exceeds \$1 billion and its TTM EBITDA Margin reaches or exceeds 35% (the “**Initial Threshold**”). Additional increases in AUM and TTM EBITDA Margin will result in additional earn-ins until the maximum earn-in ownership level of 75% is reached by Arena Investor’s AUM reaching or exceeding \$5 billion and its TTM EBITDA Margin reaching or exceeding 60%.

At the commencement of the operations of Arena Investors, notwithstanding that BP LLC did not have any equity ownership in AIGH, BP LLC was entitled to receive a 49% Profit Percentage (as defined in the Second Amended and Restated AIGH LLCA), representing a right to participate in the distribution of profits of AIGH until such time as the Initial Threshold is achieved. In connection with the provisions of the Revolving Loan, BP LLC provided a limited recourse guaranty of AIGH’s obligations under the Revolving Loan. This guaranty is limited to BP LLC’s interest as a member of AIGH under the Second Amended and Restated AIGH LLCA.

Arena FINCOs

The Arena FINCOs are comprised of AF and AOC. Investments held by the Arena FINCOs are derived from essentially the same pool of fundamentals-based, asset-oriented credit investment opportunities. Arena Investor’s investment strategy, investment process, and risk management are outlined below under “*Current Investments – Arena – Strategy*”. Arena has established a methodology to allocate investment opportunities between the respective entities in a manner consistent with each entity’s investment mandate. See “*Current Investments – Arena – Strategy – Allocation Methodology*” for a summary overview of the allocation methodology.

- (a) *AF* – AF is a limited liability company formed under the laws of Delaware. AFHC, a wholly-owned Delaware subsidiary of Westaim, is currently the sole member of AF. AF acquires credit investments and other securities from AOC or other third parties at their fair market value. AF does not have a target range of investment; the size of the credit investments and other securities acquired from AOC or other third parties depends on, among other things, any diversification requirements which may be imposed by any lender as well as the investment policy of AFHC. In the absence of such requirements, AF will not be subject to concentration limitations but management of AF will instead use its best judgment as to what is prudent in the circumstances. AF has a two member board of directors consisting of Glenn G. MacNeil, CFO of Westaim and Joseph A. Schenk, an independent director.

Before acquiring any investment, AF reviews the nature of the investment, including the credit-worthiness of the borrower, the nature and extent of any collateral and the expected return on the investment. AF acquires investments based on its assessment of the fair market value of the investments at the time of purchase. If an investment is to be acquired from AOC, such acquisition is reviewed and approved by a person or committee that is independent of each of AOC and Westaim that has knowledge of fundamentals-based, asset oriented credit investments. AF’s primary revenue consists of interest income, dividend income and/or fees earned on the investments that it acquires. The operating results of AF also include any gain (loss) on its investments.

As described under “*Summary Description of Business – Investment Policy – Financing*”, on September 29, 2020, the Arena FINCOs secured a private placement of \$45 million of 6.75% senior secured notes to improve net returns by leveraging invested assets. The net proceeds received from these notes are being used by Arena Finance II, LLC, a subsidiary of AF, in accordance with their investment objectives.

- (b) *AOC* – *AOC* is a limited liability company formed under the laws of Delaware. *WOH*, a wholly-owned Delaware subsidiary of *WCA*, is currently the only member of *AOC*. *AOC* currently has a three member board of directors consisting of J. Cameron MacDonald, Daniel B. Zwirn, Chief Executive Officer and Chief Investment Officer of *Arena Investors*, and Lawrence Cutler, Chief Operating Officer of *Arena Investors*.

AOC uses the funds that it receives from *Westaim* to locate credit and other security investment opportunities, investigate such opportunities including conducting due diligence on the potential borrower, structuring and documenting the investment and ultimately, funding the investment using its own funds. Once it has a portfolio of credit and other security investments, *AOC* may look to dispose of all or a portion of such portfolio in order to provide it with the funds necessary to make additional investments. All or a portion of the portfolio may be disposed of by *AOC* to third parties, including *AF*, certain investment funds or client accounts managed by *Arena Investors*, and/or other third parties. In addition, *AOC* may retain a portion of the investments for its own account, but this is not its primary investment strategy. Because *AOC* may offer and sell investments to *AF* and certain investment funds or client accounts managed by *Arena Investors*, procedures have been implemented to provide for the review of, and consent to, such transactions on behalf of *AF* and each related party. These procedures include the review and approval of the transaction by a person or committee that is independent of each of *AOC* and *Westaim* that has knowledge of fundamentals-based, asset oriented credit investments.

The size of the investments originated by *AOC* depends both on the funds available to *AOC* as well as any diversification requirements which may be imposed by any lender providing funding to *AOC* as well as the investment policy of *AOC*. In the absence of such diversification requirements, *AOC* will not be subject to concentration limitations but management will instead use its judgment as to what is prudent in the circumstances.

Before acquiring any investment, *AOC* reviews the nature of the investment, including the credit-worthiness of the borrower, the nature and extent of any collateral and the expected return on the investment. *AOC* receives fees in connection with originating or structuring the terms of an investment and receives dividend income, interest or principal payments until it disposes of an investment or a loan is repaid. The operating results of *AOC* also include any gain (loss) on its investments.

Strategy

Arena makes and manages fundamentals-based, asset-oriented credit investments. Fundamentals-based, asset-oriented credit investments refers to loans or credit arrangements which are generally secured by assets. These assets include, but are not limited to, real estate, inventory, vehicles, aircraft, watercraft, oil and gas reserves, a borrower's plant and equipment, other hard assets, securities, receivables, contractual income streams, and certain intellectual property assets. Fundamentals-based, asset-oriented lenders and investors manage their risk and exposure by carefully assessing the value of the assets securing the loan or investment, receiving periodic and frequent reports on collateral value and the status of those assets, and tracking the financial performance of borrowers.

Management believes that *Arena's* core competitive advantage is its operating model, which allows it to originate unique credit-based investment opportunities in scale and on a cost-efficient basis, through the use of on-balance sheet employee teams, and established relationships with other channels of credit-opportunity origination. *Arena's* model allows it to originate, create, and structure returns that are not able to be purchased "off-the-shelf" in the credit markets. When looking for new opportunities, *Arena* seeks situations from which capital is retreating, providing liquidity in those situations where there is scarcity of capital for reasons unrelated to value.

By utilizing both employee teams and third party relationships to create a pipeline of opportunities, *Arena* expects to be able to choose the best opportunities in accordance with its investment guidelines.

Arena has pursued and is expected to continue to pursue a complementary group of investment opportunities, all focused on exploiting illiquidity and opportunities available in the market at a given point in time, in order to

maximize the return in relation to the risk. Arena provides liquidity to companies and owners of assets who require it in a timely manner and who Arena believes are underserved by conventional sources of capital.

Arena's strategy is comprised of multiple investment strategies, including, but not limited to the following types of investments:

- *Corporate Private Credit.* Senior private corporate debt, bank debt, including secondary market bank debt, distressed debt such as senior secured bank debt before or during a Chapter 11 bankruptcy filing, bridge loans/transition financing, debtor-in-possession (“**DIP**”) financings, junior secured loans, junior capital to facilitate restructurings, equity co-investments or warrants alongside corporate loans.
- *Real Estate Private Credit and Real Estate Assets.* Real property, secured or unsecured mezzanine financings, DIP loans, “A-tranche” loans (senior secured loans) and “B-tranche” loans (junior secured loans) for real estate properties requiring near-term liquidity, structured letters of credit, real estate loans secured by office buildings, retail centers, hotels, land, single family homes, multi-family apartments, condominium towers, hospitality providers, health care service providers, and corporate campuses, leases and lease residuals.
- *Commercial and Industrial Assets.* Commercial receivables, investments in entities (including start-up businesses) engaged, or to be engaged, in activities or investments such as distressed commercial and industrial loans, commercial and industrial assets such as small-scale asset-based loans, trade claims and vendor puts, specialized or other types of equipment leases and machinery, non-performing loans globally, hard assets (including airplanes and components, industrial machinery), commodities (physical and synthetic), reinsurance and premium finance within life and property casualty insurance businesses, legal-related finance including law firm loans, settled and appellate judgments and probate finance, royalties, trust certificates, intellectual property and other financial instruments that provide for the contractual or conditional payment of an obligation.
- *Structured Finance Investments.* Thinly traded or more illiquid loans and securities backed by mortgages (commercial and residential), other small loans including equipment leases, auto loans, commercial mortgage-backed securities, residential mortgage-backed securities, manufactured housing-backed securities, collateralized loan obligations, collateralized debt obligations, other structured credits and consumer credit securitizations, aviation and other leased asset securitizations, esoteric asset securitization, revenue interests, synthetics, and catastrophe bonds.
- *Consumer Assets.* Auto and title loans, credit cards, consumer installment loans, charged-off consumer obligations, consumer bills, consumer receivables, product-specific purchase finance, residential mortgages, tax liens, real estate owned homes, other consumer credit securitizations, retail purchase loans and unsecured consumer loans as well as distressed or charged-off obligations of all of these types, peer-to-peer originated loans of all types, manufactured housing, and municipal consumer obligations.
- *Other Securities.* Hedged and unhedged investments in public securities, preferred stock, common stock, municipal bonds, senior public corporate debt, corporate bonds including bonds in liquidation or out-of-court exchange offers and trade claims of distressed companies in anticipation of a recapitalization, structured convertible notes, other industry relative value, merger arbitrage in transactions such as mergers, hedged investments in regulated utilities, integrated utilities, merchant energy providers, acquisitions, tender offers, spin-offs, recapitalizations and Dutch auctions, event-driven relative value equity investments in transactions such as corporate restructurings, strategic block, other clearly defined event, high-yield bonds, credit arbitrage and convertible bond arbitrage, in/post-bankruptcy equities, demutualizations, liquidations and litigation claims, real estate securities, business development companies, master limited partnership interests, royalty trusts, publicly traded partnerships, options and other equity derivatives.

The weighting of each of these strategies is based on management's assessment of the opportunity available in the area, in order to maximize the return in relation to the risk, and the investment guidelines of each fund, managed account or other capital pool available.

Allocation Methodology

In making allocation decisions with respect to limited investment opportunities that could reasonably be expected to fit the investment objectives of the pooled funds and other clients, or of another member of Arena, consideration is given to the following factors deemed relevant: the investment objectives of each party; the source of the investment opportunity; any rights to investment opportunities that may have been granted to particular parties; the expected duration of the investment in light of clients' investment objectives and policies (including diversification policies); the amount of available capital; the size of the investment opportunity; regulatory and tax considerations; the degree of risk arising from an investment; the expected investment return; relative liquidity; likelihood of current income or such other factors as deemed to be appropriate. Arena has put in place a defined and documented allocation methodology consistent with the foregoing.

Investment Process

Infrastructure and Processes

Arena's investment process seeks to take into consideration the material pitfalls and possible hidden costs of an investment. Arena gains comfort with potential investments through a bottom-up, thorough understanding of the fundamentals of a business and/or situation rather than through portfolio-level, top-down allocations. Arena's investment process is summarized below:

- *Evaluation and Initial Approval.* Investments are sourced by Arena personnel or through third party relationships and proposed to the Chief Investment Officer through an introductory investment memorandum. The Chief Investment Officer reviews potential investment opportunities with all of Arena's senior investment professionals on a regular basis, typically once per week. Once a potential investment has been identified, it is reviewed for possible risks such as operational, administrative, reputational, tax and other risks. A detailed investment memorandum is prepared and scrutinized by Arena's senior investment professionals and the Chief Investment Officer for final conditional approval of the investment.
- *Risk and Funding Management.* The asset management team is responsible for monitoring and surveilling the portfolio of investments, and interfacing with the front and back office employees. The asset management team determines the capability of the firm to monitor, service and review the investment going forward and assigns an asset manager(s) to monitor the investment independent of the applicable investment professional/team that originated the investment. Ongoing monitoring of an asset for risk management purposes and regulatory analysis is performed by Arena Investors. See "*Current Investments – Arena – Risk Management*". The asset management team is not compensated on the outcome of the investments. Allocation across Arena Investors' pooled funds and managed accounts, including the Arena FINCOs, are monitored to ensure compliance with Arena's documented allocation methodology, and compliance with each respective pool's stated investment mandate. See "*Current Investments – Arena – Strategy – Allocation Methodology*".
- *Final Funding.* Legal documentation related to the investment is reviewed by the Arena's senior investment professionals and outside legal counsel for consistency across investments and tax analysis is also performed. Final sign-off for an investment is required from the Chief Investment Officer, any investment committee of the respective Arena entity, and senior Arena personnel responsible for operations, asset management, treasury, tax, legal and compliance before the investment is funded.

Because of the nature and timing of certain investment opportunities, not all steps of the above summarized process may be followed for each and every investment.

Valuation and Pricing

Arena has established a policy for the valuation of the investments owned by Arena Investor's funds and clients, including the Arena FINCOs. Arena prices or values all investments in accordance with such policy in a manner that it believes to be fair and reasonable. Senior Arena personnel oversee and implement Arena's valuation policy for all

investments and securities and may engage qualified outside third party service providers as appropriate to assist with its pricing and valuation activities.

All investments managed by Arena Investors are priced or valued on a monthly basis using principles consistent with U.S. GAAP. Arena Investors provides the monthly net asset value to its investors and clients determined through its valuation and pricing processes.

Arena utilizes such valuation techniques as it considers appropriate given the facts and circumstances of a particular investment. In some cases, a single valuation technique is considered to be appropriate. In other cases, multiple valuation techniques are utilized. If multiple valuation techniques are used, Arena evaluates and weighs the results, as determined appropriate, considering the reasonableness of the range indicated by those results.

Risk Management

Arena has established a risk management process. Arena manages risk through diversification of investments, policies with respect to the use of leverage, position size limits, security construction and hedging. This multi-strategy approach is designed to allow Arena to shift capital to those types of investments that, in its opinion, offer the most attractive risk/reward characteristics. Arena seeks to diversify by industry, geography, asset class, strategy and sub-strategy.

Arena seeks to mitigate risk by (a) investing at senior (and typically secured) levels in the capital structure of an investee company or otherwise investing within a “margin of safety”; (b) investing in companies, properties or assets at debt to cash flow ratios it believes are attractive; (c) pricing perceived risk and illiquidity into investments; and/or (d) including covenants in transactions that may ultimately create yield enhancement opportunities through amendments and other document changes.

Employees

As at December 31, 2020, Arena had 60 full-time employees.

Competition

The investment management industry is highly competitive with various pools of capital pursuing finite investment opportunities. However, management of Arena believes that the competitive environment for Arena is as open as it has been in the United States since the savings and loan crisis of the early 1990s. The majority of market participants prior to the 2008 financial crisis have largely been regulated out of existence, severely hampered by legacy burdens, or retreated to pursue other investment opportunities. These include the proprietary special situation groups of the investment banking firms. Other competitors such as several alternative asset managers have retreated to pursue the opportunities available to them in their original core competencies in the purely liquid markets. Further, large-scale alternative asset management platforms typically focus on large-scale, more crowded investment opportunities while business development companies (BDCs) and small business investment companies (SBICs), as regulated investment companies (RICs), have relatively limited investment mandates.

RISK FACTORS

Westaim is subject to a number of risks, including the risks described below. The risks and uncertainties described below are those believed to be material, but they may not be the only ones faced by Westaim. If any of these risks, or any other risks and uncertainties that have not yet been identified by Westaim or that Westaim currently considers not to be material, actually occur or become material risks, the business, prospects, financial condition, results of operations and cash flows of Westaim could be materially and adversely affected.

Risks Relating to Westaim

Risks inherent in acquisitions generally

The Company intends to actively pursue the acquisition of companies or businesses in Canada, the United States and/or internationally and may seek to acquire securities or other interests in other companies consistent with its investment strategies. Such acquisitions involve inherent risks including but not limited to (a) unanticipated costs; (b) potential loss of key employees of the company or the business acquired; (c) unanticipated changes in business, industry or general economic conditions that affect the assumptions underlying the acquisition; and (d) decline in the value of the acquired business or assets. Any one or more of these factors could cause the Company to not realize the anticipated benefits of the acquisition in question. In addition, the Company may be required to use available cash, incur debt, issue securities, or a combination of these in order to complete an acquisition. This could affect the Company's future flexibility and ability to raise capital, operate or develop its business and could dilute its existing shareholders' holdings as well as decrease the trading price of its Common Shares. There is no assurance that when evaluating a possible acquisition, the Company will correctly identify and manage the risks and costs inherent in the business or asset to be acquired.

Foreign exchange risk

Effective August 31, 2015, the Company changed its functional and presentation currency from Canadian dollars to United States dollars. However, certain expenses and liabilities of the Company are denominated and paid in Canadian dollars. Accordingly, an appreciation of the Canadian dollar against the U.S. dollar could adversely impact the financial performance of Westaim.

Cash flow might be negative

The Company has made and intends to make investments in private entities which do not typically have an active market. Private investment transactions can be highly structured and the Company expects to take measures, where possible and appropriate, to create defined liquidity events. However, such liquidity events are rarely expected in the first three to five years of making an investment and may not be realized as expected or at all. While the Company may seek to obtain regular cash flow from these investments through management fees, capital appreciation and/or investment income, in the near term these revenues may not be sufficient to offset the Company's operating expenses. Accordingly, the Company may experience negative cash flow at the holding company level until such time as its revenues exceed its operating expenses, which negative cash flow could be funded from the Company's cash resources and other sources of capital which are available to the Company.

Liquidity and financing risks

Westaim's ability to continue its acquisition efforts will be largely reliant on its continued attractiveness to equity investors and third party capital partners. Westaim may incur operating losses as it continues to expend funds to seek out, investigate and complete future acquisitions. There is no guarantee that companies that Westaim acquires or invests in will become or continue to be profitable as general economic conditions, regulatory requirements and other factors affect their operations and future performance. Many of these factors are beyond Westaim's control. Additionally, should Westaim require additional capital to continue its activities, failure to raise such capital could restrict Westaim's activities or result in the Company going out of business. From time to time, Westaim may enter into transactions to acquire assets or the shares of other corporations. These transactions may be financed wholly or partially with debt, which may temporarily increase Westaim's debt levels above industry standards. Westaim cannot assure investors that it will be able to generate sufficient cash flow to pay the interest on any debt or that future working capital, borrowings or equity financing will be available to pay or refinance such debt.

Regulatory rules and required approvals might delay or deter a change of control of Westaim

Many state insurance regulatory laws contain provisions that require advance approval by state agencies of any change of control of an insurance company that is domiciled or, in some cases, has substantial business in that state. "Control" is generally presumed to exist through the ownership of 10% or more of the voting securities of a domestic insurance company or of any company that controls a domestic insurance company. Because Westaim

controls greater than 50% of the common stock of Skyward Specialty on a fully-diluted basis, it is considered to exercise control over Skyward Specialty and its insurance subsidiaries. Accordingly, any purchaser of Common Shares representing 10% or more of the voting power of all outstanding Common Shares on a fully-diluted basis will be presumed to have acquired control of Skyward Specialty's domestic insurance subsidiaries unless, following application by that purchaser, the relevant state insurance regulators determine otherwise. Any transaction that would constitute a change in control of any of Skyward Specialty's individual insurance subsidiaries would generally require prior approval by the insurance departments of the states in which the insurance subsidiary is domiciled.

The by-laws of the Company contain restrictions on the ownership, transfer and voting of the Common Shares of the Company which may have an effect on the marketability and liquidity of such securities.

PFIC status

The Company does not believe it was a "passive foreign investment company" ("PFIC") for U.S. income tax purposes for its 2020 fiscal year. The tests for determining PFIC status are based upon the composition of the income and assets of Westaim and its subsidiaries and affiliates from time to time, and it is difficult to make accurate predictions of future income and assets. Accordingly, there can be no assurance that Westaim will not become a PFIC in the future, as a result of its investment in Arena or otherwise. A non-U.S. corporation generally will be considered a PFIC for any taxable year if either: (i) at least 75% of its gross income is passive income, measured on an annual basis; or (ii) at least 50% of the value of its assets is attributable to assets that produce or are held for the production of passive income (which generally includes cash), measured on a quarterly basis. It is difficult to make accurate predictions of future income and assets, which are relevant to the determination of PFIC status. If Westaim were to be treated as a PFIC for any taxation year, such characterization could result in adverse U.S. income tax consequences to certain Westaim investors in the United States.

Environmental risks

The Company has provided indemnifications to third parties with respect to future site restoration costs to be incurred on industrial sites formerly owned by the Company. The site restoration provision is based on periodic independent estimates of costs associated with soil and groundwater reclamation and remediation of these industrial sites. The Company has accounted for estimated future restoration costs in its financial statements. Although the Company believes, based on consultation with experts and advisors, that such estimates are reasonable based on information currently available to the Company, the ultimate environmental costs are uncertain as they are dependent on the future use of the land and future laws and regulations. In addition, estimates of future expenditures could change as a result of periodic reviews of the underlying assumptions supporting the provision, including remediation costs and regulatory requirements. Although the Company has received indemnities from the previous owners of the industrial sites in respect of which the Company has indemnification obligations, there can be no guarantee that such indemnities will be available to the Company or will be sufficient to reimburse the Company for all costs incurred in connection with the Company's indemnification obligations.

Market turmoil

Global financial conditions continue to be subject to volatility arising from international geopolitical developments and global economic phenomenon, as well as general financial market turbulence, including a significant market reaction to the novel coronavirus (COVID-19), resulting in a significant reduction in many major market indices and in the trading price of the Common Shares. The unprecedented events in global financial markets have had a profound impact on the global economy. Many industries, including the financial services industry, are impacted by these market conditions. A continued or worsened slowdown in the financial markets or other economic conditions, including, but not limited to, consumer spending, employment rates, business conditions, the state of the financial markets, interest rates and tax rates may adversely affect the Company's growth and profitability. These instances of market turmoil could adversely impact Westaim's operations (including the operations of Skyward Specialty and Arena) and the trading price of the Common Shares.

Risk of volatile markets and market disruption risk

The performance of the Company and the price of the Common Shares may be influenced by, among other things, interest rates, changing supply and demand relationships, trade, fiscal, monetary and exchange control programs and policies of governments and national and international political and economic events and policies. In addition, unexpected and unpredictable events such as war and occupation, a widespread health crisis or global pandemic, terrorism and related geopolitical risks may lead to increased short-term market volatility and may have adverse long-term effects on world economies and markets generally. Such impacts could also cause substantial market volatility, exchange trading suspensions and closures, affect Westaim's performance and significantly reduce the value of an investment in the Common Shares. The Company (including Skyward Specialty and Arena) is therefore exposed to some, and at times, a substantial, degree of market risk. Westaim cannot predict the timing of future events which will likely trigger changes in the trading price of the Common Shares.

Westaim may be exposed to epidemics and/or pandemics

Westaim faces risks related to health epidemics and other outbreaks of communicable diseases, which could significantly disrupt its operations and may materially and adversely affect its business and financial conditions. Westaim's business (including the businesses of Skyward Specialty and Arena) could be adversely impacted by the effects of COVID-19 or other epidemics and/or pandemics. The near and long-term implications and consequences of the COVID-19 pandemic raise several unique challenges that may affect Westaim's business strategy. Unprecedented disruptions to daily life, businesses, supply chains, and to economic growth created challenges to our business ecosystem elevating risks to meeting objectives. Many factors still remain unknown, such as the severity, depth and length of the pandemic, the speed of deployment and efficacy of vaccines, and the broader impacts of monetary accommodation and fiscal stimulus.

This uncertainty and the cross-accumulation of risks require that Westaim maintain its resilience and flexibility in order to manage the impacts of the pandemic. The global pandemic is elevating disruption themes, amplifying existing financial, nonfinancial, and strategic risks, introducing new uncertainties, and highlighting interdependencies and accentuating risk correlations. Adverse changes and developments affecting the global economy, including significant global economic disruption, previous and potential future stock market decline and increased financial market volatility, individually and in the aggregate, have had and may continue to effect our overall investment portfolio. Global equity markets have experienced material and rapid declines and although price recovery across many sectors has followed, markets continue to experience significant volatility. Government and central banks have reacted with significant monetary and fiscal interventions designed to stabilize economic conditions. The duration and efficacy of these government and central bank interventions is unknown at this time.

Westaim and its businesses, employees, brokers and distribution partners, as well as the workforce of vendors, services providers and counterparties with which Westaim does business, may also be adversely affected by the COVID-19 pandemic or efforts to mitigate the pandemic, including government-mandated shutdowns, requests or orders for employees to work remotely, and other physical distancing measures. Certain pre-existing operational risks may be exacerbated, notably with respect to potential phishing or other cybersecurity-related attacks, privacy risk incidents, fraud, increased reliance on technology, operational resilience and risks related to the operations and resiliency of Westaim's vendors, third-party suppliers and counterparties.

Additionally, increased economic uncertainty and unemployment resulting from the spread of COVID-19 may reduce the demand for our products.

Westaim is subject to the risk of employee error or misconduct

Employee errors or misconduct could result in regulatory sanctions or reputational harm, which could materially adversely affect the business, financial condition and/or profitability of Westaim. Misconduct by employees could include binding Westaim to transactions that exceed authorized limits or present unacceptable risks, or concealing from Westaim unauthorized or unsuccessful activities, which, in either case, may result in unknown and unmanaged risks or losses. Employee misconduct could also involve the improper use of confidential information, which could result in regulatory enforcement proceedings, sanctions and serious reputational harm. Westaim is also susceptible to loss as a result of employee error. While management will proactively take measures to deter employee

misconduct or prevent employee error, the precautions management takes to prevent and detect this activity may not be effective in all cases, which could materially adversely affect the business, financial condition and/or profitability of Westaim which could adversely affect the business, financial condition and/or profitability of Westaim.

Cybersecurity risks

Westaim's computer systems may be subject to cybersecurity risks or other breaches of information technology security, noting the increasing frequency and severity of these kinds of incidents. Despite the implementation of security measures, the infrastructure supporting Westaim's computer systems may be vulnerable to physical break-ins, computer viruses, programming errors, attacks by third parties or similar disruptive problems. Such breach of Westaim's cybersecurity could have a material adverse effect on Westaim's results of operations or financial condition.

Risks Relating to Skyward Specialty's Business

Risk of unforeseen catastrophic losses

Property and casualty insurers are subject to claims arising from catastrophes. Catastrophes can be caused by various events, including hurricanes, tsunamis, tornados, cyclones, windstorms, icestorms, earthquakes, hailstorms, explosions, spills, flooding, severe winter weather and wild fires and may include man-made events, such as war, terrorist attacks and systemic risks. The incidence, frequency and severity of catastrophes are inherently unpredictable. Some scientists believe that in recent years, changing climate conditions have added to the unpredictability and frequency of natural disasters. The extent of losses from a catastrophe is a function of both the total amount of insured exposure in the area affected by the event and the severity of the event.

Although Skyward Specialty typically purchases reinsurance protection for risks that it believes bear a significant level of catastrophe exposure, the nature or magnitude of losses attributed to a catastrophic event or events may result in losses that exceed Skyward Specialty's reinsurance protection. It is therefore possible that a catastrophic event or multiple catastrophic events could have a material adverse effect on Skyward Specialty's financial position, results of operations and liquidity.

The insurance and reinsurance business is historically cyclical

The insurance and reinsurance business historically has been a cyclical industry characterized by periods of intense price competition due to excessive underwriting capacity, as well as periods when shortages of capacity permitted an increase in pricing and, thus, more favourable premium levels. An increase in premium levels is often, over time, offset by an increasing supply of insurance and reinsurance capacity, either from capital provided by new entrants or by additional capital committed by existing insurers or reinsurers, which may cause prices to decrease. In addition, changes in the frequency and severity of losses suffered by insureds and insurers may affect the cycles of the insurance and reinsurance business significantly. Any of these factors could lead to a significant reduction in premium rates, less favourable policy terms and fewer opportunities to underwrite insurance risks, which could have a material adverse effect on Skyward Specialty's results of operations and cash flows.

Skyward Specialty's reserves may prove to be inadequate

Skyward Specialty establishes an estimate of reserves to cover its liability for unpaid losses and loss adjustment expenses, including legal and other fees, for reported and unreported claims incurred at the end of each accounting period. Reserves do not represent an exact calculation of liability. Rather, reserves represent an estimate of what Skyward Specialty expects the ultimate settlement and administration of claims will cost. These estimates are based on Skyward Specialty's assessment of facts and circumstances then known, as well as estimates of future trends in severity of claims, frequency of claims, judicial theories of liability and other factors. These variables are affected by both internal and external events that could increase Skyward Specialty's ultimate loss exposure, including changes in actuarial projections, claims handling procedures, inflation, climate change, economic and judicial trends, and legislative changes.

Economic events, legal/regulatory changes and other external factors may result in an increase in Skyward Specialty's ultimate loss exposure. Many of these items are not directly quantifiable in advance. Additionally, there may be a significant reporting delay between the occurrence of the insured event and the time it is reported to Skyward Specialty.

The inherent uncertainties of estimating reserves are greater for certain types of liabilities, particularly those in which the various considerations affecting the type of claim are subject to change and in which long periods of time may elapse before a definitive determination of liability is made. Reserve estimates are regularly refined in an ongoing process as experience develops and further claims are reported and settled. Adjustments to Skyward Specialty's loss and loss adjustment expenses are reflected in its results of operations in the periods in which such estimates are changed. Because establishing reserves is inherently uncertain, there can be no assurance that current reserves will prove adequate. If actual claims prove to be greater than Skyward Specialty's reserves, Skyward Specialty's financial position, results of operations and liquidity may be materially adversely affected.

The effects of emerging claim and coverage issues on Skyward Specialty's business are uncertain

As industry practices and legal, judicial, social and other environmental conditions change, unexpected and unintended liability for claims and coverage may emerge. These changing conditions may adversely affect Skyward Specialty's business by either extending coverage beyond its underwriting intent or by increasing the number or size of claims. In some instances, these changes may not become apparent until considerable time after Skyward Specialty has issued insurance or reinsurance contracts that are affected by the changes. As a result, the full extent of liability under Skyward Specialty's insurance or reinsurance contracts may not be known for many years after a contract is issued, and Skyward Specialty's financial position, results of operations and cash flows may be materially adversely affected.

Skyward Specialty is subject to extensive governmental regulation

Skyward Specialty is subject to extensive governmental regulation and supervision and its business depends on compliance with applicable laws and regulations and its ability to maintain valid licences and approvals for its operations. Most insurance regulations are designed to protect the interests of policyholders rather than shareholders and other investors. In the United States, this regulation is generally administered by departments of insurance in each state in which Skyward Specialty does business and includes a comprehensive framework of oversight of its operations and review of its financial position. U.S. Federal legislation may lead to additional federal regulation of the insurance industry in the future.

Regulatory authorities have broad discretion to grant, renew or revoke licences and approvals. Regulatory authorities may deny or revoke licences for various reasons, including the violation of regulations. In some instances, Skyward Specialty follows practices based on its interpretations of regulations, or those it believes to be generally followed by the industry, which ultimately may be different from the requirements or interpretations of regulatory authorities. If Skyward Specialty does not have the requisite licences and approvals and does not comply with applicable regulatory requirements, the insurance regulatory authorities could preclude or temporarily suspend Skyward Specialty from some or all of its activities or otherwise penalize it. That type of action could have a material adverse effect on Skyward Specialty's results of operations. Also, changes in the level of regulation of the insurance industry (whether federal, state or foreign), or changes in laws or regulations themselves or interpretations by regulatory authorities, could have a material adverse effect on Skyward Specialty's business.

The Dodd-Frank Act expanded the U.S. Federal government's presence in insurance oversight, streamlined state-based regulation of reinsurance and non-admitted insurance and established a Federal Insurance Office with powers over most lines of insurance other than health insurance. The Federal Insurance Office is authorized to gather data and information to monitor aspects of the insurance industry, identify issues in the regulation of insurers about insurance matters, and pre-empt state insurance measures under certain circumstances. Although the Dodd-Frank Act was enacted in 2010, it is still subject to the rules and regulations promulgated by U.S. regulators, and while some of these rules have been finalized, others have not, leading to uncertainty regarding implementation. The Dodd-Frank Act contemplates further regulation, but with ongoing uncertainty as to the scope of implementation, its future impact on Skyward Specialty's results of operations or financial position cannot be determined at this time.

The United States Patient Protection and Affordable Care Act (the “ACA”), which impacts Skyward Specialty’s MSL business, began to be implemented at the state and federal levels in 2010. Litigation challenges have been brought seeking to invalidate the ACA in whole or in part; and a federal district court struck down the ACA in its entirety as unconstitutional in 2018. This decision was subsequently upheld by the Fifth Circuit, and appealed to the U.S. Supreme Court, with the Trump Administration supporting invalidation of the ACA as unconstitutional. The district court’s decision was stayed pending the result of the appeal. Oral arguments were held on November 10, 2020. A decision is pending. The Biden Administration in February 2021 notified the court of the U.S. government’s change in position, which now supports upholding the Act. Future changes to, or de-funding of, the ACA may result in increased insurance regulatory activity at the state level, which could affect our MSL business. Future legislative changes to and regulatory changes under the ACA remain possible, if not likely; however at this point, the ramifications of these changes are too speculative to quantify. As a result, it is unclear how Skyward Specialty’s MSL business could be impacted in the long-term from such changes.

Skyward Specialty cannot predict the effect, if any, climate change may have on the risks it insures

Various scientists, environmentalists, international organizations and regulators believe that global climate change has added, and will continue to add, to the unpredictability, frequency and severity of natural disasters (including, but not limited to, hurricanes, tornados, freezes, other storms and fires) in certain parts of the world. In response to this belief, a number of legal and regulatory measures as well as social initiatives have been introduced in an effort to reduce greenhouse gas and other carbon emissions, which may be chief contributors to global climate change. Skyward Specialty cannot predict the impact that changing climate conditions, if any, will have on its results of operations or financial condition. Moreover, Skyward Specialty cannot predict how legal, regulatory and social responses to concerns about global climate change will impact its business. To the extent climate change does increase the unpredictability, frequency or severity of natural disasters, Skyward Specialty may face increased claims, which could have a material adverse effect on its financial position, results of operations and cash flows.

Skyward Specialty’s reliance on brokers and wholesale producers subjects it to risk

In many cases, Skyward Specialty markets its insurance through insurance brokers and wholesale producers. Some of these brokers and wholesale producers provide a significant portion of Skyward Specialty’s gross written premium for certain segments of Skyward Specialty’s business. As a result, some of these brokers and wholesale producers could demand higher commission payments that could put Skyward Specialty at a competitive disadvantage and affect the way it prices its products. The deterioration of Skyward Specialty’s relationship with, or loss of all or a substantial portion of the business provided by, one or more brokers or wholesale producers could have a material adverse effect on Skyward Specialty’s earnings. Skyward Specialty also relies on these brokers and wholesale producers to accurately represent the nature of the policies that Skyward Specialty places. Skyward Specialty may be responsible for any misstatements, misrepresentations or other inappropriate market conduct by such brokers or wholesale producers.

Skyward Specialty’s reliance on a select group of MGUs and MGAs and such relationships may not continue.

Skyward Specialty distributes a significant portion of products through a select group of MGUs and MGAs. Of the 2020 gross written premiums, 35.8%, or \$313 million, were distributed through 5 MGUs and/or MGAs (1 MGU relationship was terminated mid-year, leaving 4 MGU relationships). Skyward Specialty’s relationship with any of these MGUs and/or MGAs may be discontinued at any time. Even if the relationships continue, they may not be on terms that are profitable for Skyward Specialty. The termination of a relationship with one or more significant MGUs and/or MGAs could result in lower gross written premiums and could have a material adverse effect on Skyward Specialty’s results of operations or business prospects.

Inability to accurately assess underwriting risk could reduce Skyward Specialty’s financial results

Skyward Specialty’s underwriting success is dependent on its ability to accurately assess the risks associated with the business on which the risk is retained. Skyward Specialty relies on the experience of its underwriting staff in assessing these risks. If Skyward Specialty fails to accurately assess the risks it retains, Skyward Specialty may fail to establish appropriate premium rates which could reduce its financial results. The underwriting process is further complicated by Skyward Specialty’s exposure to unpredictable developments, including earthquakes, weather-

related events and other natural catastrophes, as well as war and acts of terrorism and those that may result from volatility in the financial markets and other systemic risks.

Retentions in various lines of business expose Skyward Specialty to potential losses

Skyward Specialty retains risk on business underwritten by its insurance companies. The determination to not purchase reinsurance, or to reduce the amount of reinsurance Skyward Specialty purchases, for a particular risk or line of business is based on a variety of factors including market conditions, pricing, availability of reinsurance, the level of Skyward Specialty's capital and its loss history. Such determinations can have the effect of increasing Skyward Specialty's exposure to losses associated with such risks or in such lines of business and, in the event of significant losses associated with such risks or lines of business, could have a material adverse effect on Skyward Specialty's financial position, results of operations and cash flows.

Skyward Specialty may have inadequate reinsurance protection for some of the risks it has underwritten

Skyward Specialty purchases reinsurance for a portion of the risks underwritten by its insurance companies, especially volatile and catastrophe-exposed risks. Market conditions beyond Skyward Specialty's control determine the availability and cost of the reinsurance protection it purchases. In addition, the historical results of reinsurance programs and the availability of capital also affect the availability of reinsurance. Skyward Specialty's reinsurance facilities are generally subject to annual renewal. Skyward Specialty cannot assure that it can maintain its current reinsurance program or that Skyward Specialty can obtain other reinsurance facilities in adequate amounts and at favourable rates. Any of these potential developments could have a material adverse effect on Skyward Specialty's financial position, results of operations and cash flows.

Skyward Specialty relies on key personnel

Skyward Specialty's success depends to a certain degree upon certain key members of management (including its Chief Executive Officer and certain directors and senior executive officers). These individuals are a significant factor in Skyward Specialty's growth and success. The loss of the service of certain members of management and certain key employees for whatever reason could have a material adverse effect on Skyward Specialty.

Skyward Specialty also depends on its ability to attract, retain and provide for the succession of skilled and experienced underwriting talent and other key employees who are knowledgeable about Skyward Specialty's business. There is no assurance Skyward Specialty will retain these employees. If the quality of Skyward Specialty's underwriting team and other key personnel decreases, Skyward Specialty may be unable to maintain its current competitive position in the specialized markets in which it operates and be unable to expand its operations into new markets, which could materially adversely affect Skyward Specialty's business.

Skyward Specialty's business is subject to risks related to litigation

Skyward Specialty is a defendant in a number of claims relating to its insurance and other related business operations. Skyward Specialty may from time-to-time be subject to a variety of legal and regulatory actions relating to its current and past business operations, including, but not limited to:

- disputes over coverage or claims adjudication including "bad faith" claims;
- disputes with reinsurers regarding the payment of claims ceded through reinsurance;
- disputes regarding sales practices, disclosure, premium refunds, licensing, regulatory compliance and compensation arrangements;
- disputes with its agents, producers or network providers over compensation and termination of contracts and related claims;
- disputes relating to employees such as claims for wrongful dismissal or claims from competitors regarding non-competition obligations;
- disputes relating to customers regarding the ratio of premiums to benefits in its various business lines;
- disputes with tax authorities regarding its tax liabilities; and
- disputes relating to certain businesses acquired or disposed of by it.

In addition, plaintiffs continue to bring new types of legal claims against insurance and related companies. Current and future court decisions and legislative activity may increase Skyward Specialty's exposure to these types of claims. Multiparty or class action claims may present additional exposure to substantial economic, non-economic or punitive damage awards. The loss of even one of these claims, if it resulted in a significant damage award or a judicial ruling that was otherwise detrimental, could create a precedent in the insurance industry that could have a material adverse effect on Skyward Specialty's results of operations and financial condition. This risk of potential liability may make reasonable settlements of claims more difficult. Skyward Specialty cannot determine with any certainty what new theories of recovery may evolve or what their impact may be on its business.

Skyward Specialty is exposed to credit and other risks in connection with its reinsurance

Skyward Specialty purchases reinsurance by transferring, or ceding, all or part of the risk it has assumed as a direct insurer to a reinsurance company in exchange for all or part of the premium Skyward Specialty receives in connection with the risk. Through reinsurance, Skyward Specialty has the contractual right to collect the amount reinsured from its reinsurers. Although reinsurance makes the reinsurer liable to Skyward Specialty to the extent the risk is transferred or ceded to the reinsurer, it does not relieve Skyward Specialty of its full liability to its policyholders. Accordingly, Skyward Specialty bears credit risk with respect to its reinsurers.

Skyward Specialty cannot assure that its reinsurers will pay all of Skyward Specialty's reinsurance claims, or that they will pay Skyward Specialty's claims on a timely basis. Additionally, catastrophic losses from multiple direct insurers may accumulate within the more concentrated reinsurance market and result in claims that adversely impact the financial condition of such reinsurers and thus their ability to pay such claims. If Skyward Specialty becomes liable for risks it has ceded to reinsurers or if Skyward Specialty's reinsurers cease to meet their obligations to Skyward Specialty, because they are in a weakened financial position as a result of incurred losses or otherwise, Skyward Specialty's financial position, results of operations and cash flows could be materially adversely affected.

Skyward Specialty may be unsuccessful in competing against larger or more well-established business rivals

Skyward Specialty faces competition from other specialty insurance companies, standard insurance companies and underwriting agencies, as well as from diversified financial services companies that are larger than Skyward Specialty and that have greater financial, marketing and other resources than Skyward Specialty does. Some of these competitors also have longer experience and more market recognition than Skyward Specialty does in certain lines of business. In addition, it may be difficult or prohibitively expensive for Skyward Specialty to implement technology systems and processes that are competitive with the systems and processes of these larger companies. Skyward Specialty cannot assure that it will maintain its current competitive position in the markets in which it operates, or that it will be able to expand its operations into new markets. If Skyward Specialty fails to do so, its results of operations and cash flows could be materially adversely affected.

Skyward Specialty's investment portfolio is subject to market and credit risk

Skyward Specialty's portfolio includes both fixed maturity securities, equity securities, strategic investments and cash (or cash equivalents).

A significant amount of Skyward Specialty's investment portfolio (including the majority of investments managed by Arena Investors) is invested in fixed maturity securities or limited partnerships interested in fixed maturity securities. The fair value of these fixed maturity securities and the related investment income fluctuate depending on general economic and market conditions, including volatility in the financial markets and the economy as a whole. For Skyward Specialty's fixed maturity securities, the fair value generally increases or decreases in an inverse relationship with fluctuations in interest rates and credit spreads, while net investment income realized by Skyward Specialty from future investments in fixed maturity securities will generally increase or decrease with interest rates. Mortgage-backed and asset-backed securities may have different net investment income and/or cash flows from those anticipated at the time of investment. These securities have prepayment risk because the timing of cash flows that result from the repayment of principal might occur earlier than anticipated, due to declining interest rates, or extension risk when cash flows may be received later than anticipated because of rising interest rates.

All of Skyward Specialty's fixed maturity securities (including those managed by Arena Investors) are subject to credit risk. For mortgage-backed securities, credit risk exists if mortgagors default on the underlying mortgages. During an economic downturn, Skyward Specialty's state, municipal and non-U.S. sovereign bond portfolios could be subject to a higher risk of default or impairments due to declining tax bases and revenue, notwithstanding the relatively low historical rates of default on these types of obligations. If any of the issuers of Skyward Specialty's fixed maturity securities suffer financial setbacks, the ratings on the fixed maturity securities could fall (with a concurrent fall in fair value) and, in a worst case scenario, the issuer could default on its financial obligations. If the issuer defaults, Skyward Specialty could realize losses associated with the impairment of the securities.

The impact of fluctuations in the market prices of securities affects Skyward Specialty's financial position. The fixed maturity securities and equity securities are carried at fair value on the consolidated balance sheet of Skyward Specialty and changes in fair value are reflected in net unrealized investment gain or loss within Skyward Specialty's consolidated statement of earnings and comprehensive income.

Rating agencies could downgrade Skyward Specialty's financial strength ratings

Ratings have become an increasingly important factor in establishing the competitive position of insurance companies. Skyward Specialty's insurance companies are rated by A.M. Best Company, Inc. ("A.M. Best"). The financial strength ratings reflect the rating agencies' opinions of an insurance company's and insurance holding company's financial strength, operating performance, strategic position and ability to meet its obligations to policyholders and are not evaluations directed to investors. In addition, some organizations have internal requirements mandating that they transact only with insurance companies that have a specified rating level or higher. Skyward Specialty's ratings are subject to periodic review by A.M. Best, and the continuation of those ratings at current levels cannot be assured. If Skyward Specialty's ratings are reduced from their current levels, it could significantly impede Skyward Specialty's ability to raise capital, borrow money, compete for high quality business and, thus, its business, financial position and results of operations could be adversely affected.

Skyward Specialty may require additional capital or funds in the future

Skyward Specialty's future capital and liquidity requirements depend on many factors, including its ability to write new business successfully, to establish premium rates and loss and loss adjustment expenses, reserve adequacy, and to maintain its current credit facilities. Skyward Specialty may need to raise additional funds through financings or curtail its growth and reduce its assets. Any equity or debt financing, if available at all in periods of stress and volatility in the financial markets, may be on terms that are not favourable to Skyward Specialty. If Skyward Specialty cannot obtain adequate capital or funds for liquidity on favourable terms or at all, Skyward Specialty's business, results of operations and liquidity could be adversely affected. Skyward Specialty may also be pre-empted from making acquisitions.

Skyward Specialty's strategy of acquiring other companies and underwriting teams for growth may not succeed

Skyward Specialty's strategy for growth includes growing through acquisitions of insurance industry related companies. This strategy presents risks that could have a material adverse effect on Skyward Specialty's business and financial performance, including: (a) the diversion of management's attention; (b) Skyward Specialty's ability to integrate the operations and personnel of the acquired companies; (c) the contingent and latent risks associated with the past operations of, and other unanticipated problems arising in, the acquired companies; (d) the need to expand management, administration and operational systems; and (e) increased competition for suitable acquisition opportunities and qualified employees.

Skyward Specialty cannot predict whether it will be able to find suitable acquisition targets, nor can it predict whether it would be able to acquire these additional companies on terms favourable to Skyward Specialty or if it will be able to successfully integrate the acquired operations into its business. Skyward Specialty does not know if it will realize any anticipated benefits of completed acquisitions or if there will be substantial unanticipated costs associated with new acquisitions. In addition, future acquisitions by Skyward Specialty may result in potentially dilutive issuances of its equity securities, the incurrence of additional debt, and/or the recognition of potential impairment of goodwill and other intangible assets. Each of these factors could materially adversely affect Skyward Specialty's financial position and results of operations.

Skyward Specialty's growth is also derived from hiring underwriting teams focused on new lines of business. While more limited, many of the same risks above apply. Most notably, the diversion of management attention, the integration of new personnel and the need to expand management, administration and operational systems are present. Also, because these are new lines of business for which Skyward Specialty may have limited experience, the results of these new lines could materially adversely affect Skyward Specialty's financial position and results of operations.

Skyward Specialty may not be able to manage growth effectively.

Skyward Specialty intends to grow its business in the future, which could require additional capital, systems development and skilled personnel. However, Skyward Specialty must be able to meet its capital needs, expand its systems and its internal controls effectively, allocate human resources optimally, identify and hire qualified employees in its effort to achieve growth. The failure to manage growth effectively could have a material adverse effect on Skyward Specialty's business, financial condition and results of operations.

Skyward Specialty may be exposed to goodwill and intangible asset impairment risk

Skyward Specialty has recorded goodwill and intangible assets in connection with the majority of its acquisitions. Skyward Specialty is required to perform goodwill and intangible asset impairment tests at least annually, which may include qualitative and/or quantitative analysis, and whenever events or circumstances indicate that the carrying value of Skyward Specialty's goodwill may not be recoverable from estimated future cash flows. As a result of annual and other periodic evaluations, Skyward Specialty may determine that a portion of its goodwill or intangible assets needs to be written down to fair value, which could materially adversely affect Skyward Specialty's financial position and results of operations.

Skyward Specialty may not be able to receive dividends in needed amounts from its insurance company subsidiaries

In the past, Skyward Specialty has had sufficient cash flow from its non-insurance company subsidiaries to meet its corporate liquidity requirements for paying principal and interest on outstanding debt obligations, dividends to shareholders and certain corporate expenses. In the future, Skyward Specialty may need to rely on dividends from Skyward Specialty's insurance companies to meet these requirements. The payment of dividends by Skyward Specialty's insurance companies is subject to regulatory restrictions, will depend on the surplus and future earnings of these subsidiaries and has to be approved by governmental authorities. As a result, should Skyward Specialty's other sources of funds prove to be inadequate, Skyward Specialty may not be able to receive dividends from its insurance companies at times and in amounts necessary to meet its obligations, which could materially adversely affect Skyward Specialty's financial position and liquidity.

Skyward Specialty is subject to the risk of employee error or misconduct

Employee errors or misconduct could result in regulatory sanctions or reputational harm, which could materially adversely affect the business, financial condition and/or profitability of Skyward Specialty. Misconduct by employees could include binding members of Skyward Specialty to transactions that exceed authorized limits or present unacceptable risks, or concealing from Skyward Specialty unauthorized or unsuccessful activities, which, in either case, may result in unknown and unmanaged risks or losses. Employee misconduct could also involve the improper use of confidential information, which could result in regulatory enforcement proceedings, sanctions and serious reputational harm. Skyward Specialty is also susceptible to loss as a result of employee error. While management will proactively take measures to deter employee misconduct or prevent employee error, the precautions management takes to prevent and detect this activity may not be effective in all cases, which could materially adversely affect the business, financial condition and/or profitability of Skyward Specialty which could adversely affect the business, financial condition and/or profitability of Skyward Specialty.

Skyward Specialty's information technology systems or third-party systems may fail or suffer a loss of security

Skyward Specialty's business is highly dependent upon the successful and uninterrupted functioning of its computer systems. Skyward Specialty relies on these systems to perform underwriting, claims management, actuarial and other modeling functions necessary for writing business, to process premiums and policies, to process and make

claims payments, to establish loss reserves, and to prepare management and external financial statements and information. The failure of these systems could interrupt Skyward Specialty's operations. In addition, in the event of a disaster such as a natural catastrophe, a blackout, a computer virus or hacking incident, a terrorist attack or war, Skyward Specialty's systems may be inaccessible for an extended period of time. These systems failures or disruptions could result in a material adverse effect on Skyward Specialty's business results. Skyward Specialty also utilizes and/or relies on computer systems developed and maintained by outsourcing relationships and key vendors. Their systems could experience the same risks, which could result in a material adverse effect on Skyward Specialty's business results.

Skyward Specialty's computer systems may be subject to cybersecurity risks or other breaches of information technology security, noting the increasing frequency and severity of these kinds of incidents. Such security breaches could damage Skyward Specialty's reputation or result in liability. Skyward Specialty retains confidential information regarding its business dealings in its computer systems. Skyward Specialty may be required to spend significant capital and other resources to protect against security breaches or to alleviate problems caused by such breaches. Despite the implementation of security measures, the infrastructure supporting Skyward Specialty's computer systems may be vulnerable to physical break-ins, computer viruses, programming errors, attacks by third parties or similar disruptive problems. In addition, Skyward Specialty could be subject to liability if hackers were able to penetrate its network security or otherwise misappropriate confidential information. Furthermore, certain of Skyward Specialty's businesses are subject to compliance with laws and regulations enacted by U.S. federal and state governments, the European Union or other jurisdictions or enacted by various regulatory organizations or exchanges relating to the privacy and security of the information of clients, employees or others. The compromise of personal, confidential or proprietary information could result in remediation costs, legal liability, regulatory action and reputational harm, which could have a material adverse effect on Skyward Specialty's results of operations or financial condition.

Skyward Specialty may experience difficulties with outsourcing relationships

Skyward Specialty outsources certain business and administrative functions to third parties and may do so increasingly in the future. If Skyward Specialty fails to develop and implement its outsourcing strategies or its third party providers fail to perform as anticipated, Skyward Specialty may experience operational difficulties, increased costs and a loss of business that may have a material adverse effect on its results of operations or financial position. In addition, Skyward Specialty may be responsible for the actions of such third parties particularly if they violate or are inconsistent with applicable regulatory requirements. By outsourcing certain business and administrative functions to third parties, Skyward Specialty may be exposed to enhanced risk of data security breaches. Any breach of data security could damage Skyward Specialty's reputation and/or result in monetary damages, which could have a material adverse effect on Skyward Specialty's results of operations or financial condition.

Risks Related to Arena

Arena is subject to operational risks

Operational risks may disrupt Arena's businesses, result in losses or limit growth. Although Arena takes protective measures and endeavours to modify them as circumstances warrant, the security of Arena's computer systems, software and networks may be vulnerable to breaches, unauthorized access, misuse, computer viruses or other malicious code and other events that could have a security impact. Additionally, breaches of security may occur through intentional or unintentional acts by those having authorized or unauthorized access to confidential or other information of Arena or its clients or counterparties. One or more such events could potentially jeopardize the confidential and other information processed and stored in, and transmitted through, Arena's computer systems and networks, or otherwise cause interruptions or malfunctions which could result in significant losses or reputational damage to Arena and/or Westaim.

In addition, Arena operates in an industry that is highly dependent on its information systems and technology. There can be no assurance that Arena's information systems and technology will continue to be able to accommodate its operations, or that the cost of maintaining such systems will not increase from its current level. Such a failure to accommodate Arena's operations, or a material increase in costs related to such information systems, could have a

material adverse effect on Arena, which could adversely affect the business, financial condition and/or profitability of Westaim.

Due diligence risks

Before making investments, Arena conducts due diligence pursuant to which it may be required to evaluate important and complex business, financial, tax, accounting, environmental and legal issues. Outside consultants, legal advisors, accountants and other advisers may be involved in the due diligence process in varying degrees depending on the type of investment. The due diligence investigation that Arena carries out with respect to any investment opportunity may not reveal or highlight all relevant facts that may be necessary or helpful in evaluating such investment opportunity, including, among other things, the existence of fraud or other illegal or improper behaviour. Moreover, such an investigation will not necessarily result in the investment being successful.

The valuation of Arena's investments will be subject to significant subjectivity

Valuation methodologies for certain of Arena's investments may be subject to significant subjectivity, and the value of assets or investments established pursuant to such methodologies may never be realized, which could result in significant losses for Arena or its funds. There may be no readily-ascertainable market prices for the types of illiquid investments that Arena may acquire. The fair value of such investments is determined periodically by Arena based on its valuation methodologies. These policies are based on a number of factors, including the nature of the investment, the expected cash flows from the investment, bid or ask prices provided by third parties for the investment, the length of time the investment has been held, the trading price of securities (in the case of publicly traded securities), restrictions on transfer and other recognized valuation methodologies.

Change(s) in the investment management industry may impact Arena Investors

Change(s) in the investment management industry could result in a decline in Arena Investors' revenues. Arena Investors' ability to generate revenues in the investment management industry is significantly influenced by the growth of AUM generally experienced by the investment management industry and by Arena Investors' relative performance within the investment management industry. The historical growth of the investment management industry may not continue and adverse economic conditions and other factors, including a protracted or precipitous decline in the U.S., international or global financial markets or a change in the acceptance of fees typically charged by industry participants, could affect the popularity of Arena Investors' services or result in clients withdrawing from the markets or decreasing their level and/or rate of investment. A decline in the growth of the investment management industry or other changes to the industry that discourage investors could affect Arena Investors' ability to attract clients or could lead to redemptions of securities of its investment products for reasons that may be unrelated to their performance but would nonetheless result in a lower AUM and a corresponding decline in revenues. Accordingly, the foregoing could adversely affect the business, financial condition and/or profitability of Westaim.

Arena is subject to regulatory and other legal risks

Arena may become involved in lawsuits or investigations that could result in significant liabilities and reputational harm, which could materially adversely affect its results of operations, financial condition and liquidity. Arena could be sued by many different parties, including, but not limited to, its clients or fund investors, creditors of its funds, shareholders of the companies in which it has invested, its employees and regulators. In addition, Arena may participate in transactions that involve litigation (including the enforcement of property rights) from time to time, and such transactions may expose Arena to increased risk from countersuits.

The cost of settling any such claims could adversely affect Arena's results of operations. Lawsuits or investigations in which Arena may become involved could be very expensive and highly damaging to its reputation, even if the underlying claims are without merit. Moreover, Arena could incur legal, settlement and other costs in an amount that exceeds the insurance coverage maintained by Arena or by its funds. The costs arising out of litigation or investigations could have a material adverse effect on Arena's results of operations, financial condition and liquidity.

Arena may experience a lack of suitable investment opportunities

A lack of appropriate investment opportunities could adversely affect targeted performance of Arena's investment products. An important component of investment performance is the availability of appropriate investment opportunities for new client assets. If Arena is not able to find sufficient investments for new client assets in a timely manner, investment performance could be materially adversely affected. Alternatively, if there are insufficient investment opportunities for new client assets, management may elect to limit Arena's growth and reduce the rate of intake of new client assets. As AUM increases, Arena may not be able to exploit the investment opportunities that have previously been available to it or find sufficient investment opportunities for producing the returns targeted. If Arena's investment managers are not able to identify sufficient appropriate investment opportunities for new client assets, Arena's investment performance and management's decision to continue to grow may be materially adversely affected.

Arena Investors is subject to significant regulatory oversight

The business of Arena Investors is subject to risks relating to regulatory compliance of investment managers, investment advisors, investment dealers and the securities business generally. The ability of Arena Investors to carry on its business is dependent upon compliance with and registration under securities legislation in the jurisdictions in which it carries on business. The securities business of Arena Investors is subject to extensive regulation under securities laws in the U.S., Canada, the United Kingdom and elsewhere. Compliance with many of the regulations applicable to Arena Investors involves a number of risks, particularly in areas where applicable regulations may be subject to interpretation. In the event of non-compliance with an applicable regulation, securities regulators may institute administrative or judicial proceedings that may result in censure, fine, civil penalties, issuance of cease-and-desist orders, deregistration or suspension of the non-compliant investment dealer or investment adviser, suspension or disqualification of the investment dealer's officers or employees, or other adverse consequences. The imposition of any such penalties or orders on Arena Investors regardless of duration or any subsequent appellate results could have a material adverse effect on Arena's business, and consequentially could adversely affect the operating results and financial condition of Westaim.

Additional regulation, changes in existing laws and rules, or changes in interpretations or enforcement of existing laws and rules often affect directly the method of operation and profitability of securities firms. It is not possible to predict with any certainty what effect any such changes might have on Arena's business. Furthermore, its business may be materially affected not only by regulations applicable to Arena Investors as a financial market intermediary, but also by regulations of general application. For example, returns on investments in a given time period could be affected by, among other things, existing and proposed tax legislation, competition policy and other governmental regulations and policies, including the interest rate policies of the Federal Reserve, the Bank of Canada or other global central banks and changes in interpretation or enforcement of existing laws and rules that affect the business and financial communities or industry-specific legislation or regulations.

Arena may experience poor investment performance

Poor investment performance could negatively impact Arena. Poor investment performance by the funds and managed accounts managed by Arena Investors could lead to a loss of clients, lower AUM and a decline in revenues. Arena Investors' revenues are, in part, dependent upon the Management Fees and Incentive Fees earned by Arena Investors with respect to such funds and managed accounts, which are based, in part, on the value of the AUM of Arena Investors. Poor investment performance (relative to Arena Investors' competitors or otherwise) could impair revenues and growth as existing clients might withdraw funds in favour of better performing products and the ability of Arena Investors to attract funds from existing and new clients would be reduced. All of the foregoing could result in lower AUM and could impact Arena Investors' ability to earn fees. In addition, the ability to earn Incentive Fees is directly related to investment performance and therefore, poor investment performance may cause Arena Investors to earn lower Incentive Fees. There can be no assurance that Arena Investors will be able to achieve or maintain any particular level of AUM, which may have a material adverse effect on its ability to attract and retain clients, the Management Fees and potential Incentive Fees earned, and overall profitability, which accordingly could adversely affect the business, financial condition and/or profitability of Westaim. Poor performance of the investments made by AOC or acquired by AF could result in losses and/or a write down of the

carrying value of such investments which could adversely affect the financial condition and/or profitability of Westaim.

Arena may face challenges relating to its illiquid investments

The investment strategies contemplated for clients of Arena involve investments with limited or no liquidity which could make it challenging to raise investment capital from third party investors, making Arena a less profitable investment for Westaim. Illiquid investments might not be able to be disposed of at favourable prices or at all, which could lead to investment losses and lower fees, and accordingly, could adversely affect the business, financial condition and/or profitability of Westaim.

Arena is exposed to risks relating to its risk management procedures

A failure in management's ability to manage risks in Arena's investment products could materially adversely affect the business, financial condition and/or profitability of Arena, which accordingly could adversely affect the business, financial condition and/or profitability of Westaim. Some of the methods of managing risk are based upon the use of observed historical market behaviour. As a result, these methods may not predict future risk exposures, which may be significantly greater than the historical measures indicated. Other risk management methods may depend upon evaluation of information regarding markets, clients or other matters that is publicly available or otherwise accessible. This information may not in all cases be accurate, complete, up-to-date or properly evaluated. Management of operational, legal and regulatory risk requires, among other things, policies and procedures to record properly and verify a large number of transactions and events, and these policies and procedures may not be fully effective.

Arena is dependent on key management and staff

Failure by Arena to retain and attract qualified staff could lead to a loss of key employees and clients and could lead to a decline in Arena's revenues and consequentially the financial condition and/or profitability of Westaim. Arena's business is dependent on the highly skilled and often highly specialized individuals engaged by Arena Investors. These employees have critical industry experience and relationships that is relied upon to implement the business plan of Arena. However, there can also be no assurance that their historical success can be replicated. The contribution of these individuals to the investment management, client service, sales, marketing and operational teams is important to attracting and retaining clients. While resources will be devoted to recruiting, training and compensating these individuals, the growth in total AUM in the investment management industry, the number of new firms entering the industry and the reliance on performance results to sell financial products have increased the demand for high quality professionals in all aspects of asset management.

Arena Investors' business is subject to competitive pressures

The investment management industry is highly competitive. Competitive pressures could reduce Arena Investors' revenues. Some of Arena Investors' current competitors have, and potential future competitors could have, substantially greater technical, financial, marketing, distribution and other resources. There can be no assurance that Arena Investors will be able to achieve or maintain any particular level of AUM or revenues in this competitive environment. Competition could have a material adverse effect on Arena Investors' profitability and there can be no assurance that Arena Investors will be able to compete effectively in this environment. In addition, the ability to grow Management Fees and Incentive Fees is dependent on the ability to provide clients with products and services that are competitive. Investors have become more price and value conscious for a variety of reasons, including the current state of the capital markets, low interest rates and reduced investment return expectations, increased regulatory focus, investment performance and the availability of lower cost investment products. There can be no assurance that Arena Investors will be able to retain a given fee structure or, with such fee structure, retain clients in the future. A significant reduction in the Management Fees or Incentive Fees would have a material adverse effect on the revenues of Arena Investors, which could adversely affect the business, financial condition and/or profitability of Westaim.

Arena is subject to certain conflicts of interest

Arena is subject to certain conflicts of interest in the management of assets on behalf of Arena Investors' clients and in respect to transactions involving the Arena FINCOs. These conflicts arise primarily from the involvement of AOC and other affiliates regarding: (a) the acquisition by an Arena investment vehicle and/or an Arena Investors' managed account client of loans originated by AOC; (b) an acquisition by AF of loans originated by AOC or another Arena investment vehicle; (c) cross-trades among such entities or between an Arena investment vehicle and an Arena Investors' managed account client; (d) co-investments between one Arena investment vehicle and another; and (e) the provision of services to an Arena investment vehicle for compensation. Further, entities comprising Arena may engage in a broad spectrum of activities, including direct (or principal) investment activities for their own accounts and Arena Investors' investment advisory activities that, with respect to any particular client, are independent from, and may from time to time conflict with, overlap with or compete with, the investment activities of that client and/or of other clients.

In addition to the foregoing, bonuses or incentive compensation that may be paid to employees of Arena are determined by the board of directors of AIGH (the "**AIGH Board**"). At such time that BP LLC's right to participate in distributions of the capital of AIGH exceeds 50%, BP LLC will be entitled to appoint five members of the eight member AIGH Board. Accordingly, at such time, BP LLC's nominees (which are expected to include the senior management team of Arena Investors) will be able to determine the quantum of bonuses or incentive compensation that may be paid to employees of Arena. In such circumstances, although the Second Amended and Restated AIGH LLCA provides that such bonuses or incentive compensation must be reasonable in the circumstances and consistent with industry practice (unless approved by the AIGH Board by unanimous consent), it is expected that the senior management team of Arena Investors will retain wide latitude in determining such compensation.

Arena is subject to the risk of employee error or misconduct

Employee errors or misconduct could result in regulatory sanctions or reputational harm, which could materially adversely affect the business, financial condition and/or profitability of Arena. Misconduct by employees could include binding members of Arena to transactions that exceed authorized limits or present unacceptable risks, or concealing from Arena unauthorized or unsuccessful activities, which, in either case, may result in unknown and unmanaged risks or losses. Employee misconduct could also involve the improper use of confidential information, which could result in regulatory enforcement proceedings, sanctions and serious reputational harm. Arena is also susceptible to loss as a result of employee error. While management will proactively take measures to deter employee misconduct or prevent employee error, the precautions management takes to prevent and detect this activity may not be effective in all cases, which could materially adversely affect the business, financial condition and/or profitability of Arena which could adversely affect the business, financial condition and/or profitability of Westaim.

Loan concentration may increase investment risks

Arena finances borrowers in a variety of industries. However, if industry segments in which Arena has a concentration of investments experience adverse economic or business conditions, loan delinquencies, default rates or write-downs in those segments may increase and could materially adversely affect Arena, and accordingly, adversely affect the financial condition and/or profitability of Westaim.

Arena's cybersecurity

Arena's computer systems may be subject to cybersecurity risks or other breaches of information technology security, noting the increasing frequency and severity of these kinds of incidents. Such security breaches could damage Arena's reputation or result in liability. Arena retains confidential information regarding its business dealings in its computer systems. Arena may be required to spend significant capital and other resources to protect against security breaches or to alleviate problems caused by such breaches. Despite the implementation of security measures, the infrastructure supporting Arena's computer systems may be vulnerable to physical break-ins, computer viruses, programming errors, attacks by third parties or similar disruptive problems. In addition, Arena could be subject to liability if hackers were able to penetrate its network security or otherwise misappropriate confidential information. The compromise of confidential information could result in remediation costs, legal

liability, regulatory action and reputational harm, which could have a material adverse effect on Arena's results of operations or financial condition.

Risks Related to the Arena FINCOs

The Arena FINCOs depend on the creditworthiness of borrowers

The specialty finance operations of the Arena FINCOs depend on the creditworthiness of borrowers and their ability to fulfill their obligations. Although AOC originates opportunities only with borrowers which it believes to be creditworthy, there can be no assurance that borrowers will not default and that the Arena FINCOs will not sustain a loss on their loans as a result. The Arena FINCOs also rely on representations made by borrowers in their loan documentation. However, there can be no assurance that such representations are accurate or that the Arena FINCOs will have any recourse against the borrower in the event a representation proves to be untrue.

The Arena FINCOs are subject to the risk of default by and/or bankruptcy of a borrower

A borrower's failure to satisfy its borrowing obligations, including any covenants imposed, could lead to defaults and the termination of the borrower's loans and enforcement against its assets. In order to protect and recover its investments, the Arena FINCOs may be required to bear significant expenses (including legal, accounting, valuation and transaction expenses) to the extent necessary to seek recovery upon default or to negotiate new terms with a defaulting borrower. In certain circumstances, a borrower's default under one loan could also trigger cross-defaults under other agreements and jeopardize that borrower's ability to meet its obligations under a loan agreement it may have with the Arena FINCOs. Should a borrower become insolvent, the value of the collateral in the event of liquidation will depend on market and economic conditions, the availability of buyers and other factors. There can be no assurance that the proceeds, if any, from the sale of all of a borrower's collateral will be sufficient to satisfy the loan obligations secured by the collateral, or that sufficient assets will remain after priority creditors have been repaid.

Collateral securing loans may be inadequate

While loans are generally secured by a lien on specified collateral of the borrower (particularly inventory, receivables and tangible fixed assets), there can be no assurance that such security will be properly obtained or perfected, or that the value of the collateral securing any particular loan will protect the Arena FINCOs from suffering a partial or complete loss if the loan becomes non-performing and the Arena FINCOs move to enforce against the collateral. In such event, loan losses could be suffered which could materially adversely affect the business, financial condition and/or profitability of the Arena FINCOs and accordingly, adversely affect the financial condition and/or profitability of Westaim.

The Arena FINCOs may be required to undertake enforcement and/or liquidation procedures

From time to time, the Arena FINCOs may be required to take enforcement proceedings with respect to non-performing loans and/or to liquidate collateral. Enforcement and liquidation proceedings can be time-consuming and, if a sufficient number of loans require enforcement, the attention of the management of the Arena FINCOs may be diverted from day-to-day operations or from pursuing other investment opportunities and significant expenses may be incurred for which there may be no recovery.

Fraud by a borrower may cause losses

While the Arena FINCOs make every effort to verify the accuracy of information provided to it when making an investment decision, and have systems and controls to assist it in protecting itself against fraud, a borrower may fraudulently misrepresent information relating to its financial health, operations or compliance with the terms under which AOC is prepared to advance funds or AFHC is prepared to purchase a loan. In cases of fraud, it will be difficult and more unlikely that the Arena FINCOs will be able to collect amounts owing under a loan or realize on collateral, which could have a material adverse effect on the Arena FINCOs and, in turn, adversely affect the financial condition and/or profitability of Westaim.

The operations of the Arena FINCOs are largely unregulated

Unlike major commercial banks, asset-based lenders are not subject to regulatory capital requirements that would impede their ability to extend credit. Any changes to the regulation of the asset-based lending industry could have a material adverse effect on the Arena FINCOs' business and, accordingly, adversely affect the financial condition and/or profitability of Westaim.

AFHC may be considered to be conducting a U.S. trade or business

Under U.S. tax laws, if a fiscally transparent entity is engaged in the conduct of a trade or business in the United States, an interest holder in such entity is also treated as so engaged. There is a risk that the U.S. tax authorities may assert that AFHC, a fiscally transparent entity for U.S. federal income tax purposes, is engaged in the conduct of a U.S. trade or business by virtue of its investment activity. If the U.S. tax authorities successfully make this assertion, then AFHC will be treated as engaged in the conduct of a trade or business in the United States. In such instance, AFHC will be subject to U.S. federal income tax at a maximum 21% rate (under current law) that is effectively connected with a U.S. trade or business ("**Effectively Connected Income**"), and will be required to file U.S. federal income tax returns to report such income. If U.S. federal income tax was not timely paid, or a U.S. federal income tax return was not timely and correctly filed, AFHC could also be subject to penalties and interest relating to any such underpayment of taxes; the liability for any underpaid taxes will remain outstanding for at least three years once a tax return is filed, but remains outstanding indefinitely if no U.S. federal income tax return is filed. AFHC may also be subject to a 30% "branch profits tax" on any Effectively Connected Income; this branch profits tax may be reduced to 5% under the United States-Canada income tax treaty, however, if AFHC qualifies for treaty benefits. In addition to the foregoing, AFHC may have tax payment and tax return filing obligations in one or more states in which AFHC conducts activities or has investment activity.

DESCRIPTION OF CAPITAL STRUCTURE

The authorized capital of Westaim consists of an unlimited number of common shares, an unlimited number of Class A preferred shares, issuable in series and an unlimited number of Class B preferred shares, issuable in series. On February 8, 2010, the Company filed articles of amendment to create a series of Class A preferred shares designated as Series 1 Class A non-voting, participating, convertible preferred shares (the "**Non-Voting Shares**"). The terms of the Non-Voting Shares were revised on February 26, 2010 and September 11, 2012.

As of the date hereof, the Company had issued and outstanding 143,186,718 Common Shares. No Non-Voting Shares or other series of Class A preferred shares or Class B preferred shares are outstanding. In addition to the foregoing, as of the date hereof, the Company had issued and outstanding 5,000,000 Preferred Securities (see "*Business of the Company – General Development of the Business – Fairfax Private Placement*").

Common Shares

Each Common Share carries one vote at all meetings of shareholders, is entitled to receive dividends as and when declared by the directors, and, subject to the prior rights of the holders of the Non-Voting Shares, is entitled to a pro rata share of the remaining property and assets of the Company distributable to the holders of the Common Shares and the Non-Voting Shares, upon any liquidation, dissolution or winding up of the Company.

The insurance laws applicable to Skyward Specialty prohibit any person from acquiring control of a domestic insurance company or any entity that controls such insurance company unless that person has filed a notification with specified information with that state's Commissioner of Insurance (the "**Commissioner**") and has obtained the Commissioner's prior approval (the "**Control Restrictions**"). Under such laws, the acquisition of 10% or more of the voting securities of an insurance company or an entity that controls an insurance company is presumptively considered an acquisition of control of the insurance company, although such presumption may be rebutted. Accordingly, any person or entity that acquires, directly or indirectly, 10% or more of the voting securities of Westaim without the requisite prior approvals will be in violation of these laws and may be subject to injunctive action requiring the disposition or seizure of those securities or prohibiting the voting of those securities, or to other actions that may be taken by the applicable state insurance regulators.

In view of the foregoing restrictions, the by-laws of Westaim contain the following provisions designed to enable the Company to enforce compliance with the Control Restrictions:

- The Company may require a proposed subscriber or transferee of shares to submit a declaration with respect to the holding of shares of the Company and any other matter that the directors consider relevant to determine if the registration of the subscription or transfer would result in a violation of the Control Restrictions.
- The Company also may require a declaration at any time if proxies are solicited from shareholders or when, in the opinion of the directors, the acquisition, ownership, holding or control of shares by any person could violate the Control Restrictions.
- The Company has the power to refuse to issue or record a transfer and to prevent a shareholder from exercising the voting rights, of any share of any class if:
 - (a) such person (i) owns, holds or controls, directly or indirectly; or (ii) following the issue or recording of the transfer, the shareholder would own, hold or control, directly or indirectly, a “significant voting interest” in the Company, unless the required approvals from all relevant insurance regulatory authorities have been obtained; or
 - (b) the person requesting the issue or recording of the transfer refuses to sign and deliver a declaration (or provide other information reasonably necessary to assist the directors in making a determination that the Control Restrictions have not been contravened) with respect to his, her or its ownership, holding or control of shares of the Company.

For these purposes, a “significant voting interest” in the context of the Company means the holding, directly or indirectly, of voting securities of the Company carrying 10% or more of the votes carried by all voting securities of the Company.

The restrictions relating to the transfer and the issue of shares of the Company do not generally apply to the transfer and the issue of securities of the Company in favour of a securities broker while such securities broker is performing no more than a function that is usual and customary for a securities broker.

The restrictions on the ownership, transfer and voting of the Common Shares may have an effect on the marketability and liquidity of such securities.

The foregoing provisions will cease to apply if and for so long as the Control Restrictions are no longer applicable to the Company.

Class A Preferred Shares

The Class A preferred shares of each series shall rank equally with the Class A preferred shares of every other series with respect to dividends and return of capital, and shall be entitled to preference over the Class B preferred shares and Common Shares and over any other shares ranking junior to the Class A preferred shares with respect to priority in payment of dividends and in the distribution of assets in the event of the liquidating, dissolution or winding-up of the Company, or any other distribution of the assets of the Company among its shareholders for the purpose of winding-up its affairs. Except as required by law or unless provision is made in the Company’s articles, in general, the holders of the Class A preferred shares as a class shall not be entitled to receive notice of, attend or vote at any meeting of the shareholders of Westaim.

Non-Voting Shares

Any holder of Non-Voting Shares may convert any or all Non-Voting Shares held by such holder into Common Shares based on the then applicable exercise number which at the date hereof is one Common Share for each Non-Voting Share. The Non-Voting Shares: (a) rank equally with the Class A preferred shares of every other series with

respect to dividends and return of capital; (b) are entitled to such dividends as the directors may declare; provided, however, that no dividend on the Non-Voting Shares shall be declared unless the directors shall declare an equal dividend on the Common Shares; and (c) are entitled to a preference as to \$0.0001 per Non-Voting Share over the Class B preferred shares and the Common Shares and over any other shares ranking junior to the Non-Voting Shares, following which the Non-Voting Shares shall rank equally with the Common Shares with respect to the distribution of assets in the event of the liquidation, dissolution or winding-up of Westaim, whether voluntary or involuntary, or any other distribution of the assets of Westaim for the purpose of winding up its affairs. Except as required by law, the holders of the Non-Voting Shares as a series shall not be entitled to receive notice of, attend or vote at any meeting of the shareholders of Westaim.

Class B Preferred Shares

Subject to the prior rights of the Class A preferred shares, the Class B preferred shares of each series shall rank equally with the Class B preferred shares of every other series with respect to dividends and return of capital, and shall be entitled to preference over the Common Shares and over any other shares ranking junior to the Class B preferred shares with respect to priority in payment of dividends and in the distribution of assets in the event of the liquidating, dissolution or winding-up of the Company, or any other distribution of the assets of the Company among its shareholders for the purpose of winding-up its affairs, but are subject to the preference of the Class A preferred shares. Except as required by law or unless provision is made in the Company's articles, in general, the holders of the Class B preferred shares as a class shall not be entitled to receive notice of, attend or vote at any meeting of the shareholders of Westaim.

MARKET FOR SECURITIES

Trading Price and Volume

The Common Shares are currently listed and posted for trading on the TSX Venture Exchange (the "TSXV") under the symbol "WED". The following table sets forth the reported high and low prices and the aggregate volume of trading of the Common Shares on the TSXV for the periods indicated:

<u>Month</u>	<u>High</u>	<u>Low</u>	<u>Aggregate Volume</u>
2020	(C\$)	(C\$)	
January	2.66	2.41	6,731,934
February	2.56	2.30	1,327,127
March	2.36	1.37	2,935,329
April	1.92	1.5	2,275,214
May	1.76	1.58	7,032,889
June	2.13	1.64	3,894,929
July	2.11	1.95	2,000,521
August	2.14	1.94	2,555,524
September	2.29	2.02	1,917,743
October	2.48	2.26	3,592,084
November	2.44	2.28	2,641,421
December.....	2.51	2.30	1,135,016

The Preferred Securities are currently listed and posted for trading on the TSXV under the symbol "WED.PR.A". There has been no trading of such securities on the TSXV during the most recently completed financial year of the Company.

Prior Sales

During the fiscal year ended December 31, 2020, the Company issued the following securities that are not listed or quoted on a marketplace:

Date of Issue	Type of Security Issued	Number of Securities Issued	Issuance / Exercise Price Per Security
March 31, 2020	Deferred Share Units	43,105	C\$1.74
June 30, 2020	Deferred Share Units	63,209	C\$2.07
September 30, 2020	Deferred Share Units	56,395	C\$2.28
December 31, 2020	Deferred Share Units	49,740	C\$2.49

DIVIDENDS AND DISTRIBUTIONS

The Company has not declared dividends or distributions for any of its three most recently completed fiscal years and does not expect to declare dividends or distributions in the foreseeable future. Other than the applicable “solvency test” under the ABCA, there are no restrictions preventing the Company from declaring dividends on any classes of its shares, however, any future payment of dividends will be dependent upon the earnings and financial condition of the Company and other factors that the directors may deem appropriate at the time.

DIRECTORS AND EXECUTIVE OFFICERS

Name, Residency and Principal Occupation

The following table sets forth the names, residency, principal occupation and position(s) with the Company of the current directors of Westaim and the period of service as a director. All directors hold office until the next annual meeting of shareholders of the Company or until the director resigns or a successor is duly elected or appointed.

Name and Residency	Principal Occupation at Present ⁴	Position(s) with the Company	Period of Service as a Director
Stephen R. Cole ⁽¹⁾⁽²⁾⁽³⁾ Ontario, Canada	President of Seeonee Inc. (<i>a financial advisory services company</i>).	Lead Director, Director and Chair of the Human Resources and Compensation Committee	November 2014 to date
Ian W. Delaney ⁽³⁾ Ontario, Canada	Executive Chair of the Company	Director and Executive Chair of the Company	May 1996 to date
John W. Gildner ⁽¹⁾⁽²⁾⁽³⁾ Ontario, Canada	Independent businessman	Director and Chair of the Audit Committee	May 2009 to date
J. Cameron MacDonald Ontario, Canada	President and Chief Executive Officer of the Company	Director, President and Chief Executive Officer	December 2008 to date
Lisa Mazzocco ⁽²⁾⁽³⁾ California, United States	Independent consultant	Director and Chair of the Corporate Governance Committee	May 2020 to date
Kevin E. Parker ⁽¹⁾⁽³⁾ New York, United States	Managing Partner at Sustainable Insight Capital Management (“ SICM ”) (<i>an institutional investment firm</i>)	Director	May 2020 to date
Bruce V. Walter ⁽¹⁾⁽²⁾⁽³⁾ Ontario, Canada	Chair of Nunavut Iron Ore, Inc. (<i>a resource company</i>) and Vice-Chair of Centerra Gold Inc. (<i>a gold mining company</i>)	Director	1997 - 2012; May 2015 to date

Notes:

- (1) Stephen R. Cole, John W. Gildner, Kevin E. Parker and Bruce V. Walter are members of the audit committee of the Board (the “**Audit Committee**”).
- (2) Stephen R. Cole, John W. Gildner, Lisa Mazzocco and Bruce V. Walter are members of the human resources and compensation committee of the Board (the “**Human Resources and Compensation Committee**”).
- (3) Stephen R. Cole, Ian W. Delaney, John W. Gildner, Lisa Mazzocco, Kevin E. Parker and Bruce V. Walter are members of the nominating and corporate governance committee of the Board (the “**Corporate Governance Committee**”).
- (4) Each of the directors has been engaged for more than five years in his present principal occupation except for Mr. Cole and Ms. Mazzocco. From May 2013 to July 2018, Mr. Cole was a Senior Advisor to Duff & Phelps Canada Limited (“**Duff & Phelps**”) (*a financial advisory services company*). Since May 2013, Mr. Cole has been the President of Seeonee Inc. (*a financial advisory services company*). From April 2011 to October 2020, Ms. Mazzocco was the Chief Investment Officer at University of Southern California (“**USC**”) (*a private research university*). From October 2020 to December 2020, Ms. Mazzocco was a special advisor to the President of USC. Since December 2020, Ms. Mazzocco has been an independent consultant.

The following table sets forth the names, residency and office of the executive officers of the Company:

Name and Residency	Office(s) with the Company	Principal Occupation During the Past Five Years
Ian W. Delaney Ontario, Canada	Executive Chair of the Company	Executive Chair of the Company
J. Cameron MacDonald Ontario, Canada	President and Chief Executive Officer of the Company	President and Chief Executive Officer of the Company
Robert T. Kittel Ontario, Canada	Chief Operating Officer of the Company	Chief Operating Officer of the Company
Glenn G. MacNeil Ontario, Canada	Chief Financial Officer of the Company	Chief Financial Officer of the Company

Shareholdings of Directors and Executive Officers

As at the date hereof, the directors and executive officers of the Company as a group beneficially own, directly or indirectly, or exercise control or direction over 16,326,174 or approximately 11.4% of the number of issued and outstanding Common Shares and nil Preferred Securities.

Cease Trade Orders, Bankruptcies, Penalties or Sanctions

To the knowledge of the Company, no director or executive officer of the Company is, as at the date of this AIF, or was, within ten years before the date of this AIF, a director, Chief Executive Officer or Chief Financial Officer of any company (including Westaim) that:

- (a) was the subject of a cease trade order, an order similar to a cease trade order or an order that denied the relevant company access to any exemption under Canadian securities legislation, that was in effect for a period of more than 30 consecutive days, (an “**order**”), that was issued while the director or executive officer was acting in the capacity as director, Chief Executive Officer or Chief Financial Officer; or
- (b) was subject to an order that was issued after the director or executive officer ceased to be a director, Chief Executive Officer or Chief Financial Officer and which resulted from an event that occurred while that person was acting in the capacity as director, Chief Executive Officer or Chief Financial Officer.

To the knowledge of the Company, except as set out below, no director or executive officer of the Company, or a shareholder holding a sufficient number of securities of the Company to affect materially the control of the Company:

- (a) is, as at the date of this AIF, or has been within the ten years before the date of this AIF, a director or executive officer of any company (including Westaim) that, while that person was acting in that capacity, or within a year of that person ceasing to act in that capacity, became bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or was subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold its assets; or
- (b) has, within the ten years before the date of this AIF, become bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency, or become subject to or instituted any proceedings, arrangement or compromise with creditors, or had a receiver, receiver manager or trustee appointed to hold the assets of the director, executive officer or shareholder.

Mr. Delaney was a director of OPTI Canada Inc. (“**OPTI**”) when it commenced proceedings for creditor protection under the *Companies’ Creditors Arrangement Act* (Canada) (“**CCAA**”) on July 13, 2011. Ernst & Young Inc. was appointed as monitor of OPTI. On November 28, 2011, OPTI announced that it had closed a transaction whereby a subsidiary of CNOOC Limited acquired all of the outstanding securities of OPTI pursuant to a plan of arrangement under the CCAA and the *Canada Business Corporations Act*.

Mr. Parker was a director of agri.capital Group S.A. (“**ACG**”) before resigning in January 2015. Following his resignation, ACG filed for bankruptcy in Luxembourg in February 2015.

Mr. Parker was a Manager of Green Partners Technology Holdings GmbH (“**GPTH**”). In 2014, a judge of the district court of St. Gallen, Switzerland ordered the voluntary dissolution of GPTH by bankruptcy and it was deleted from the commercial register in 2015.

To the knowledge of the Company, except as set out below, no director or executive officer of the Company, or a shareholder holding a sufficient number of securities of the Company to affect materially the control of the Company, has been subject to:

- (a) any penalties or sanctions imposed by a court relating to securities legislation or by a securities regulatory authority or has entered into a settlement agreement with a securities regulatory authority; or
- (b) any other penalties or sanctions imposed by a court or regulatory body that would likely be considered important to a reasonable investor in making an investment decision.

Mr. Cole has been a director of FARO Technologies Inc. (“**FARO**”) since 2005. As a result of an internal review, FARO learned that its China subsidiary had made payments to certain customers in China that may have violated the *Foreign Corrupt Practices Act* (the “**FCPA**”) and other applicable laws. In February 2006, FARO’s audit committee instituted an internal investigation and subsequently notified the U.S. Securities and Exchange Commission (the “**SEC**”) and the U.S. Department of Justice (“**DOJ**”) of this matter in March 2006. The results of the investigation revealed that there were referral fee payments made by the Chinese subsidiary (in aggregate less than \$500,000) in possible violation of the FCPA between 2004 and 2006. In June 2008, FARO entered into settlement agreements with the SEC and DOJ pursuant to which FARO paid an aggregate of \$2.95 million in fines, disgorgement of associated profit and interest. FARO also had a two-year monitoring obligation that has since expired and other continuing obligations with the SEC and the DOJ with respect to compliance with the FCPA and other laws, full cooperation with the government, and the adoption of a compliance code containing specific provisions intended to prevent violations of the FCPA.

Conflicts of Interest

Certain of the Company’s directors and officers serve or may agree to serve as directors or officers of other companies or have significant shareholdings in other companies and, to the extent that such other companies may participate in ventures in which the Company may participate, the directors and officers of the Company may have a conflict of interest in negotiating and concluding terms respecting the extent of such participation. In the event that such a conflict of interest arises at a meeting of the Company’s directors, a director who has such a conflict will abstain from voting for or against the approval of such participation or such terms. To the knowledge of the Company, there are no existing or potential material conflicts of interest between Westaim or any of its subsidiaries and any director or officer of Westaim or any of its subsidiaries.

AUDIT COMMITTEE

The Audit Committee’s Charter

The responsibilities and duties of the Audit Committee are set out in the Audit Committee’s charter, the text of which is set forth in Appendix “A” to this AIF.

Composition of the Audit Committee

The Audit Committee consists of four members: John W. Gildner (Chair), Stephen R. Cole, Kevin E. Parker and Bruce V. Walter. All members of the Audit Committee are “independent” and “financially literate” for the purposes of National Instrument 52-110 – *Audit Committees* (“**NI 52-110**”).

Relevant Education and Experience

The following is a description of the education and experience of each member of the Audit Committee that is relevant to the performance of his responsibilities as a member of the Audit Committee:

Stephen R. Cole – From 1975 until June 2010, Mr. Cole was President and Founding Partner of Cole & Partners, a Toronto based mergers and acquisition and corporate financial advisory service company. In June 2010 until May 2013, Mr. Cole was President of Duff & Phelps, a global financial advisory and investment banking services firm. Thereafter, in his capacity as President of Seeonee Inc., he has been an advisor to various family offices, and professional firms. Mr. Cole is a Fellow of the Institute of Chartered Accountants of Ontario, Fellow of the Canadian Chartered Institute of Business Valuators, Senior Member of the American Society of Appraisers and Full Member of the ADR Institute of Canada, Inc. Mr. Cole became Director of FARO Technologies Inc. (“**FARO**”), a NASDAQ listed company, in 2000, and currently remains a director and audit committee Chair. Previously, he was FARO’s Lead Director and Chair of the compensation committee. He is currently a director and an advisory committee member to several private companies. Previously, Mr. Cole was a director of H. Paulin & Co. Limited, a Toronto Stock Exchange listed company, where he also served as Chair of the audit committee. Mr. Cole has also held a position as an advisory committee member or director of various private companies and charitable and professional organizations such as Enterprise Capital LP II, The Canadian Institute of Chartered Business Valuators, Quetico Foundation, Nature Conservancy of Canada (Ontario Division), UJA Federation and Foundation and past Chair of The Baycrest Centre.

John W. Gildner – Mr. Gildner holds a B.B.A. from Wilfrid Laurier University, having specialized in Economics. Mr. Gildner is currently a private investor. Prior to 2009, Mr. Gildner was a Managing Director of CIBC World Markets Inc., an investment bank, where he worked for 25 years (at both CIBC World Markets Inc. and Wood Gundy Limited, which was purchased by the Canadian Imperial Bank of Commerce in 1988) in various roles within the trading operations. Most recently at CIBC World Markets Inc., Mr. Gildner was head of the firm’s equity division proprietary trading groups, where he had oversight of the firm’s equity-related proprietary investing and trading strategies and activities. Mr. Gildner also served on several management, risk management, due diligence, and investment committees at the company. In these capacities, Mr. Gildner has had extensive experience analyzing and evaluating financial results and the financial statements of public companies. In 2010 Mr. Gildner obtained the Chartered Director (C.Dir.) designation from the Directors College (a joint venture of McMaster University and The Conference Board of Canada).

Kevin E. Parker – Mr. Parker is currently the Managing Partner at SICM. He has over 35 years of investment experience. Prior to SICM, Kevin was a Member of the Management Board of Deutsche Bank for 10 years and the former Global Head of Deutsche Asset Management from 2004 to 2012. In this role, he was responsible for more than \$750 billion dollars invested across a broad range of assets including Equities, Fixed Income, Real Estate, Infrastructure, Private Equity, Hedge Funds, Sustainable Investments and other businesses. Also at Deutsche Bank, Mr. Parker served as the Global Head of Institutional Equities from 2000 until 2004 and from 1997 until 2000 was responsible for building and developing Deutsche Bank’s Equity Derivatives, Prime Brokerage Services, Equity Trading and Equity Proprietary Trading Businesses. Prior to Deutsche Bank, Mr. Parker held a variety of positions at Morgan Stanley, including Head of Asian Derivatives, Global Head of Equity Derivatives Trading and Chief Information Officer. Mr. Parker holds a Bachelor of Science in Finance from New York University.

Bruce V. Walter – Mr. Walter is currently Chair of Nunavut Iron Ore, Inc. and serves as Vice Chair of Centerra Gold Inc. From 2002 until 2007, Mr. Walter was a director and officer of Dynatec Corporation, initially as Vice-Chair and from 2005 as President and Chief Executive Officer. Prior thereto his career included serving as President of Sherritt Inc., President and Chief Executive Officer of Plaintree Systems Inc., and Managing Director and Co-Head of the Media, Telecom & Technology investment and corporate banking group at BMO Nesbitt Burns. Mr. Walter also served as Vice-President of Horsham Corporation and was a partner in the predecessor law firm to Davies Ward Phillips & Vineberg LLP. Mr. Walter received his Juris. Doctor (J.D.) and Master of Business Administration degrees from York University in 1981. He received his PhD in law in 1985 from the University of Cape Town. Mr. Walter currently serves on the National Advisory Board of The Salvation Army.

Pre-Approval of Audit and Non-Audit Services by Independent Auditors

The Audit Committee pre-approves all audit services provided to the Company by its independent auditors. The Audit Committee's policy or practice regarding the pre-approval of non-audit services is that all such services shall be pre-approved by the Audit Committee as a whole or by the Chair of the Audit Committee, who must report all such pre-approvals to the Audit Committee at its next meeting following the granting thereof. Prior to the granting of any pre-approval, the Audit Committee or its Chair, as the case may be, must be satisfied that the performance of the services in question will not compromise the independence of the independent auditors.

Audit Committee Oversight

At no time since the commencement of the Company's most recently completed financial year has a recommendation of the Audit Committee to nominate or compensate an external auditor not been accepted by the Board.

Audit Fees

The following table summarizes fees paid to the Company's independent auditors, Deloitte LLP, for the years ended December 31, 2020 and December 31, 2019:

(in thousands of U.S. dollars)	2020	2019
Audit Fees ⁽¹⁾	\$248.4	\$264.5
Audit-Related Fees	-	-
Tax Fees	-	-
All Other Fees	-	-
Total Fees	\$248.4	\$264.5

Note:

(1) Includes reviews of: (a) quarterly consolidated financial statements; and (b) implementation of certain IFRS accounting policies.

Exemption

The Company is relying upon the exemption in Section 6.1 of NI 52-110 with respect to the reporting obligations of "venture issuers".

PROMOTERS

No person or company has been, within the two most recently completed financial years, or during the current financial year, of the Company, a promoter of Westaim or of a subsidiary of Westaim.

LEGAL PROCEEDINGS AND REGULATORY ACTIONS

Legal Proceedings

The Company is not aware of any pending or threatened proceedings or claims for damages involving the Company. In the normal course of carrying on its business, each of Skyward Specialty and Arena becomes the subject of claims and is involved in various legal proceedings. However, the Company is not aware of any pending or threatened proceedings or claims for damages involving Skyward Specialty or Arena that are expected to have a material impact on Westaim.

Regulatory Actions

During the financial year ended December 31, 2020, there were no: (a) penalties or sanctions imposed against the Company by a court relating to securities legislation or by a securities regulatory authority; (b) other penalties or sanctions imposed by a court or regulatory body against the Company that would likely be considered important to a

reasonable investor in making an investment decision; and (c) settlement agreements the Company entered into before a court relating to securities legislation or with a securities regulatory authority.

INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS

Management of the Company is not aware of any material interest, direct or indirect, of any of the following persons or companies in any transaction within the three most recently completed financial years or during the current financial year that has materially affected or is reasonably expected to materially affect the Company:

- (a) a director or executive officer of the Company;
- (b) a person or company that beneficially owns, or controls or directs, directly or indirectly, more than 10% of any class or series of the Company's outstanding voting securities; and
- (c) an associate or affiliate of any of the persons or companies referred to in paragraphs (a) or (b).

TRANSFER AGENT AND REGISTRAR

The registrar and transfer agent for the Common Shares is Computershare Investor Services Inc., located in Calgary, Alberta, Canada.

MATERIAL CONTRACTS

Except for contracts entered into in the ordinary course of business, the only contracts: (a) entered into during the 12-month period ended December 31, 2020 which are material; or (b) entered into before the 12-month period ended December 31, 2020, but are still in effect, and which are required to be filed with the Canadian securities regulatory authorities are the following:

- (a) indenture dated as of June 2, 2017 between, among Westaim, Westaim HIIG GP Inc., Westaim HIIG Holdings Inc. and Computershare Trust Company of Canada (the “**Indenture**”);
- (b) governance agreement made as of June 2, 2017 between Westaim and Fairfax (the “**Governance Agreement**”); and
- (c) second Amended and Restated AIGH LLCA.

The Indenture and the Governance Agreement were filed on SEDAR on June 6, 2017. For a summary of these two agreements, please see the material change report of the Company dated June 6, 2017 and filed on SEDAR at www.sedar.com, which is incorporated by reference into, and forms an integral part of, this AIF. Also see “*Business of the Company – General Development of the Business – Fairfax Private Placement*”. The Second Amended and Restated AIGH LLCA was filed on SEDAR on March 26, 2020. For further information on the Second Amended and Restated AIGH LLCA, see “*Current Investments – Arena – Arena Investors*”.

INTERESTS OF EXPERTS

The Company's auditors are Deloitte LLP, Chartered Professional Accountants and Licensed Public Accountants, who have prepared the Auditor's Report to Shareholders dated March 25, 2021. Deloitte LLP has confirmed that it is independent with respect to the Company within the meaning of the Rules of Professional Conduct of the Chartered Professional Accountants of Ontario. To the Company's knowledge, Deloitte LLP has no registered or beneficial interest, direct or indirect, in any securities or other property of the Company.

ADDITIONAL INFORMATION

Additional information, including directors' and officers' remuneration and indebtedness, principal holders of the Company's securities and securities authorized for issuance under the Company's equity compensation plans, where applicable, is contained in the Company's management information circular. Additional financial information

relating to the Company is contained in the Company's comparative financial statements and associated management's discussion and analysis for its most recently completed fiscal year ended December 31, 2020.

All of these documents as well as additional information relating to the Company are available on SEDAR at www.sedar.com.

APPENDIX “A”

THE WESTAIM CORPORATION

AUDIT COMMITTEE CHARTER

(Revised February 2013)

A. Overview and Mandate

The Audit Committee (the “**Committee**”) is responsible to the Board of Directors (the “**Board**”) of The Westaim Corporation (the “**Corporation**”). The Committee shall review the annual consolidated financial statements of the Corporation and shall report thereon to the Board before such annual consolidated financial statements are approved by the Board, and shall oversee the accounting and financial reporting processes of the Corporation and the audits of the financial statements of the Corporation. The Committee also shall perform the duties as described under “Duties and Responsibilities” below.

The Committee, in its capacity as a committee of the Board, shall be directly responsible for the appointment, compensation, retention and oversight of the work of any registered public accounting firm engaged (including for the resolution of disagreements between management and the auditor regarding financial reporting) for the purpose of preparing or issuing an audit report or performing other audit, review or attest services for the Corporation (the “**auditor**”), and each auditor must report directly to the Committee.

It is recognized that the Committee will be acting only within the terms of reference set out herein and it is not intended that the Committee shall usurp any of the powers or responsibilities of the Board as set out in the *Business Corporations Act* (Alberta) and/or the By-laws of the Corporation.

The Committee may engage independent counsel or other advisors as it determines necessary to carry out its duties.

The Corporation shall provide for appropriate funding, as determined by the Committee in its capacity as a committee of the Board, for payment of:

- a. compensation to any auditor;
- b. compensation to any independent counsel or adviser employed by the Committee pursuant to this charter; and
- c. ordinary administrative expenses of the Committee that are necessary or appropriate in respect of the performance by the Committee of its duties.

B. Membership and Attendance at Meetings

1. The members of the Committee shall consist of not fewer than three (3) members each of whom shall be a director of the Corporation.
2. A majority of members of the Committee shall be resident Canadians.
3. A majority of members of the Committee shall satisfy the independence requirements applicable to members of audit committees under National Instrument 52-110 – *Audit Committees* of certain of the Canadian Securities Administrators and the requirements of any other applicable legislation or stock exchange rules, subject to any exemptions or relief that may be granted from such requirements.
4. Each member of the Committee shall have, or shall acquire within a reasonable time following appointment to the Committee, the ability to read and understand a set of financial statements that present a breadth and

level of complexity of accounting issues that are generally comparable to the breadth and complexity of the issues that can reasonably be expected to be raised by the Corporation's financial statements.

5. The Chairman of the Committee shall be appointed by the Board and shall be responsible for the overall operation of the Committee.
6. Members shall serve one-year terms and may serve consecutive terms.
7. The auditor of the Corporation is entitled to receive notice of every meeting of the Committee and be heard thereat.
8. In its discharge of its responsibilities and duties set out herein, the Committee shall have free and unrestricted access at all times, either directly or through its duly appointed representatives, to the relevant accounting books, records and systems of the Corporation and shall discuss with the officers of the Corporation such books, records, systems and other matters considered appropriate.

C. Duties and Responsibilities

The Committee shall fulfill the following duties arising from its mandate set out above:

1. Review and assess the adequacy of this charter on an annual basis, or more often if deemed appropriate.
2. Review the annual consolidated financial statements of the Corporation and the notes thereto following the examination thereof by the auditor and prior to their approval by the Board and report to the Board thereon.
3. Review and approve the quarterly financial statements, notes thereto and quarterly management discussion and analysis (MD&A) and related press releases of the Corporation prior to their release.
4. Review the annual MD&A, and other public disclosure documents and related press releases, including any prospectus prior to their approval by the directors.
5. Review, and approve, the planned scope of the examination of the annual and quarterly consolidated financial statements and all related audit activities by the auditor of the Corporation, including expected related audit fees.
6. Review the accounting principles and practices to be applied and followed by the Corporation during the fiscal year and any significant changes from those applied and followed during the previous year.
7. Review the adequacy of the systems of internal accounting and audit policies, practices and controls established by the Corporation, and discuss with the auditor the results of its reviews and reports.
8. Review all litigation and claims involving or against the Corporation which could materially adversely affect its financial position and which the auditor or any officer of the Corporation may refer to the Committee.
9. Ensure the auditor's ultimate accountability to the Board and the Committee as representatives of the shareholders and as such representatives, to evaluate the performance of the auditor and review and report to the directors regarding the nomination and the remuneration and other material terms of the engagement of the auditor, and the performance by the auditor thereunder, and to recommend to the shareholders the reappointment or replacement of the auditor.
10. Ensure that the auditor submits on a periodic basis to the Committee, a formal written statement delineating all relationships between the auditor and the Corporation, consistent with Canadian auditor independence standards, and to review such statement and to actively engage in a dialogue with the auditor with respect to any disclosed or undisclosed relationships or services that may impact on the objectivity and

independence of the auditor, and to review the statement and the dialogue with the Board of Directors and recommend to the Board of Directors appropriate action to ensure the independence of the auditor.

11. Provide a line of communication between the auditor and the Board, and communicate directly with the auditor and with any internal auditor of the Corporation.
12. Meet with the auditor at least once per quarter without management present to allow a candid discussion regarding any concerns the auditor may have and to resolve any disagreements between the auditor and management regarding the Corporation's financial reporting.
13. Review and pre-approve non-audit services provided by the auditor.
14. Review and approve hiring policies regarding partners, employees, and former partners and employees of the present and former external auditors of the Corporation.
15. Review any internal audit plan and review all reports arising from any such internal audit activity.
16. Approve the Corporation's Disclosure Policy and review and assess the adequacy of the policy on an annual basis, or more often if deemed appropriate.
17. Review and approve all "related party" transactions, as defined by the rules of the applicable regulatory authorities.
18. Review the status of taxation matters of the Corporation and its major subsidiaries.
19. Review the short term investment strategies respecting the cash balance of the Corporation.
20. Review the hedging strategies of the Corporation.
21. Review the adequacy of all insurance policies maintained by the Corporation.
22. Establish procedures for:
 - a. the receipt, retention, and treatment of complaints received by the Corporation regarding accounting, internal accounting controls, or auditing matters; and
 - b. the confidential, anonymous submission by employees of the Corporation of concerns regarding questionable accounting or auditing matters.
23. Review regular reports from management and others with respect to the Corporation's compliance with laws and regulations having a material impact on the financial statements of the Corporation.
24. Review annually the Corporation's reserves with respect to environmental, health and safety matters.
25. Conduct or undertake such other duties as may be required from time to time by any applicable regulatory authorities, including the TSX Venture Exchange or any other stock exchange.
26. At least annually, undertake a self assessment of the Committee's performance of its duties.

D. Meetings

1. Meetings of the Committee are held as required and at least quarterly.
2. Committee meetings may be called by the Committee Chairman or by a majority of the Committee members.

3. The procedures for calling, holding, conducting and adjourning meetings of the Committee shall be the same as those applicable to meetings of the Board. Notwithstanding such procedures, a meeting of the Committee may also be called by the external auditor.
4. A quorum for the transaction of business at any meeting of the Committee is a majority of appointed members.
5. The Committee may invite to a meeting any officers or employees of the Corporation, legal counsel, advisors and other persons whose attendance it considers necessary or desirable in order to carry out its responsibilities.
6. Meetings may be held by way of telephone conference call.
7. A written resolution signed by all Committee members entitled to vote on that resolution at a meeting of the Committee is as valid as one passed at a Committee meeting.
8. The Corporate Secretary will ensure that minutes of the proceedings of all meetings of the Committee are maintained and available to the Board when requested.

E. Reporting

The Committee shall report on its review of the audited consolidated financial statements of the Corporation to the Board prior to the approval of financial statements by the Board. In addition, the Chairman of the Committee shall, when deemed necessary or when requested by the Chairman of the Board, report to the Board from time to time on the activities of the Committee.