

The Westaim Corporation
Management's Discussion and Analysis
Year ended December 31, 2020

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

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The "Company" in this Management's Discussion and Analysis ("MD&A") refers to The Westaim Corporation ("Westaim") on a consolidated basis. This MD&A, which has been approved by the Board of Directors of Westaim, should be read in conjunction with the Company's audited consolidated financial statements including notes for the years ended December 31, 2020 and 2019 as set out on pages 48 to 71 of this annual report. Financial data in this MD&A has been derived from the audited annual consolidated financial statements for the years ended December 31, 2020 and 2019 and is intended to enable the reader to assess the Company's results of operations for the three months and year ended December 31, 2020 and financial condition as at December 31, 2020. The Company reports its consolidated financial statements using accounting policies consistent with International Financial Reporting Standards ("IFRS"). All currency amounts are in United States dollars ("US\$"), the functional and presentation currency of the Company, except per share data, unless otherwise indicated. Canadian dollars are referenced as C\$. The following commentary is current as of March 25, 2021. Additional information relating to the Company is available on the System for Electronic Document Analysis and Retrieval ("SEDAR") at www.sedar.com. Certain comparative figures have been reclassified to conform to the presentation of the current year, and certain totals, subtotals and percentages may not reconcile due to rounding.

During the fourth quarter of 2019, management reduced the number of businesses reported under the Arena FINCOs (hereinafter defined) and Arena Investors (hereinafter defined) to simplify and improve the comparability of investment results. Comparative figures have been reclassified to conform to the presentation of the current period. See Section 3, *Investments* of this MD&A.

IFRS for Investment Entities

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

Functional and Presentation Currency

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

Non-GAAP Measures

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

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Cautionary Statement Regarding the Valuation of Investments in Private Entities

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

Cautionary Statement Regarding Financial Information of Skyward Specialty Insurance Group Inc.

Select financial information concerning Skyward Specialty Insurance Group Inc. (formerly Houston International Insurance Group, Ltd. ("HIIG")) ("Skyward Specialty") (the "Skyward Specialty Financial Information") contained in this MD&A is audited and has been derived from the annual consolidated financial statements of Skyward Specialty for the years ended December 31, 2020 and 2019, which have been prepared in accordance with United States generally accepted accounting principles ("US GAAP"). Such statements are the responsibility of the management of Skyward Specialty. The Skyward Specialty Financial Information, including any Skyward Specialty non-GAAP measures contained therein, has not been reconciled to IFRS and so may not be comparable to the financial information of issuers that present their financial information in accordance with IFRS.

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

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

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

Cautionary Statement Regarding Financial Information of the Arena FINCOs and Arena Investors

Select financial information concerning the Arena FINCOs (as hereinafter defined) and Arena Investors (as hereinafter defined) (the "Arena Financial Information") contained in this MD&A is audited and has been derived from the annual financial statements of the Arena FINCOs and Arena Investors for the years ended December 31, 2020 and 2019 which have been prepared in accordance with either IFRS or US GAAP. Such statements are the responsibility of the management of the Arena FINCOs and Arena Investors. The Arena Financial Information, including any Arena FINCOs and Arena Investors non-GAAP measures contained therein, may not be reconciled to IFRS and so may not be comparable to the financial information of issuers that present their financial information in accordance with IFRS.

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

During the fourth quarter of 2019, management consolidated the Arena Financial Information into the Arena FINCOs and Arena Investors to simplify and improve the comparability of the results. Comparative figures have been reclassified to conform to the presentation of the current period.

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

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

Future Oriented Financial Information

This MD&A may contain forward-looking statements that involve risks and uncertainties. The Company's actual results could differ materially from these forward-looking statements as a result of various factors, including those discussed hereinafter, and in the Company's Annual Information Form dated March 25, 2021 for its fiscal year ended December 31, 2020 which is available on SEDAR at www.sedar.com. Please refer to Section 16, *Cautionary Note Regarding Future Oriented Financial Information* of this MD&A.

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1. THE COMPANY

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

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

2. OVERVIEW OF PERFORMANCE

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

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

Three months ended December 31, 2020 and 2019

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

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

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

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

Year ended December 31, 2020 and 2019

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

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2. OVERVIEW OF PERFORMANCE (continued)

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

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

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

3. INVESTMENTS

The Company's investments in private entities and associates are included under investments in the consolidated statements of financial position. The Company's principal investments consist of its investments in Skyward Specialty, the Arena FINCOs and Arena Investors as follows:

	Place of establishment	Principal place of business	Ownership interest as at December 31, 2020	Ownership interest as at December 31, 2019
Investment in private entities:				
- Skyward Specialty	Delaware, U.S.	Texas, U.S.	44.5% owned by the Company	44.0% owned by the Company
- Arena FINCOs (as hereinafter defined)	Delaware, U.S.	New York, U.S.	100% owned by the Company	100% owned by the Company
Investment in associates:				
- Arena Investors (as hereinafter defined)	Delaware, U.S.	New York, U.S.	51% beneficially owned the Company ¹	51% beneficially owned the Company ¹

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

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

Skyward Specialty

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

Arena FINCOs

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

Arena Investors

Arena Investors Group Holdings, LLC (formerly Westaim Arena Holdings II, LLC) ("AIGH"), through its subsidiaries, operates as an investment manager offering clients access to fundamentals-based, asset-oriented credit investments. AIGH is the sole limited partner of Arena Investors, LP, a limited partnership established to carry on the third-party investment management business. The Company's investment in Arena Investors is accounted for using the equity method and consists of investments in corporations or limited partnerships where the Company has significant influence.

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3. INVESTMENTS (continued)

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

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

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

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

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

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

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

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3. INVESTMENTS (continued)

A. INVESTMENT IN SKYWARD SPECIALTY

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

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

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

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

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

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

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

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

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

(i) Fair Value

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

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

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3. INVESTMENTS (continued)

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

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

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

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

In the second quarter of 2020, Skyward Specialty closed a Loss Portfolio Transfer agreement ("LPT") that provides reinsurance protection of approximately \$127.4 above Skyward Specialty's net ceded claim reserves, primarily related to 2017 and prior policy years, subject to co-participation payments required from Skyward Specialty above specific amounts. As identified in the chart above, the impact of the LPT net of tax on the Company's investment in Skyward Specialty for the three months and year ended December 31, 2020 was a decrease of \$1.6 and \$5.7, respectively. The net impact of the LPT on the Company's investment was a decrease of \$16.6 in each of the three months and year ended December 31, 2019.

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

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

Set out in the tables below are certain Skyward Specialty Financial Information derived from the audited annual consolidated financial statements of Skyward Specialty for the years ended December 31, 2020 and 2019, which have been prepared in accordance with US GAAP and non-GAAP measures. Such statements are the responsibility of the management of Skyward Specialty. Readers are cautioned that the Skyward Specialty Financial Information has not been reconciled to IFRS and so may not be comparable to the financial information of issuers that present their financial information in accordance with IFRS.

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3. INVESTMENTS (continued)

Skyward Specialty Condensed Consolidated Balance Sheets

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

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3. INVESTMENTS (continued)

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

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

¹ Excludes adverse development on prior years' claims reserves subject to the LPT of \$9.0 and \$49.0 for the three months and year ended December 31, 2020, respectively.

² Excludes other unusual net expense recoveries of \$4.5 (\$3.6 after tax) and \$1.7 (\$1.3 after tax) for the three months and year ended December 31, 2020, respectively.

³ The impact of LPT net of tax of \$3.6 includes adverse development on prior years' claims reserves subject to the LPT of \$9.0 less recoveries from the LPT reinsurer of \$4.5 and less an income tax recovery of \$0.9 for the three months ended December 31, 2020. The impact of LPT net of tax of \$47.2 includes the initial cost of the LPT of \$43.5 plus adverse development on prior years' claims reserves subject to the LPT of \$49.0 less recoveries from the LPT reinsurer of \$32.7 and less an income tax recovery of \$12.6 for the year ended December 31, 2020.

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

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

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

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3. INVESTMENTS (continued)

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

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

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

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

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

B. INVESTMENT IN THE ARENA FINCOs

The Arena FINCOs invest in both debt and equity instruments, with an emphasis on debt instruments comprised of multiple investment strategies including, but not limited to, corporate private credit, real estate private credit and real estate assets, commercial & industrial assets, structured finance investments, consumer assets, and other securities. The Arena FINCOs do not have a target range of investment; the size of the loans and/or other credit investments acquired depends on, among other things, any diversity requirements which may be imposed by any lender as well as their own investment policy. In the absence of such requirements, the Arena FINCOs are not subject to concentration limitations but the management of the Arena FINCOs will use their best judgment as to what is prudent in the circumstances.

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

Corporate Private Credit

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

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3. INVESTMENTS (continued)

Real Estate Private Credit and Real Estate Assets

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

Commercial and Industrial Assets

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

Structured Finance Investments

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

Consumer Assets

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

Other Securities

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

Before acquiring or originating any such loans or other investments, the Arena FINCOs review the nature of the loan, the creditworthiness of the borrower, the nature and extent of any collateral and the expected return on such loan or investment. The Arena FINCOs originate and/or acquire such loans or investments based on their assessment of the fair market value of the investment at the time of purchase.

In connection with the original capitalization of the Arena FINCOs, the Company granted a term loan (the "Arena FINCOs Term Loan") with a balance of \$10.0 at December 31, 2018. On April 1, 2019, the Company converted the Arena FINCOs Term Loan of \$10.0 into additional common shares of WOH.

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

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

Accounting for the Arena FINCOs

The Company's investment in the Arena FINCOs is accounted for at FVTPL and are included in investments in private entities. Using net asset value as the primary valuation technique, management determined that 1.0x the book value, or 100% of the shareholder's equity of the Arena FINCOs at December 31, 2020, in the amount of \$163.0 approximated the fair value of the Company's investments in the Arena FINCOs. See Note 5, *Investments in the Arena FINCOs* in the Notes to the Financial Statements.

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3. INVESTMENTS (continued)

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

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

Select Financial Information of the Arena FINCOs

The Company considers certain financial results of the Arena FINCOs to be important measures in assessing the Company's financial position and performance, in particular, the net assets which can be invested to generate investment income, and operating expenses. Select financial information related to the Arena FINCOs set out below is audited and has been derived from the financial statements of WOH, AOC, AFHC and the consolidated financial statements of AF and its subsidiaries for the three months and years ended December 31, 2020 and 2019, which have been prepared in accordance with IFRS or US GAAP. AOC financial statements and AF consolidated financial statements are the responsibility of the management of the Arena FINCOs. Readers are cautioned that the financial information has not been reconciled to IFRS and so may not be comparable to the financial information of issuers that present their financial information in accordance with IFRS.

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

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

Due from brokers consists of cash balances as well as net amounts due from brokers for unsettled securities transactions. Investment securities are net of short positions. In the normal course of the Arena FINCOs' operations, the Arena FINCOs enter into currency hedges to reduce its currency exposure.

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

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

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3. INVESTMENTS (continued)

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

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

¹ Adjusted to conform to presentation of the current year

The Net Return on the investment portfolios of the Arena FINCOs was 0.9% and was nominal for the three months and year ended December 31, 2020, respectively, and 1.3% and 7.0% for the three months and year ended December 31, 2019, respectively. See Section 15, *Non-GAAP Measures* of this MD&A.

The following table shows a continuity of the carrying value of the Company's investments in the Arena FINCOs included in the Company's investments in private entities is as follows:

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

C. INVESTMENT IN ARENA INVESTORS

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

Arena Investors generates revenues primarily from Management Fees, Incentive Fees and Asset Servicing Fees. "Management Fees" are the fees generally calculated on Arena Investors' various segregated client accounts and private pooled investment vehicles as a percentage of assets under management ("AUM"). Management fees for separately managed accounts may be based on a percentage of the fair value of invested capital for the account during the ramp-up phase. "Incentive Fees" are the fees generally calculated as a percentage of net profits earned by Arena Investors as of the end of each fiscal year or applicable withdrawal date related to client accounts subject to a "high water mark", preferred return and loss carryforward provisions for each measurement date. "Asset Servicing Fees" are the fees generally earned in connection with the management and servicing of the illiquid portion of clients' investment portfolios.

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3. INVESTMENTS (continued)

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

As of December 31, 2020, Arena Investors had committed AUM of approximately \$2.0 billion. The committed AUM included the net assets of the Arena FINCOs of approximately \$163. As of December 31, 2019, Arena Investors had committed AUM of approximately \$1.3 billion. The committed AUM included the net assets of the Arena FINCOs of approximately \$206.

Rights Granted to BP LLC

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

Accounting for Arena Investors

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

The Company's investments in the associates (Arena Investors) are accounted for using the equity method. The carrying amount of the Company's investment in the associates was \$20.2 and \$12.3 at December 31, 2020 and 2019, respectively. The total of the Company's 51% share of profit of \$1.4 and a share of loss of \$0.1 for the three months and year ended December 31, 2020, respectively, and share of loss of \$0.2 and was nominal for the three months and year ended December 31, 2019, respectively, was reported under "Net results of investments" in the consolidated statements of (loss) profit and comprehensive (loss) income.

Select Financial Information of Arena Investors

The Company considers certain financial results of Arena Investors to be important measures in assessing the Company's financial position and performance, in particular, revenues from the provision of investment management services, and operating expenses. Select financial information related to Arena Investors set out below is audited and has been derived from the financial statements of AIGH for the three months and year ended December 31, 2020 and 2019, which have been prepared in accordance with US GAAP. Such statements are the responsibility of the management of Arena Investors. Management of the Company concluded that any reconciling items to IFRS are not material.

Select financial information of Arena Investors is as follows:

Statement of Financial Position

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

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

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3. INVESTMENTS (continued)

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

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

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

D. INVESTMENT IN ASOF LP

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

4. FINANCING

Preferred Securities

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

Canadian Dollar Currency Forward Contracts

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

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

In connection with Canadian dollar currency forward contracts which the Company may enter into from time to time, the Company has obtained a credit facility under which the Company has pledged cash on deposit of \$3.0 (December 31, 2019 - \$3.0) as security. The security shall remain in effect for the duration of the outstanding Canadian dollar currency forward contract.

Derivative Warrant Liability

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

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5. ANALYSIS OF FINANCIAL RESULTS

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

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

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

5.1 Revenue

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

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

5.2 Net Results of Investments

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

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

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

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5. ANALYSIS OF FINANCIAL RESULTS (continued)

Investments in Private Entities

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

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

Investment in Associates

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

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

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

5.3 Expenses

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

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

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

The Company has provided indemnifications to third parties with respect to future site restoration costs to be incurred on industrial sites formerly owned by the Company. The Company conducts periodic reviews of the underlying assumptions supporting the provision, taking into consideration the anticipated method and extent of the remediation consistent with regulatory requirements, industry practices, current technology and possible uses of the site. Variations in the Company's site restoration provision expense from period to period are generally attributed to changes in the estimates of future expenditures used to arrive at the site restoration provision. Reimbursements are recorded when received.

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

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6. ANALYSIS OF FINANCIAL POSITION

The Company holds C\$ denominated assets and liabilities and the Company's operating results include foreign exchange gains or losses arising from the revaluation of the Company's C\$ denominated net liabilities and revaluation of C\$ foreign exchange forward contract into US\$ at period end exchange rates. The following is a breakdown of the major components of the foreign exchange gain (loss) in the three months and year ended December 31, 2020 and 2019:

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

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

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

6.1 Cash

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

6.2 Income Tax Receivable

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

6.3 Other Assets

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

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6. ANALYSIS OF FINANCIAL POSITION (continued)

Effective, December 1, 2019, the Company entered into an operating lease for the office premises in Toronto expiring on November 30, 2024. At the commencement date of the lease, a right of use asset was recorded at cost under other assets and a lease liability was recorded at amortized cost under accounts payable and accrued liabilities in the consolidated statements of financial position. Subsequent to initial recognition, the right of use asset is depreciated using the straight-line method over the term of the lease with depreciation recorded in the consolidated statements of (loss) profit and comprehensive (loss) income. Each lease payment reduces the lease liability and the accretion of the lease liability is recorded as interest expense in the consolidated statements of (loss) profit and comprehensive (loss) income.

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

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

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

6.4 Investments

Investments in Private Entities

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

Investment in Associates

The Company's investment in associates consists of the Company's investment in Arena Investors. This investment is accounted for using the equity method. The carrying value of the Company's investment in associates at December 31, 2020 was \$20.2 (December 31, 2019 - \$12.3). See discussion in Section 3, *Investments* of this MD&A.

Other Investments

The Company's investment in other investments consists of the Company's investment in ASOF LP, which is accounted for at FVTPL. The fair value of ASOF LP at December 31, 2020 was determined to be \$2.9 (December 31, 2019 - \$2.7). See discussion in Section 3, *Investments* of this MD&A.

6.5 Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities were \$11.0 and \$10.7 at December 31, 2020 and 2019, respectively. Accounts payable and accrued liabilities at December 31, 2020 included liabilities related to accrued employee bonuses of \$1.8 (December 31, 2019 - \$1.7), RSUs of \$5.9 (December 31, 2019 - \$6.2), DSUs of \$1.7 (December 31, 2019 - \$1.3), lease liability of \$0.5 (December 31, 2019 - \$0.6), interest accrued on the Preferred Securities of \$0.5 (December 31, 2019 - \$0.5), and other accrued liabilities of \$0.6 (December 31, 2019 - \$0.4). See Section 6.3 *Other Assets* of this MD&A for additional information on the lease liability. See Section 8, *Liquidity and Capital Resources* of this MD&A for additional information on the Company's share-based compensation plans.

6.6 Income Tax Payable

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

6.7 Preferred Securities

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

6.8 Derivative Warrant Liability

At December 31, 2020, a liability of \$1.0 (December 31, 2019 - \$1.9) representing the estimated fair value of the vested Warrants had been accrued in the consolidated statements of financial position. See discussion in Section 4, *Financing* of this MD&A.

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6. ANALYSIS OF FINANCIAL POSITION (continued)

6.9 Site Restoration Provision

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

6.10 Shareholders' Equity

The details of shareholders' equity are as follows:

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

Common Shares

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

Contributed Surplus

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

Accumulated Other Comprehensive Loss

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

Deficit

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

7. OUTLOOK

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

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

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

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

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8. LIQUIDITY AND CAPITAL RESOURCES

Capital Management Objectives

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

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

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

Share Capital

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

At December 31, 2020 and 2019, the Company had 143,186,718 common shares outstanding, with a stated capital of \$382.2.

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

Dividends

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

Share-based Compensation Plans

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

The Option Plan is a "rolling plan" which provides that the aggregate number of common shares which may be reserved for issuance under the Option Plan is limited to not more than 10% of the aggregate number of common shares outstanding. However, each of the Incentive Plan and the Option Plan provide that under no circumstances shall there be common shares issuable under such plan, together with all other security-based compensation arrangements of the Company, which exceed 10% of the aggregate number of common shares outstanding. As the DSUs are settled solely in cash, they are not included in the 10% limitation referred to above.

At December 31, 2020 and 2019, the Company had 10,428,337 stock options outstanding.

The Company also had 3,034,261 RSUs outstanding at December 31, 2020 and 2019. The RSUs, at the election of the holder, can be settled in common shares of the Company or cash based on the prevailing market price of the common shares on the settlement date.

At December 31, 2020, 855,228 DSUs were vested and outstanding (December 31, 2019 – 642,779 DSUs were vested and outstanding). DSUs are issued to certain directors in lieu of director fees, at their election, at the market value of the Company's common shares at the date of grant.

With respect to the DSUs that are outstanding, they are paid out solely in cash no later than the end of the calendar year following the year the participant ceases to be a director. In the years ended December 31, 2020 and 2019, no DSUs were exercised.

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

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

Market for Securities

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

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8. LIQUIDITY AND CAPITAL RESOURCES (continued)

Cash Flow Objectives

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

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

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

December 31, 2019	One year or less	One to five years	No specific date / later than five years	Total
Financial assets:				
Cash	\$ 22.2	\$ -	\$ -	\$ 22.2
Income tax receivable	0.4	-	-	0.4
Other assets (excluding capital assets)	1.7	-	-	1.7
Investments	-	20.0	365.8	385.8
Total financial assets	24.3	20.0	365.8	410.1
Financial obligations:				
Accounts payable and accrued liabilities (excluding lease liabilities)	2.6	-	7.5	10.1
Income tax payable	0.4	-	-	0.4
Preferred securities	-	-	38.5	38.5
Site restoration provision	-	-	4.1	4.1
Deferred tax liability	-	0.3	-	0.3
Total financial obligations	3.0	0.3	50.1	53.4
Financial assets net of financial obligations	\$ 21.3	\$ 19.7	\$ 315.7	\$ 356.7

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

9. RELATED PARTY TRANSACTIONS

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

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

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10. CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS

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

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

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

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

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

A description of the Company's accounting policies is disclosed in note 2 to the audited annual consolidated financial statements for the years ended December 31, 2020 and 2019.

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

12. QUARTERLY FINANCIAL INFORMATION

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

The Company's quarterly financial results do not follow any special trends and are not generally subject to seasonal variation but are instead impacted by general market and economic conditions, regulatory risks and foreign exchange fluctuations. In addition, the value of the derivative warrant liability, site restoration obligations and share-based compensation are impacted by fluctuations in the trading price of the Company's shares, discount rates, and foreign exchange fluctuations.

13. RISKS

The Company is subject to a number of risks which could affect its business, prospects, financial condition, results of operations and cash flows, including risks relating to lack of significant revenues, regulatory risks, foreign exchange risks and risks relating to the businesses of Skyward Specialty, the Arena FINCOs and Arena Investors. A detailed description of the risk factors associated with the Company and its business is contained in the Company's Annual Information Form dated March 25, 2021 for its fiscal year ended December 31, 2020 which is available on SEDAR at www.sedar.com.

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14. ADDITIONAL ARENA FINCOs' INVESTMENT SCHEDULES

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

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

Investments by Strategy	Number of positions	December 31, 2019				
		Cost	Fair value	Percentage of investments at fair value	% Debt investments	% Equity investments
Corporate Private Credit	35	\$ 58.7	\$ 61.9	32.7%	18.7%	14.0%
Real Estate Private Credit and Real Estate Assets	26	30.3	31.5	16.7%	12.0%	4.7%
Commercial and Industrial Assets	21	43.0	47.3	24.9%	16.3%	8.6%
Structured Finance	2	4.4	4.4	2.4%	2.4%	-
Consumer Assets	15	23.6	22.5	11.9%	11.9%	-
Other Securities	55	25.6	21.5	11.4%	8.7%	2.7%
	154	\$ 185.6	\$ 189.1	100.0%	70.0%	30.0%

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

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

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

¹ Net of short positions.

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14. ADDITIONAL ARENA FINCOs' INVESTMENT SCHEDULES (continued)

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

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

¹ The Arena FINCOs' exposure to commodity price risk in its private loans is generally mitigated as borrowers are typically required to hedge the commodity price risk by selling product forward and/or employing the use of other derivatives to substantially reduce all risk.

² Net of short positions.

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14. ADDITIONAL ARENA FINCOs' INVESTMENT SCHEDULES (continued)

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

Details of Loan and Private Asset Positions							December 31, 2020	
Ref. no.	Investments by industry	Principal ⁽¹⁾	Investments at cost	Investments at fair value	Geographic location	Collateral	Total coupon (including PIK) ⁽²⁾	LTV ⁽³⁾
Corporate Private Credit								
CPC-2209	Other Assets	\$13.9	\$ 12.9	\$ 11.8	Europe	Equity	n/a ⁽⁴⁾	n/a ⁽⁴⁾
CPC-3349	Business Services	4.3	4.1	5.0	Asia/Pacific	Second Lien	12.00%	115.0%
CPC-3198	Oil and Gas	3.8	3.8	5.0	North America	Hard Asset	n/a ⁽⁴⁾	n/a ⁽⁴⁾
CPC-3677	Business Services	3.4	3.4	4.3	North America	First Lien	10.25%	39.0%
CPC-3222	Oil and Gas	4.6	4.7	4.1	North America	Hard Asset	n/a ⁽⁴⁾	n/a ⁽⁴⁾
CPC-3083	Business Services	4.0	4.0	3.6	North America	Equity	n/a ⁽⁴⁾	n/a ⁽⁴⁾
CPC-5325	Oil and Gas	2.0	2.2	2.2	North America	First Lien	12.00%	18.4%
CPC-3199EQ	Oil and Gas	2.3	2.3	1.8	North America	Equity	n/a ⁽⁴⁾	n/a ⁽⁴⁾
CPC-4108	Oil and Gas	1.6	1.6	1.6	North America	First Lien	11.84%	41.1%
CPC-4985	Oil and Gas	1.3	1.3	1.4	North America	First Lien	10.00%	27.7%
CPC-5143	Oil and Gas	0.8	0.8	0.8	North America	First Lien	12.00%	28.0%
CPC-2397	Financial Services	0.8	0.8	0.8	North America	Equity	n/a ⁽⁴⁾	n/a ⁽⁴⁾
CPC-5830	Business Services	0.8	0.7	0.7	Europe	First Lien	10.00%	3.5%
CPC-6254TLB	Business Services	0.7	0.6	0.7	North America	First Lien	10.25%	39.0%
CPC-5027	Retail	0.6	0.6	0.6	North America	First Lien	9.24%	89.0%
CPC-2170	Oil and Gas	1.7	1.0	0.5	North America	First Lien	3.50%	100.0%
CPC-5914	Business Services	0.4	0.4	0.4	Europe	First Lien	10.34%	3.0%
CPC-5834	Business Services	0.3	0.3	0.3	Europe	First Lien	12.34%	14.0%
CPC-1010	Oil and Gas	0.2	0.2	0.2	North America	First Lien	14.00%	43.0%
CPC-5856	Business Services	0.2	0.2	0.2	Europe	First Lien	11.34%	5.0%
CPC-4248	Healthcare Services	0.1	0.1	0.1	North America	First Lien	9.40%	49.8%
CPC-5889	Business Services	0.1	0.1	0.1	North America	First Lien	22.00%	85.9%
CPC-3349EQY	Business Services	0.8	0.8	-	Asia/Pacific	Equity	n/a ⁽⁶⁾	n/a ⁽⁴⁾
Subtotal / Weighted average %		48.7	46.9	46.2			11.01%	56.0%
Real Estate Private Credit and Real Estate Assets								
REPC-6054	Land							
	-Single-Family Development	12.2	11.4	11.6	Asia/Pacific	First Mortgage	10.00%	74.0%
REPC-5754	Land							
	-Single-Family Development	6.6	6.0	6.4	Asia/Pacific	First Mortgage	11.00%	70.0%
REPC-1068S4	Residential	3.7	3.7	3.7	North America	First Mortgage ⁽⁵⁾	11.00%	72.0%
REPC-2683	Land							
	-Multi-Family Development	2.5	2.6	3.3	North America	Real Property	n/a ⁽⁴⁾	n/a ⁽⁴⁾
REPC-2277	Land							
	-Commercial Development	3.1	3.1	3.2	North America	First Mortgage	15.00%	65.0%
REPC-6194	Land							
	-Single-Family Development	3.4	3.0	3.0	Asia/Pacific	First Mortgage	9.00%	69.0%
REPC-4220	Residential	2.2	2.2	2.1	North America	First Mortgage	12.00%	83.0%
REPC-5840	Land							
	-Multi-Family Development	1.9	1.9	1.9	North America	First Mortgage	9.50%	75.0%
REPC-6053	Land							
	-Single-Family Development	1.8	1.6	1.9	Asia/Pacific	First Mortgage	5.40%	70.0%
REPC-5591	Land							
	-Commercial Development	1.6	1.6	1.6	North America	First Mortgage	13.50%	59.0%
REPC-1207	Hospitality	1.1	1.0	1.5	Europe	Real Property	n/a ⁽⁴⁾	n/a ⁽⁴⁾
REPC-2592	Land							
	-Commercial Development	1.9	1.9	1.3	North America	First Mortgage	10.50%	115.0%
REPC-5993	Mixed-Use	1.5	1.2	1.2	North America	First Mortgage	12.00%	46.0%
REPC-1942	Commercial	2.3	2.3	1.1	North America	Real Property	n/a ⁽⁴⁾	n/a ⁽⁴⁾
REPC-5616	Residential	1.0	1.0	1.1	North America	First Mortgage	9.50%	60.0%
REPC-2497	Hospitality	0.8	0.8	0.8	North America	Real Property	n/a ⁽⁴⁾	n/a ⁽⁴⁾
REPC-2560	Hospitality	1.0	1.0	0.8	North America	First Mortgage	8.89%	117.0%
REPC-2214	Hospitality	1.0	1.0	0.8	North America	Real Property	n/a ⁽⁴⁾	n/a ⁽⁴⁾
REPC-6057	Commercial	0.7	0.7	0.7	North America	Real Property	9.50%	60.0%
REPC-4134	Residential	0.6	0.6	0.6	North America	First Mortgage	9.83%	58.0%
REPC-4698	Land							
	-Multi-Family Development	0.4	0.4	0.4	North America	First Mortgage	11.50%	54.0%
REPC-4111	Residential	0.2	0.2	0.3	North America	First Mortgage	9.25%	68.0%
REPC-5476	Land							
	-Single-Family Development	0.3	0.2	0.3	Asia/Pacific	First Mortgage	11.50%	77.0%
REPC-5967	Land							
	-Single-Family Development	0.1	0.1	0.1	North America	First Mortgage	10.00%	42.0%
REPC-4316	Self Storage	0.1	0.1	0.1	North America	First Mortgage	9.00%	62.0%
REPC-1047	Land							
	-Commercial Development	0.1	0.1	0.1	North America	First Mortgage	15.00%	53.0%
REPC-1015	Land							
	-Commercial Development	0.2	0.1	-	North America	Real Property	n/a ⁽⁴⁾	n/a ⁽⁴⁾
Subtotal / Weighted average %		52.3	49.8	49.9			10.59%	72.1%

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14. ADDITIONAL ARENA FINCOs' INVESTMENT SCHEDULES (continued)

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

Details of Loan and Private Asset Positions (continued)							December 31, 2020	
Ref. no.	Investments by industry	Principal ⁽¹⁾	Investments at cost	Investments at fair value	Geographic location	Collateral	Total coupon (including PIK) ⁽²⁾	LTV ⁽³⁾
Commercial and Industrial Assets								
CI-3045	Other assets	4.4	4.4	6.1	North America	Asset Pool	n/a ⁽⁶⁾	55.0%
CI-1800	Other assets	5.4	5.4	5.6	North America	First Lien	14.00%	78.0%
CI-2651	Other assets	4.0	4.3	4.2	North America	Hard Asset	n/a ⁽⁴⁾	n/a ⁽⁴⁾
CI-6006	Other assets	2.9	3.2	3.3	North America	First Lien	14.30%	85.0%
CI-1999EQY	Other assets	2.8	3.1	3.0	North America	Equity	n/a ⁽⁴⁾	n/a ⁽⁴⁾
CI-2201	Lease/Equipment	0.8	0.8	2.4	North America	Hard Asset	n/a ⁽⁴⁾	n/a ⁽⁴⁾
CI-3978	Lease/Equipment	1.7	1.8	2.3	North America	Hard Asset	n/a ⁽⁴⁾	n/a ⁽⁴⁾
CI-2686	Other assets	1.6	1.6	1.6	North America	Equity	n/a ⁽⁴⁾	n/a ⁽⁴⁾
CI-2064	Other assets	0.4	0.4	0.7	North America	First Lien	15.00%	80.0%
CI-2000	Other assets	0.5	0.5	0.5	North America	Equity	n/a ⁽⁴⁾	n/a ⁽⁴⁾
CI-5011	Other assets	0.3	0.3	0.4	North America	First Lien	12.00%	18.0%
CI-1035	Other assets	0.4	0.4	0.3	North America	First Lien	9.90%	100.0%
CI-1520	Other assets	0.2	0.2	0.2	North America	First Lien	n/a ⁽⁴⁾	48.0%
CI-5001	Other assets	-	-	0.1	North America	First Lien	13.20%	52.0%
CI-5372	Other assets	0.1	0.1	0.1	Latin America	First Lien	18.00%	77.0%
CI-1999	Other assets	0.1	0.1	-	North America	First Lien	n/a ⁽⁷⁾	n/a ⁽⁷⁾
CI-2808	Other assets	0.1	0.1	-	North America	Equity	n/a ⁽⁴⁾	n/a ⁽⁴⁾
CI-1018	Other assets	0.2	0.2	-	North America	First Lien	9.26%	100.0%
Subtotal / Weighted average %		25.9	26.9	30.8			14.01%	69.7%
Structured Finance								
SF-2239	Other assets	4.8	4.8	5.1	North America	First Lien	n/a ⁽⁸⁾	8.0%
SF-5396	Other assets	0.1	0.1	0.1	North America	First Lien	15.00%	77.0%
Subtotal / Weighted average %		4.9	4.9	5.2			15.00%	9.5%
Consumer Assets								
CA-4946	Consumer	4.0	4.0	4.0	North America	First Lien	15.00%	87.0%
CA-4718	Consumer	1.3	1.3	1.7	North America	Asset Pool	n/a ⁽⁹⁾	n/a ⁽⁹⁾
CA-3595	Consumer	1.6	1.6	1.7	North America	First Lien	15.50%	81.0%
CA-1052F	Consumer	2.6	2.6	1.5	North America	First Lien	15.66%	116.0%
CA-1788AS3	Consumer	2.5	2.5	1.2	North America	First Lien	n/a ⁽¹⁰⁾	83.0%
CA-4727	Consumer	0.9	0.9	1.0	North America	First Lien	29.00%	66.0%
CA-1788/1933	Consumer	0.6	0.6	0.8	North America	First Lien	n/a ⁽¹⁰⁾	83.0%
CA-1933A	Consumer	0.8	0.8	0.7	North America	First Lien	n/a ⁽¹⁰⁾	83.0%
CA-1934	Consumer	0.2	0.2	0.3	North America	First Lien	n/a ⁽¹⁰⁾	83.0%
CA-2199	Consumer	0.1	0.1	0.3	North America	First Lien	12.00%	26.0%
CA-2729	Consumer	0.7	0.7	0.2	North America	First Lien	n/a ⁽⁸⁾	269.0%
CA-5060	Consumer	0.1	0.2	0.2	North America	Asset Pool	25.00%	64.0%
CA-2762	Consumer	0.2	0.2	0.1	Latin America	Asset Pool	n/a ⁽⁹⁾	n/a ⁽⁹⁾
CA-2373	Consumer	0.3	0.3	0.1	North America	Asset Pool	n/a ⁽⁹⁾	n/a ⁽⁹⁾
CA-1052S	Consumer	1.5	1.4	-	North America	First Lien	15.66%	116.0%
CA-1788A	Consumer	0.4	0.4	-	North America	First Lien	n/a ⁽¹⁰⁾	83.0%
Subtotal / Weighted average %		17.8	17.8	13.8			16.92%	88.6%
Total / Weighted average %		\$ 149.6	\$ 146.3	\$ 145.9			11.93%	67.1%

¹ Principal represents the total funding commitment of a loan which, if applicable, is inclusive of any unfunded portion of the commitment at the end of the reporting period. Where a loan is issued at a discount, the cost amount includes the accreted discount as of the end of the reporting period. A loan may also be acquired at a cost lower than the par value of the principal outstanding.

² Some investments bear interest at a rate that may be determined by reference to London Interbank Offered Rate ("LIBOR") or Prime which reset daily, monthly, quarterly, or semi-annually and may be subject to a floor. For each, the Company has provided the current contractual interest rate in effect at December 31, 2020. Interest rates listed are inclusive of PIK, where applicable. PIK is interest paid in kind through an increase in the principal amount of the loan. The internal rate of return for many investments is generally greater than or equal to the total coupon (additional yield) resulting from original issue discounts and/or some form of profit sharing, e.g. warrants). In the event that the internal rate of return on the investment is less than the stated rate, the lower rate is noted.

³ Loan to value ("LTV") represents the value of the outstanding loan as a percentage of the estimated fair value of the underlying collateral as of December 31, 2020.

⁴ Investment is not a loan. Metric is not applicable.

⁵ Denotes subordinate position within the structure.

⁶ Investment represents an unsecured credit pool purchase with no stated interest rate.

⁷ Investment is a maturity default where the Arena FINCOs and its partners acquired the borrower in bankruptcy.

⁸ Investment with no stated coupon rate.

⁹ Investment represents a credit pool purchase with no stated interest rate.

¹⁰ Interest not accrued on loans purchased as non-performing.

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14. ADDITIONAL ARENA FINCOs' INVESTMENT SCHEDULES (continued)

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

Details of Loan and Private Asset Positions							December 31, 2019	
Ref. no.	Investments by industry	Principal ⁽¹⁾	Investments at cost	Investments at fair value	Geographic location	Collateral	Total coupon (including PIK) ⁽²⁾	LTV ⁽³⁾
Corporate Private Credit								
CPC-2209	Other Assets	\$ 10.4	\$ 10.5	\$ 11.5	Europe	Equity	n/a ⁽⁴⁾	n/a ⁽⁴⁾
CPC-3198	Oil and Gas	3.8	3.8	5.4	North America	Hard Asset	n/a ⁽⁴⁾	n/a ⁽⁴⁾
CPC-3222	Oil and Gas	4.7	4.7	4.7	North America	Hard Asset	n/a ⁽⁴⁾	110.0%
CPC-3349	Business Services	3.6	3.7	4.4	Asia/Pacific	Second Lien	12.00%	76.0%
CPC-3677	Business Services	3.5	3.5	3.8	North America	First Lien	10.41%	52.0%
CPC-4248	Healthcare Services	3.6	2.9	2.9	North America	First Lien	11.01%	68.0%
CPC-3083TL	Business Services	2.9	2.7	2.8	North America	Second Lien	9.46%	94.0%
CPC-3199	Oil and Gas	2.3	2.3	2.3	North America	First Lien	15.00%	90.0%
CPC-1361TL	Healthcare Services	2.2	2.2	2.2	North America	First Lien	12.26%	41.0%
CPC-2364	Retail	2.2	2.2	2.2	North America	First Lien ⁽⁵⁾	10.64%	37.0%
CPC-3316	Business Services	2.1	2.1	2.1	North America	Second Lien	9.76%	57.0%
CPC-5027	Retail	1.9	1.9	1.9	North America	First Lien	11.91%	81.0%
CPC-4108	Oil and Gas	1.7	1.7	1.7	North America	First Lien	13.50%	40.0%
CPC-2752	Other Assets	1.6	1.6	1.6	North America	First Lien	14.00%	30.0%
CPC-3107	Business Services	1.2	1.3	1.4	North America	Equity	n/a ⁽⁴⁾	n/a ⁽⁴⁾
CPC-4985	Oil and Gas	1.3	1.3	1.3	North America	First Lien	10.00%	32.0%
CPC-3824	Oil and Gas	1.2	1.2	1.2	North America	First Lien	9.66%	75.0%
CPC-1927	Financial Services	1.0	1.0	1.0	North America	First Lien	15.00%	29.0%
CPC-3376	Business Services	1.0	1.0	1.0	North America	Second Lien	10.60%	23.0%
CPC-2170	Oil and Gas	1.8	0.9	0.8	North America	First Lien ⁽⁶⁾	5.25%	100.0%
CPC-5143	Oil and Gas	0.8	0.8	0.8	North America	Hard Asset	12.00%	91.6%
CPC-2397	Financial Services	0.8	0.8	0.8	North America	Equity	n/a ⁽⁴⁾	n/a ⁽⁴⁾
CPC-3083	Business Services	0.8	0.8	0.7	North America	Equity	n/a ⁽⁴⁾	n/a ⁽⁴⁾
CPC-3349EQY	Business Services	1.2	0.8	0.6	Asia/Pacific	Equity	n/a ⁽⁴⁾	n/a ⁽⁴⁾
CPC-3391	Healthcare Services	0.4	0.4	0.4	North America	First Lien	9.73%	24.6%
CPC-4347	Healthcare Services	0.4	0.4	0.4	North America	First Lien	10.00%	29.0%
CPC-4256	Healthcare Services	0.4	0.4	0.4	North America	First Lien	9.00%	15.6%
CPC-4248EQY	Healthcare Services	0.3	0.4	0.4	North America	Equity	n/a ⁽⁴⁾	n/a ⁽⁴⁾
CPC-4530	Business Services	0.3	0.3	0.3	North America	First Lien	9.50%	11.6%
CPC-3108	Business Services	0.3	0.3	0.3	North America	Second Lien	10.35%	6.0%
CPC-3199EQY	Oil and Gas	-	-	0.2	North America	Equity	n/a ⁽⁴⁾	n/a ⁽⁴⁾
CPC-1010	Oil and Gas	0.2	0.2	0.2	North America	First Lien	14.00%	43.0%
CPC-2208	Business Services	0.6	0.6	0.1	North America	Second Lien	n/a ⁽⁴⁾	n/a ⁽⁴⁾
CPC-4473	Healthcare Services	0.1	-	0.1	North America	Equity	n/a ⁽⁴⁾	n/a ⁽⁴⁾
Subtotal / Weighted average %		60.2	58.7	61.9			11.28%	66.9%

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14. ADDITIONAL ARENA FINCOs' INVESTMENT SCHEDULES (continued)

Details of Loan and Private Asset Positions (continued)							December 31, 2019	
Ref. no.	Investments by industry	Principal ⁽¹⁾	Investments at cost	Investments at fair value	Geographic location	Collateral	Total coupon (including PIK) ⁽²⁾	LTV ⁽³⁾
Real Estate Private Credit and Real Estate Assets								
REPC-1207	Hospitality	4.6	5.2	6.5	Europe	Real Property	n/a ⁽⁴⁾	n/a ⁽⁴⁾
REPC-1068S4	Residential	3.7	3.7	3.7	North America	First Mortgage ⁽⁵⁾	12.26%	61.0%
REPC-2277	Land							
	- Commercial Development	3.1	3.1	3.1	North America	First Mortgage	15.00%	50.0%
REPC-2683	Land							
	- Multi-Family Development	2.6	2.6	2.7	North America	First Mortgage	12.51%	44.0%
REPC-2592	Land							
	- Commercial Development	1.9	1.9	2.0	North America	First Mortgage	10.51%	79.0%
REPC-4698	- Multi-Family Development	2.0	1.9	1.9	North America	First Mortgage	11.50%	54.0%
REPC-1942	Commercial	2.0	2.0	1.6	North America	Real Property	n/a ⁽⁷⁾	n/a ⁽⁷⁾
REPC-2214	Hospitality	1.4	1.4	1.4	North America	First Mortgage	10.51%	108.0%
REPC-4111	Residential	1.2	1.2	1.3	North America	First Mortgage	9.25%	80.0%
REPC-4133	Residential	1.1	1.1	1.2	North America	First Mortgage	9.83%	58.0%
REPC-4220	Residential	1.1	1.1	1.1	North America	First Mortgage	12.00%	83.0%
REPC-2560	Hospitality	0.9	0.9	0.9	North America	First Mortgage	10.51%	108.0%
REPC-3812	Land							
	- Multi-Family Development	1.3	0.8	0.8	North America	First Mortgage	11.50%	42.0%
REPC-2497	Hospitality	0.9	0.9	0.8	North America	First Mortgage	10.51%	108.0%
REPC-1068	Residential	0.7	0.7	0.7	North America	Real Property	n/a ⁽⁴⁾	n/a ⁽⁴⁾
REPC-4319	Self Storage	1.6	0.3	0.3	North America	First Mortgage	11.00%	64.0%
REPC-4350	Land							
	- Single-Family Development	0.4	0.2	0.2	Asia/Pacific	First Mortgage	11.00%	69.0%
REPC-4437	Land							
	- Single-Family Development	0.3	0.2	0.2	Asia/Pacific	First Mortgage	11.00%	55.0%
REPC-4097	Land							
	- Single-Family Development	0.3	0.2	0.2	Asia/Pacific	First Mortgage	11.00%	75.0%
REPC-4212	Land							
	- Single-Family Development	0.3	0.2	0.2	Asia/Pacific	First Mortgage	11.00%	55.0%
REPC-2528	- Single-Family Development	0.3	0.2	0.2	North America	First Mortgage	10.00%	57.0%
REPC-4684	Land							
	- Single-Family Development	0.2	0.1	0.2	Asia/Pacific	First Mortgage	11.00%	67.0%
REPC-1047	Land							
	- Commercial Development	0.1	0.1	0.1	North America	First Mortgage	15.00%	53.0%
REPC-4436	Land							
	- Single-Family Development	0.1	0.1	0.1	Asia/Pacific	First Mortgage	11.00%	53.0%
REPC-5123	Land							
	- Single-Family Development	0.1	0.1	0.1	Asia/Pacific	First Mortgage	12.00%	61.0%
REPC-1015	Land							
	- Commercial Development	0.2	0.1	-	North America	Real Property	n/a ⁽⁴⁾	n/a ⁽⁴⁾
Subtotal / Weighted average %		32.4	30.3	31.5			11.78%	65.9%

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14. ADDITIONAL ARENA FINCOs' INVESTMENT SCHEDULES (continued)

Details of Loan and Private Asset Positions (continued)							December 31, 2019	
Ref. no.	Investments by industry	Principal ⁽¹⁾	Investments at cost	Investments at fair value	Geographic location	Collateral	Total coupon (including PIK) ⁽²⁾	LTV ⁽³⁾
Commercial and Industrial Assets								
CI-1800	Other assets	8.9	8.9	9.2	North America	First Lien	14.00%	27.1%
CI-3045	Other assets	6.3	6.3	8.0	North America	Asset Pool	n/a ⁽⁸⁾	66.3%
CI-2651	Other assets	4.0	4.3	4.3	North America	Hard Asset	n/a ⁽⁴⁾	n/a ⁽⁴⁾
CI-2686	Other assets	4.0	4.1	4.1	North America	First Lien	18.25%	80.0%
CI-3978	Lease/Equipment	2.7	3.1	3.7	North America	Hard Asset	n/a ⁽⁴⁾	n/a ⁽⁴⁾
CI-2064	Other assets	2.9	2.9	3.0	North America	First Lien	12.76%	80.0%
CI-1999EQY	Other assets	2.8	3.1	3.0	North America	Equity	n/a ⁽⁴⁾	n/a ⁽⁴⁾
CI-2201	Lease/Equipment	1.7	1.7	2.9	North America	Hard Asset	n/a ⁽⁴⁾	n/a ⁽⁴⁾
CI-1520	Other assets	1.9	1.9	1.9	North America	First Lien	n/a ⁽⁹⁾	41.0%
CI-4250	Other assets	1.3	1.2	1.2	North America	First Lien	14.76%	76.0%
CI-5001	Other assets	0.9	0.9	0.9	North America	First Lien	13.20%	52.0%
CI-4301	Oil and Gas	0.6	0.7	0.8	North America	Hard Asset	n/a ⁽⁴⁾	13.0% ⁽¹⁰⁾
CI-2203	Lease/Equipment	0.4	0.4	0.7	North America	Hard Asset	n/a ⁽⁴⁾	n/a ⁽⁴⁾
CI-4753	Other assets	0.6	0.6	0.6	North America	Second Lien	18.00%	33.0%
CI-4370	Other assets	0.5	0.5	0.5	North America	First Lien	n/a	19.0%
CI-2000	Other assets	0.5	0.5	0.5	North America	Equity	n/a ⁽⁴⁾	n/a ⁽⁴⁾
CI-4091	Other assets	0.4	0.4	0.4	Asia/Pacific	Asset Pool	n/a ⁽⁸⁾	49.0%
CI-1716	Lease/Equipment	-	-	0.4	North America	Hard Asset	n/a ⁽⁴⁾	n/a ⁽⁴⁾
CI-3221	Other assets	0.4	0.4	0.4	North America	First Lien	13.20%	52.0%
CI-1035	Other assets	0.4	0.5	0.3	North America	First Lien	11.51%	100.0%
CI-4905	Other assets	0.2	0.2	0.2	North America	First Lien	13.20%	52.0%
CI-5113	Other assets	0.1	0.1	0.1	North America	First Lien	13.20%	52.0%
CI-1999	Other assets	0.1	0.1	0.1	North America	First Lien	0.00%	n/a ⁽¹¹⁾
CI-2808	Other assets	-	-	0.1	North America	Equity	n/a ⁽⁴⁾	n/a ⁽⁴⁾
CI-1282	Other assets	-	-	-	North America	First Lien	n/a ⁽¹²⁾	n/a ⁽¹²⁾
CI-1018	Other assets	0.2	0.2	-	North America	First Lien	9.26%	100.0%
Subtotal / Weighted average %		41.8	43.0	47.3			14.74%	53.9%
Structured Finance								
SF-2228	Other assets	2.5	2.5	2.5	North America	First Lien	16.00%	80.0%
SF-2239	Other assets	1.9	1.9	1.9	North America	First Lien	n/a ⁽¹³⁾	54.0%
Subtotal / Weighted average %		4.4	4.4	4.4			16.00%	68.4%

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14. ADDITIONAL ARENA FINCOs' INVESTMENT SCHEDULES (continued)

Details of Loan and Private Asset Positions (continued)							December 31, 2019	
Ref. no.	Investments by industry	Principal ⁽¹⁾	Investments at cost	Investments at fair value	Geographic location	Collateral	Total coupon (including PIK) ⁽²⁾	LTV ⁽³⁾
Consumer Assets								
CA-3595	Consumer	5.1	4.9	5.0	North America	First Lien	15.50%	81.1%
CA-1052F	Consumer	2.6	2.6	2.5	North America	First Lien	15.66%	116.0%
CA-4718	Consumer	2.0	2.0	2.2	North America	First Lien	29.00%	66.0%
CA-2620	Consumer	0.6	0.6	1.6	North America	First Lien	n/a ⁽⁴⁾	27.0%
CA-4727	Consumer	1.5	1.5	1.5	North America	First Lien	25.00%	64.0%
CA-2204	Consumer	2.5	1.5	1.4	North America	First Lien	14.91%	80.0%
CA-2199	Consumer	1.3	1.3	1.3	North America	First Lien	12.00%	95.0%
CA-3178	Consumer	4.0	1.3	1.3	North America	First Lien	15.00%	80.0%
CA-1788AS3	Consumer	1.3	1.3	1.0	North America	First Lien	n/a ⁽⁴⁾	82.0%
CA-2139	Consumer	1.0	1.1	0.9	North America	First Lien	n/a ⁽⁴⁾	100.0%
CA-1788/1933	Consumer	0.6	0.6	0.8	North America	First Lien	n/a ⁽⁴⁾	82.0%
CA-1933A	Consumer	0.8	0.8	0.7	North America	First Lien	n/a ⁽⁴⁾	82.0%
CA-2762	Consumer	0.6	0.6	0.5	Latin America	Asset Pool	n/a ⁽⁵⁾	n/a ⁽⁵⁾
CA-2373	Consumer	0.2	0.2	0.5	North America	First Lien	n/a ⁽³⁾	52.0%
CA-2729	Consumer	0.8	0.8	0.4	North America	First Lien	n/a ⁽³⁾	252.0%
CA-4007	Consumer	0.3	0.3	0.3	North America	Second Lien	16.00%	28.0%
CA-1788A	Consumer	0.4	0.4	0.3	North America	First Lien	n/a ⁽⁴⁾	82.0%
CA-1934	Consumer	0.2	0.2	0.2	North America	First Lien	n/a ⁽⁴⁾	82.0%
CA-2470	Consumer	0.1	0.1	0.1	North America	First Lien	11.26%	80.0%
CA-1052S	Consumer	1.5	1.5	-	North America	First Lien	15.66%	116.0%
Subtotal / Weighted average %		27.4	23.6	22.5			17.99%	81.5%
Total / Weighted average %		\$ 166.3	\$ 160.0	\$ 167.6			13.32%	66.0%

¹ Principal represents the total funding commitment of a loan which, if applicable, is inclusive of any unfunded portion of the commitment at the end of the reporting period. Where a loan is issued at a discount, the cost amount includes the accreted discount as of the end of the reporting period. A loan may also be acquired at a cost lower than the par value of the principal outstanding.

² Some investments bear interest at a rate that may be determined by reference to London Interbank Offered Rate ("LIBOR") or Prime which reset daily, monthly, quarterly, or semi-annually and may be subject to a floor. For each, the Company has provided the current contractual interest rate in effect at December 31, 2019. Interest rates listed are inclusive of PIK, where applicable. PIK is interest paid in kind through an increase in the principal amount of the loan. The internal rate of return for many investments is generally greater than or equal to the total coupon (additional yield resulting from original issue discounts and/or some form of profit sharing, e.g. warrants). In the event that the internal rate of return on the investment is less than the stated rate, the lower rate is noted.

³ Loan to value ("LTV") represents the value of the outstanding loan as a percentage of the estimated fair value of the underlying collateral as of December 31, 2019.

⁴ Investment is not a loan. Metric is not applicable.

⁵ Denotes subordinate position within the structure.

⁶ The first lien term loan is primed by a debtor-in-possession loan, of which the Arena FINCOs is a participant.

⁷ Investment is directly held property acquired when the Arena FINCOs and its partners foreclosed upon a related loan.

⁸ Investment represents a credit pool purchase with no stated interest rate.

⁹ Investment in litigation claim proceeds with no stated coupon rate.

¹⁰ Investment represents a right to collect a fixed cash flow stream. While not technically a loan, the contract is backed by assets valued at 3-4 times the total collection amount.

¹¹ Investment is a maturity default where the Arena FINCOs and its partners acquired the borrower in bankruptcy.

¹² Investment is remaining profit participation on a repaid off loan.

¹³ Investment with no stated coupon rate.

¹⁴ Interest not accrued on loans purchased as non-performing.

¹⁵ Investment represents an unsecured credit pool purchase with no stated interest rate.

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15. NON-GAAP MEASURES

(a) Book value per share

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

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

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

¹ See note 13 to the Company's audited consolidated financial statements for the years ended December 31, 2020 and 2019. Liability related to RSUs converted from C\$ to US\$ at period end exchange rates. RSUs are exercisable for common shares or cash at no cost to the holders. Adjustment made to reflect a reclassification of the RSU liability to shareholders' equity assuming all outstanding RSUs were exercised for common shares.

² See note 9 to the Company's audited consolidated financial statements for the years ended December 31, 2020 and 2019. Derivative warrant liability converted from C\$ to US\$ at period end exchange rates. Adjustment made as the non-cash fair value change in the derivative warrant liability from period to period is not indicative of the change in the intrinsic value of the Company. Vested Warrants were not included in the adjusted number of common shares as none of them were in-the-money at December 31, 2020, September 30, 2020, June 30, 2020 and December 31, 2019.

³ See note 13 to the Company's audited consolidated financial statements for the years ended December 31, 2020 and 2019. No adjustments were made for options at December 31, 2020, September 30, 2020, June 30, 2020 and December 31, 2019 since they were not in-the money. The exercise of in-the-money options would have resulted in an infusion of capital to the Company.

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

(b) Net Returns on the Arena FINCOs Investment Portfolios

Net Return on the Arena FINCOs investment portfolios is the aggregate of investment income, net of gains (losses) on investments less interest expense, management, asset servicing and incentive fees, and other operating expenses of the Arena FINCOs divided by average carrying values for the Arena FINCOs, for the period.

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

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

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

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15. NON-GAAP MEASURES (continued)

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

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

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

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

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

16. CAUTIONARY NOTE REGARDING FUTURE ORIENTED FINANCIAL INFORMATION

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

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

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

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

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