

The Westaim CorporationInterim Consolidated Statements of Financial Position
(unaudited)

(thousands of United States dollars)	September 30 2022	December 31 2021
ASSETS		
Cash	\$ 2,177	\$ 6,558
Income tax receivable (note 13)	64	64
Other assets (note 3)	389	766
Investments (note 4)	377,027	394,273
	\$ 379,657	\$ 401,661
LIABILITIES		
Accounts payable and accrued liabilities (note 5)	\$ 12,746	\$ 13,706
Income tax payable (note 13)	29	153
Preferred securities (note 6)	36,197	39,554
Derivative warrant liability (note 8)	100	156
Deferred tax liability (note 13)	297	415
	49,369	53,984
Commitments and contingent liabilities (note 9)		
SHAREHOLDERS' EQUITY		
Share capital (note 10)	378,563	381,127
Contributed surplus (note 2m)	17,735	17,735
Accumulated other comprehensive loss (note 2n)	(2,227)	(2,227)
Deficit	(63,783)	(48,958)
	330,288	347,677
	\$ 379,657	\$ 401,661

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

The Westaim Corporation

Consolidated Statements of (Loss) Profit and Comprehensive (Loss) Income
(unaudited)

(thousands of United States dollars except share and per share data)	Three Months Ended September 30		Nine Months Ended September 30	
	2022	2021	2022	2021
Revenue				
Interest income (note 12)	\$ 352	\$ 341	\$ 1,029	\$ 1,065
Dividend income from investments in private entities (note 4 and 12)	2,850	-	7,850	-
Fee income (note 12)	238	238	713	713
	<u>3,440</u>	<u>579</u>	<u>9,592</u>	<u>1,778</u>
Net results of investments				
(Decrease) increase in unrealized value of investments in private entities, less dividends (note 4)	(14,157)	2,156	(17,907)	20,728
Share of (loss) income from investment in associates (note 4)	(4,185)	1,026	630	4,248
(Decrease) increase in unrealized value of other investments (note 4)	(151)	43	31	208
	<u>(18,493)</u>	<u>3,225</u>	<u>(17,246)</u>	<u>25,184</u>
Net expenses				
Salaries and benefits	1,096	1,149	3,617	3,543
General, administrative and other	191	182	688	626
Professional fees	213	258	1,254	785
Site restoration (recovery)	-	-	-	(2,596)
Share-based compensation expense (note 11)	701	220	687	1,026
Foreign exchange (gain) loss	(91)	177	(290)	911
Interest on preferred securities (note 6)	456	498	1,434	1,491
Derivative warrant loss (gain) (note 8)	15	(282)	(49)	(427)
	<u>2,581</u>	<u>2,202</u>	<u>7,341</u>	<u>5,359</u>
(Loss) profit before income tax	(17,634)	1,602	(14,995)	21,603
Income tax recovery (expense) (note 13)	875	(8)	170	(45)
(Loss) profit and comprehensive (loss) income	<u>\$ (16,759)</u>	<u>\$ 1,594</u>	<u>\$ (14,825)</u>	<u>\$ 21,558</u>
(Loss) earnings per share (note 14)				
Basic and diluted	\$ (0.12)	\$ 0.01	\$ (0.10)	\$ 0.15
Weighted average common shares outstanding - basic	141,386,718	143,186,718	142,074,996	143,186,718
Weighted average common shares outstanding - diluted	141,386,718	146,220,979	142,074,996	143,186,718

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

The Westaim CorporationConsolidated Statements of Changes in Equity
(unaudited)**Nine months ended September 30, 2022**

(thousands of United States dollars)	Share Capital	Contributed Surplus	Accumulated Other Comprehensive Loss	Deficit	Total Equity
Balance at January 1, 2022	\$ 381,127	\$ 17,735	\$ (2,227)	\$ (48,958)	347,677
Cancellation of common shares (note 10)	(2,564)	-	-	-	(2,564)
Loss and comprehensive loss	-	-	-	(14,825)	(14,825)
Balance at September 30, 2022	\$ 378,563	\$ 17,735	\$ (2,227)	\$ (63,783)	330,288

Nine months ended September 30, 2021

(thousands of United States dollars)	Share Capital	Contributed Surplus	Accumulated Other Comprehensive Loss	Deficit	Total Equity
Balance at January 1, 2021	\$ 382,182	\$ 17,735	\$ (2,227)	\$ (77,168)	320,522
Profit and comprehensive income	-	-	-	21,558	21,558
Balance at September 30, 2021	\$ 382,182	\$ 17,735	\$ (2,227)	\$ (55,610)	342,080

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

The Westaim Corporation
Consolidated Cash Flow Statements
(unaudited)

(thousands of United States dollars)	Nine Months Ended September 30	
	2022	2021
Operating activities		
(Loss) profit	\$ (14,825)	\$ 21,558
Decrease (increase) in unrealized value of investments in private entities, less dividends (note 4)	17,907	(20,728)
Share of income from investment in associates (note 4)	(630)	(4,248)
Increase in unrealized value of other investments (note 4)	(31)	(208)
Share-based compensation expense (note 11)	687	1,026
Site restoration (recovery)	-	(2,675)
Depreciation and amortization	106	110
Unrealized foreign exchange (gain) loss	(3,278)	840
Derivative warrant gain (note 8)	(49)	(427)
Change in income tax receivable, payable and deferred (note 13)	(242)	(306)
Net changes in other non-cash balances		
Change in other assets	262	961
Change in other accounts payable and accrued liabilities	(1,724)	113
Cash used in operating activities	(1,817)	(3,984)
Investing activities		
Purchase of capital assets	-	(10)
Repayment of loan made to associates (note 4)	-	4,000
Cash provided from investing activities	-	3,990
Financing activities		
Purchase and cancellation of Common Shares (note 10)	(2,564)	-
Cash used in financing activities	(2,564)	-
Net (decrease) increase in cash	(4,381)	6
Cash, beginning of period	6,558	8,741
Cash, end of period	\$ 2,177	\$ 8,747
Supplemental disclosure of cash flow information:		
Interest paid	\$ 1,476	\$ 1,486

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

The Westaim Corporation
Notes to Consolidated Financial Statements
For the three and nine months ended September 30, 2022 and 2021

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

1 Nature of Operations

The Westaim Corporation ("Westaim") was incorporated on May 7, 1996 by articles of incorporation under the Business Corporations Act (Alberta). Westaim's head office is located at Suite 1700, 70 York Street, Toronto, Ontario, Canada. These interim consolidated financial statements were authorized for issue by the Board of Directors of Westaim on November 10, 2022.

These interim consolidated financial statements include the accounts of Westaim and its wholly owned subsidiaries, Westaim HIIG GP Inc. ("HIIG GP"), Arena Finance Company II Inc. ("AFCII") and The Westaim Corporation of America ("WCA") and are collectively referred to as the "Company".

Westaim is a Canadian investment company specializing in providing long-term capital to businesses operating primarily within the global financial services industry. The Company's principal investments consist of Skyward Specialty Insurance Group Inc. ("Skyward Specialty"), Arena FINCOs (as defined in note 4) and Arena Investors (as defined in note 4). Westaim's common shares ("Common Shares") are listed and posted for trading on the TSX Venture Exchange (the "TSXV") under the symbol "WED".

All currency amounts are expressed in thousands of United States dollars ("US\$"), the functional and presentation currency of the Company, except per share data, unless otherwise indicated.

2 Summary of Significant Accounting Policies

The significant accounting policies used to prepare these consolidated financial statements are as follows:

(a) Basis of preparation

These interim consolidated financial statements are prepared in compliance with International Accounting Standard ("IAS") 34 "Interim Financial Reporting".

The financial statements of entities controlled by Westaim which provide investment-related services are consolidated. These entities consist of its wholly owned subsidiaries, HIIG GP, AFCII and WCA. The financial results of these entities are included in the interim consolidated financial statements from the date that control commences until the date that control ceases. The Company controls an entity when the Company has power over the entity, is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Assessment of control is based on the substance of the relationship between the Company and the entity and includes consideration of both existing voting rights and, if applicable, potential voting rights that are currently exercisable or convertible. Intercompany balances and transactions are eliminated upon consolidation.

The Company meets the definition of an investment entity under IFRS 10 "Consolidated Financial Statements" ("IFRS 10") and measures its investments in relevant subsidiaries at fair value through profit or loss ("FVTPL"), instead of consolidating those subsidiaries in its interim consolidated financial statements. Entities accounted for at FVTPL consist of Skyward Specialty (including Westaim HIIG Limited Partnership (the "HIIG Partnership")), and the Arena FINCOs (as defined in note 4).

Investment in associates are accounted for using the equity method in accordance with IAS 28 "Investments in Associates and Joint Ventures" ("IAS 28") and consists of investments in corporations or limited partnerships where the Company has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over these policies. The Company's investment in associates consist of its investment in Arena Investors (as defined in note 4), and is reported under investments in the consolidated statements of financial position, with the Company's share of profit (loss) and comprehensive income (loss) of the associates reported under "Net results of investments" in the consolidated statements of (loss) profit and comprehensive (loss) income.

(b) Functional and presentation currency

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

(c) Use of estimates

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

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2 Summary of Significant Accounting Policies (continued)

(d) Judgments made by management

Key areas where management has made difficult, complex or subjective judgments in the process of applying the Company's accounting policies, often as a result of matters that are inherently uncertain, include determining that the Company meets the definition of an investment entity under IFRS 10, valuation techniques for fair value determination of investments in private entities, applying the equity method of accounting for associates and determining that the Company's functional currency is the US\$. For additional information on these judgments, see note 4 for investments in private entities and associates and note 2(b) for functional currency.

(e) Foreign currency translation

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

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

(f) Revenue recognition

Interest income is recognized on an accrual basis and dividend income is recognized on the ex-dividend date. Advisory and management fees are recorded as fee income over time as these services are performed.

(g) Cash and cash equivalents

Cash and cash equivalents generally consist of cash on deposit and highly liquid short-term investments with original maturities of 90 days or less. At September 30, 2022, the Company's cash consisted of cash on deposit in both C\$ and US\$.

(h) Capital assets

The Company's capital assets are included in other assets and are reported at cost less accumulated depreciation. Depreciation is calculated based on the estimated useful life of the particular assets which is 3 to 10 years for furniture and equipment. Leasehold improvements are depreciated using the straight-line method over the lesser of the term of the lease or the estimated useful life of the assets. At the end of each reporting period, management reviews the carrying amounts of capital assets for any indication of impairment. An impairment loss is recognized for the amount by which the carrying amount of the asset exceeds its recoverable amount. The recoverable amount is the higher of fair value less cost to sell and value in use.

(i) Leases

A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys a right to control the use of an identified asset, the Company assesses whether, i) the contract involves an identified asset, which is physically distinct and cannot be substituted by the supplier, ii) the Company has the right to obtain substantially all of the economic benefits from the use of the identified asset during the period of use, and iii) the Company has the right to operate the identified asset or the Company designed the identified asset in a way that predetermines how and for what purpose the identified asset will be used.

The Company recognizes a right-of-use asset and a lease liability at the lease commencement date. The right of use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made on or before the commencement date, plus any costs incurred to dismantle and remove the underlying asset or restore the underlying asset or the site on which it is located, less any lease incentives received.

The right of use asset is measured at cost less any accumulated depreciation and any accumulated impairment losses. Depreciation is measured using the straight-line method from the commencement date to the earlier of the end of the useful life of the right of use asset or the end of the lease term.

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2 Summary of Significant Accounting Policies (continued)

The lease liability is initially measured at the present value of the future lease payments not paid at the commencement date and the lease payments are discounted using the interest rate implicit in the lease if the rate can be readily determined, or the lessee's incremental borrowing rate if the rate cannot be determined.

In accordance with IFRS 16 "Leases" ("IFRS 16"), the Company has elected not to recognize right of use assets and lease liabilities for short term leases of less than a term of 12 months and leases of low value. The Company recognizes the lease payments associated with these leases as an expense on a straight-line basis over the term of the lease.

(j) Investments

The Company's investments in private entities are classified as FVTPL and are carried at fair value. At initial recognition, investments in private entities are measured at cost, which is representative of fair value, and subsequently, at each reporting date, recorded at fair value with increases and decreases arising from changes in fair values including the impact of dividends and/or distributions being recorded in the consolidated statements of (loss) profit and comprehensive (loss) income for the period in which they arise. Transaction costs on the investments are expensed as incurred.

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

Investment in Arena Special Opportunities Fund, LP ("ASOF LP") (as defined in note 4), is classified as FVTPL and is carried at fair value.

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

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

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

(k) Income taxes

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

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

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

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2 Summary of Significant Accounting Policies (continued)

(l) Warrants

Warrants subject to a cashless exercise at the discretion of the holder are classified as a derivative liability and measured at FVTPL. Change in the fair value of the warrants is reported in the consolidated statements of (loss) profit and comprehensive (loss) income for the period in which they arise.

(m) Contributed surplus

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

(n) Accumulated other comprehensive loss

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

(o) Share-based compensation

The Company maintains share-based compensation plans, which are described in note 11. The value attributed to stock options at issuance are recognized in income as an expense over the period from the issue date to the vesting date with a corresponding increase in contributed surplus. Any consideration paid by stock option holders for the purchase of stock is credited to share capital.

Obligations related to Deferred Share Units (“DSUs”) and Restricted Share Units (“RSUs”) are recorded as liabilities at fair value. At each reporting date they are re-measured at fair value with reference to the fair value of the Company’s stock price and the number of units that have vested. When a change in value occurs, it is recognized in share-based compensation expense (recovery) and foreign exchange (gain) loss in the applicable financial period.

(p) Earnings per share

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

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

3 Other Assets

Other assets consist of the following:

	September 30, 2022	December 31, 2021
Capital assets	\$ 23	\$ 34
Right of use asset	273	368
Accounts receivable and other	93	364
	\$ 389	\$ 766

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3 Other Assets (continued)

Effective, December 1, 2019, the Company entered into a new operating lease for its office premises in Toronto, Ontario, Canada expiring on November 30, 2024. At the commencement date of the lease, in accordance with IFRS 16, a right of use asset was recorded at cost under other assets and a lease liability was recorded at amortized cost under accounts payable and accrued liabilities in the consolidated statements of financial position. Subsequent to initial recognition, the right of use asset is depreciated using the straight-line method over the term of the lease with depreciation recorded in the consolidated statements of (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 included under general, administrative and other in the consolidated statements of (loss) profit and comprehensive (loss) income.

The right of use asset recorded for the Company's office premises was \$273 and \$368 at September 30, 2022 and December 31, 2021, respectively. The depreciation on the right of use asset was \$32 and \$95 in the three and nine months ended September 30, 2022, respectively and \$32 and \$95 in the three and nine months ended September 30, 2021, respectively.

The lease liability recorded for the Company's office premises was \$287 and \$413 at September 30, 2022 and December 31, 2021, respectively. The lease payments were \$33 and \$99 in the three and nine months ended September 30, 2022, respectively and the interest expense on the lease liability was \$1 and \$4 in the three and nine months ended September 30, 2022, respectively. The lease payments were \$33 and \$99 in the three and nine months ended September 30, 2021, respectively and the interest expense on the lease liability was \$1 and \$5 in the three and nine months ended September 30, 2021, respectively. The Company recorded an unrealized foreign exchange gain relating to the lease liability of \$22 and \$31 in the three and nine months ended September 30, 2022, respectively and \$11 and \$1 in the three and nine months ended September 30, 2021, respectively.

4 Investments

The carrying values of the Company's investments in private entities, associates and ASOF LP included under investments in the consolidated statements of financial position are as follows:

	September 30, 2022	December 31, 2021
Investments in private entities	\$ 346,970	\$ 364,877
Investment in associates	26,804	26,174
Investment in ASOF LP	3,253	3,222
	\$ 377,027	\$ 394,273

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

	Place of establishment	Principal place of business	Ownership interest at September 30, 2022	Ownership interest at December 31, 2021
Investments in private entities:				
- Skyward Specialty	Delaware, U.S.	Texas, U.S.	43.8% owned by the Company ¹	44.0% owned by the Company ¹
- 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% owned by the Company ²	51% beneficially owned by the Company ²

¹ At September 30, 2022, the Company owned Skyward Specialty's preferred shares which are convertible into Skyward Specialty common shares representing 21.9% of the fully diluted Skyward Specialty common shares (December 31, 2021 – 22.0%). The Company also owned 21.9% of the Skyward Specialty fully diluted common shares through the HIIG Partnership which is established and operates in Ontario, Canada (December 31, 2021 – 22.0%). Accordingly, the Company's total look-through ownership interest in Skyward Specialty is 43.8% (December 31, 2021 – 44.0%). Based on the Company's control of the HIIG Partnership, and its ownership of preferred shares, the Company held a 57.2% voting interest in Skyward Specialty at September 30, 2022 and 57.5% at December 31, 2021.

² Legal equity ownership is 51% (December 31, 2021 - 100%), and beneficial ownership denotes profit percentage subject to change over time pursuant to the earn-in rights granted to Bernard Partners, LLC ("BP LLC") described below under "Investment in Associates". Effective April 1, 2022, BP LLC achieved the threshold to increase its equity ownership of Arena Investors from 0% to 49% and as a result, the Company's equity ownership decreased from 100% to 51%.

Skyward Specialty

The Company's investment in Skyward Specialty is recorded as an investment in private entities and is measured at FVTPL in the Company's interim consolidated financial statements. See "Investments in Private Entities" below for a further description of the Company's investment in Skyward Specialty.

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4 Investments (continued)

Arena FINCOs

Arena FINCOs include specialty finance companies that primarily purchase fundamentals-based, asset-oriented credit and other investments for their own account and a company that primarily facilitates the origination of fundamentals-based, asset-oriented credit investments for its own account and/or possible future sale to specialty finance companies, clients of Arena Investors and/or other third parties. The Company's investments in the Arena FINCOs are measured at FVTPL in the Company's interim consolidated financial statements. See "Investments in Private Entities" below.

Arena Investors

Arena Investors Group Holdings, LLC ("AIGH"), through its subsidiaries, operates as a US based investment manager offering third-party clients access to primarily fundamentals-based, asset-oriented credit and other investments that aim to deliver attractive yields with low volatility. AIGH is the sole limited partner of Arena Investors, LP, a limited partnership established under the laws of Delaware to provide investment services to third-party clients and Arena FINCOs. The Company's investment in Arena Investors is accounted for using the equity method in the Company's interim consolidated financial statements. See "Investment in Associates" below.

INVESTMENTS IN PRIVATE ENTITIES

The Company's investments in private entities are classified as FVTPL and are carried at fair value under investments in the consolidated statements of financial position. Changes in fair value are reported under "Net results of investments" in the consolidated statements of (loss) profit and comprehensive (loss) income.

The table below summarizes the fair value hierarchy under which the Company's investments in private entities are valued. Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities. Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs). Inputs are considered observable if they are developed using market data, such as publicly available information about actual events or transactions, and that reflect the assumption that market participants would use when pricing the asset or liability.

The Company's investments in private entities are as follows:

September 30, 2022	Fair value	Level 1	Level 2	Level 3
Investments in private entities:				
- Skyward Specialty	\$ 178,345	-	-	\$ 178,345
- Arena FINCOs	168,625	-	-	168,625
	<u>\$ 346,970</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 346,970</u>
December 31, 2021	Fair value	Level 1	Level 2	Level 3
Investments in private entities:				
- Skyward Specialty	\$ 192,011	-	-	\$ 192,011
- Arena FINCOs	172,866	-	-	172,866
	<u>\$ 364,877</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 364,877</u>

Changes in investments in private entities included in Level 3 of the fair value hierarchy are as follows:

Three months ended September 30, 2022	Opening balance	(Decrease) increase in unrealized value before dividends	Dividends paid	Ending Balance
Investments in private entities:				
- Skyward Specialty	\$ 186,975	\$ (8,630)	\$ -	\$ 178,345
- Arena FINCOs	174,152	(2,677)	(2,850)	168,625
	<u>\$ 361,127</u>	<u>\$ (11,307)</u>	<u>\$ (2,850)</u>	<u>\$ 346,970</u>

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4 Investments (continued)

Three months ended September 30, 2021				
	Opening balance	Increase (decrease) in unrealized value before dividends	Dividends paid	Ending Balance
Investments in private entities:				
- Skyward Specialty	\$ 189,333	\$ 2,886	\$ -	\$ 192,219
- Arena FINCOs	173,084	(730)	-	172,354
	<u>\$ 362,417</u>	<u>\$ 2,156</u>	<u>\$ -</u>	<u>\$ 364,573</u>
Nine months ended September 30, 2022				
	Opening balance	(Decrease) increase in unrealized value before dividends	Dividends paid	Ending Balance
Investments in private entities:				
- Skyward Specialty	\$ 192,011	\$ (13,666)	\$ -	\$ 178,345
- Arena FINCOs	172,866	3,609	(7,850)	168,625
	<u>\$ 364,877</u>	<u>\$ (10,057)</u>	<u>\$ (7,850)</u>	<u>\$ 346,970</u>
Nine months ended September 30, 2021				
	Opening balance	Increase in unrealized value before dividends	Dividends paid	Ending Balance
Investments in private entities:				
- Skyward Specialty	\$ 180,766	\$ 11,443	\$ -	\$ 192,219
- Arena FINCOs	163,069	9,285	-	172,354
	<u>\$ 343,845</u>	<u>\$ 20,868</u>	<u>\$ -</u>	<u>\$ 364,573</u>

There were no transfers among Levels 1, 2 and 3 during the three and nine months ended September 30, 2022 and 2021.

Investment in Skyward Specialty

At September 30, 2022, the Company's \$178,345 valuation of its investment in Skyward Specialty consisted of the aggregate fair value of: (i) Skyward Specialty convertible preferred shares held directly by the Company of \$89,008, (ii) its share of the Skyward Specialty common shares held by the HIIG Partnership of \$88,965, and (iii) its share of the other net assets of the HIIG Partnership of \$372. At December 31, 2021, the Company's \$192,011 valuation of its investment in Skyward Specialty consisted of the aggregate fair value of: (i) Skyward Specialty convertible preferred shares held directly by the Company of \$95,832, (ii) its share of the Skyward Specialty common shares held by the HIIG Partnership of \$95,785, and (iii) its share of the other net assets of the HIIG Partnership of \$394.

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 total gross proceeds of \$100,000 to Skyward Specialty. As part of the rights offering, Westaim purchased \$44,004 of the Skyward Specialty convertible preferred shares offered. At December 31, 2021, the final conversion price was determined to be \$1.51 per share. At September 30, 2022, the Company's direct ownership of the Skyward Specialty preferred shares, which are convertible into Skyward Specialty common shares represented 21.9% (December 31, 2021 – 22.0%) of the fully diluted Skyward Specialty common shares outstanding.

At September 30, 2022, the Company owned approximately 62.0% (December 31, 2021 – 62.0%) of the HIIG Partnership and the HIIG Partnership held Skyward Specialty common shares representing approximately 35.3% (December 31, 2021 – 35.5%) of the total fully diluted Skyward Specialty common shares outstanding. As a result, Westaim's look-through interest in Skyward Specialty common shares through the HIIG Partnership was 21.9% (December 31, 2021 – 22.0%).

The Company's direct ownership of the Skyward Specialty preferred shares, combined with its interest in the HIIG Partnership, resulted in a 43.8% look-through interest in Skyward Specialty at September 30, 2022 (December 31, 2021 – 44.0%).

The Company, through HIIG GP, has a management services agreement with Skyward Specialty, whereby HIIG GP is entitled to receive from Skyward Specialty an advisory fee of \$500 annually.

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4 Investments (continued)

FVTPL

The investment in Skyward Specialty is accounted for at FVTPL. The fair value of the Company's investment in Skyward Specialty was determined to be \$178,345 at September 30, 2022 and \$192,011 at December 31, 2021.

Management used a multiple of net asset value as the primary valuation technique to arrive at the fair value of the Company's investment in Skyward Specialty at September 30, 2022. The fair value of the investment in Skyward Specialty at September 30, 2022 was derived from a valuation of the Skyward Specialty fully diluted common shares and other net assets held by the HIIG Partnership, and the Skyward Specialty convertible preferred shares held by Westaim at September 30, 2022. The carrying values of the HIIG Partnership's other net assets, consisting of monetary assets including cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, approximate their fair values due to the short maturity of these financial instruments. In valuing the Skyward Specialty fully diluted common shares, management determined that using net asset value as the primary valuation technique produced the best indicator of the fair value of the Skyward Specialty fully diluted common shares at September 30, 2022 and December 31, 2021, given that this is the valuation technique which a market participant would employ. The Skyward Specialty convertible preferred shares were valued at their common share equivalent on an as converted basis.

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 at September 30, 2022 (December 31, 2021 - 1.0x). The adjusted stockholders' equity of Skyward Specialty at September 30, 2022 reflects the Skyward Specialty stockholders' equity obtained from the unaudited financial statements of Skyward Specialty as at and for the nine months ended September 30, 2022 prepared in accordance with accounting principles generally accepted in the United States of America, adjusted for a reclassification of a stock notes receivable from employees relating to their purchase of Skyward Specialty common and convertible preferred shares. The adjusted stockholders' equity contained certain significant judgments and estimates made by management of Skyward Specialty including the provision for loss and loss adjustment expenses ("LAE"), the valuation of goodwill and intangible assets, and the valuation allowance recorded against deferred income tax assets.

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

The Company recorded a decrease in the unrealized value on its investment in Skyward Specialty of \$8,630 and \$13,666 in the three and nine months ended September 30, 2022, respectively, and an increase in the unrealized value on its investment in Skyward Specialty of \$2,886 and \$11,443 in the three and nine months ended September 30 2021, respectively.

For purposes of assessing the sensitivity of Skyward Specialty stockholders' equity on the valuation of the Company's investment in Skyward Specialty, if Skyward Specialty stockholders' equity at September 30, 2022 was higher by \$1,000, the fair value of the Company's investment in Skyward Specialty at September 30, 2022 would have increased by approximately \$438 (December 31, 2021 - \$440) and the change in the unrealized value of investments in private entities for the three and nine months ended September 30, 2022 would have increased by approximately \$438 (for the three and nine months ended September 30, 2021 - \$440). If Skyward Specialty stockholders' equity at September 30, 2022 was lower by \$1,000, an opposite effect would have resulted.

Investment in the Arena FINCOs

The Company owns a 100% interest in the Arena FINCOs and exercises control over the businesses of the Arena FINCOs.

FVTPL

The Company's investment in the Arena FINCOs is accounted for at FVTPL and are included in investments in private entities. The fair value of the Company's investment in the Arena FINCOs was determined to be \$168,625 at September 30, 2022 and \$172,866 at December 31, 2021.

Management used net asset value as the primary valuation technique and determined that 100% (or 1.0x) of the equity of the Arena FINCOs at September 30, 2022 in the amount of \$168,625 approximated the fair value of the Company's investment in the Arena FINCOs. Management determined that the net asset value valuation technique produced the best indicator of the fair value of the Arena FINCOs at September 30, 2022. This same valuation technique was used to determine the fair value of the Company's investment in the Arena FINCOs of \$172,866 at December 31, 2021.

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4 Investments (continued)

The significant unobservable inputs used in the valuation of the Arena FINCOs at September 30, 2022 were the aggregate equity of the Arena FINCOs at September 30, 2022 and the multiple applied. Management applied a multiple of 1.0x as the equity of each of the entities reflected the net assets of the respective entity which were carried at fair value at September 30, 2022, as described below (December 31, 2021 – 1.0x). The equity contained certain significant judgments and estimates made by management of the Arena FINCOs, including the determination of the fair value of their subsidiaries' investments as noted below.

The carrying values of cash and cash equivalents, short-term investments, accounts receivable, senior secured notes payable, revolving credit facility payable, accounts payable and accrued liabilities of the Arena FINCOs approximate their fair values due to the short maturity of these financial instruments. The Arena FINCOs also make investments in equity securities, corporate bonds, private loans and other private investments, warrants and derivative instruments. When an investment is acquired or originated, its fair value is generally the value of the consideration paid or received. Subsequent to initial recognition, the Arena FINCOs determine the fair value of the investments using the following valuation techniques and inputs:

- Equity securities that are actively traded on a securities exchange are valued based on quoted prices from the applicable exchange. Equity securities traded on inactive markets and certain foreign equity securities are valued using significant other observable inputs, if available, which include broker quotes or evaluated price quotes received from pricing services. If the inputs are not observable or available on a timely basis, the values of these securities are determined using valuation methodologies for Level 3 investments described below.
- Corporate bonds are valued using various inputs and techniques, which include third-party pricing services, dealer quotations, and recently executed transactions in securities of the issuer or comparable issuers. Adjustments to individual bonds can be applied to recognize trading differences compared to other bonds issued by the same issuer. Values for high-yield bonds are based primarily on pricing services and dealer quotations from relevant market makers. The dealer quotations received are supported by credit analysis of the issuer that takes into consideration credit quality assessments, daily trading activity, and the activity of the underlying equities, listed bonds, and sector-specific trends. If these inputs are not observable or timely, the values of corporate bonds and convertible bonds are determined using valuation methodologies for Level 3 investments described below.
- Private loans and other private investments are valued using valuation methodologies for Level 3 investments. When valuing private loans, factors evaluated include the impact of changes in market yields, credit quality of the borrowers and estimated collateral values. If there is sufficient credit coverage, a yield analysis is performed by projecting cash flows for the instrument and discounting the cash flows to present value using a market-based, risk adjusted rate. On each valuation date, an analysis of market yields is also performed to determine if any adjustments to the fair values are necessary. Techniques used to value collateral, real estate, and other hard assets include discounted cash flows, with the discount rate being the primary unobservable input, recent transaction pricing and third-party appraisals. Private investments held through joint ventures are valued net of each respective joint venture waterfall and other joint venture assets and liabilities.
- Warrants that are actively traded on a securities exchange are valued based on quoted prices. Warrants that are traded over the counter or are privately issued are valued based on observable market inputs, if available. If these inputs are not observable or timely, the values of warrants are determined using valuation methodologies for Level 3 investments described below.
- Listed derivative instruments, such as listed options, that are actively traded on a national securities exchange are valued based on quoted prices from the applicable exchange. Derivative instruments that are not listed on an exchange are valued using pricing inputs observed from actively quoted markets. If the pricing inputs used are not observable and/or the market for the applicable derivative instruments is inactive, the values of the derivative instruments are determined using valuation methodologies for Level 3 investments described below.

Where pricing inputs are unobservable and there is little, if any, market activity for Level 3 investments, fair values are determined by management of the Arena FINCOs using valuation methodologies that consider a range of factors, including but not limited to the price at which the investment was acquired, the nature of the investment, local market conditions, trading values on public exchanges for comparable securities, current and projected operating performance and financing transactions subsequent to the acquisition of the investment. The inputs into the determination of fair value may require significant judgment by management of the Arena FINCOs. Due to the inherent uncertainty of these estimates, these values may differ materially from the values that would have been used had a ready market for these investments existed.

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

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4 Investments (continued)

The Company recorded a decrease in the unrealized value of its investment in the Arena FINCOs of \$2,677 and an increase of \$3,609 before dividends paid of \$2,850 and \$7,850 in the three and nine months ended September 30, 2022, respectively, in the consolidated statements of (loss) profit and comprehensive (loss) income. The Company recorded a decrease in the unrealized value of its investment in the Arena FINCOs of \$730 and an increase of \$9,285 in the three and nine months ended September 30, 2021, respectively. There were no dividends paid in the three and nine months ended September 30, 2021.

For purposes of assessing the sensitivity of the equity of the Arena FINCOs on the valuation of the Company's investment in the Arena FINCOs, if the equity of the Arena FINCOs at September 30, 2022 was higher by \$1,000, the fair value of the Company's investment in the Arena FINCOs at September 30, 2022 would have increased by \$1,000 (December 31, 2021 - \$1,000) and the change in the unrealized value of the investments in private entities for the three and nine months ended September 30, 2022 would have increased by \$1,000 (for the three and nine months ended September 30, 2021 - \$1,000). If the equity of the Arena FINCOs at September 30, 2022 was lower by \$1,000, an opposite effect would have resulted.

INVESTMENT IN ASSOCIATES

On August 31, 2015, agreements were entered into between the Company and BP LLC in respect of Arena Investors (the "Associate Agreements"). BP LLC's initial profit sharing percentage is 49%, and under the Associate Agreements, BP LLC has the right to earn-in up to 75% equity ownership percentage in the associates and share up to 75% of the profit of the associates based on achieving certain assets under management ("AUM") and cash flow (measured by the margin of trailing twelve months earnings before interest, income taxes, depreciation and amortization to trailing twelve month revenues) thresholds in accordance with the Associate Agreements. At April 1, 2022, under the Associate Agreements, BP LLC achieved the threshold to increase its equity ownership of Arena Investors from 0% to 49%. At September 30, 2022, the Company's equity ownership of Arena Investors and its profit sharing percentage is 51%. At December 31, 2021, the thresholds in accordance with the Associate Agreements had not been met, therefore the Company's equity ownership of Arena Investors was 100% and its profit sharing percentage was 51%.

The Company concluded that based on the contractual rights and obligations under the Associate Agreements, the Company does not exercise control but exercises significant influence over the associates. The Company's investment in associates is therefore accounted for using the equity method in accordance with IAS 28.

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

	September 30, 2022	December 31, 2021
Financial information of associates:		
Assets	\$ 91,393	\$ 69,301
Liabilities	(86,146)	(65,290)
Net assets	\$ 5,247	\$ 4,011
Company's share	\$ 2,804	\$ 2,174
Arena Investors' Revolving Loan with the Company	24,000	24,000
Carrying amount of the Company's investment in associates	\$ 26,804	\$ 26,174

	Three months ended September 30		Nine months ended September 30	
	2022	2021 ¹	2022	2021
Financial information of associates:				
Revenue	\$ 1,929	\$ 14,083	\$ 37,298	\$ 40,932
Operating expenses ²	(10,134)	(12,072)	(36,062)	(32,602)
(Loss) profit and comprehensive (loss) income	\$ (8,205)	\$ 2,011	\$ 1,236	\$ 8,330
Company's share of (loss) profit and comprehensive (loss) income of associates (51%)	\$ (4,185)	\$ 1,026	\$ 630	\$ 4,248

¹ Adjusted to conform to the presentation of the current period

² Includes interest expense on the Arena Investors' Revolving Loan granted by the Company of \$339 and \$1,005 in the three and nine months ended September 30, 2022 respectively and \$339 and \$1,059 in the three and nine months ended September 30, 2021, respectively.

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4 Investments (continued)

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

	Three months ended September 30		Nine months ended September 30	
	2022	2021	2022	2021
Carrying amount of investment in associates:				
Opening balance	\$ 30,989	\$ 19,392	\$ 26,174	\$ 20,170
Company's share of (loss) profit and comprehensive (loss) income of associates (51%)	(4,185)	1,026	630	4,248
Decrease in Arena Investors' Revolving Loan with the Company	-	-	-	(4,000)
Ending balance	\$ 26,804	\$ 20,418	\$ 26,804	\$ 20,418

The Company has a revolving loan to the associates (the "Arena Investors' Revolving Loan") with a limit of \$35,000 at September 30, 2022 (December 31, 2021 - \$35,000) in order to continue funding growth initiatives and working capital needs of Arena Investors. The loan facility matures on March 31, 2023 and bears an interest rate of 5.60% per annum. Arena Investors had drawn down the loan facility by \$24,000 at September 30, 2022 (December 31, 2021 - \$24,000). The loan facility is secured by all the assets of Arena Investors. The Company earned and received interest on the Arena Investors' Revolving Loan of \$339 and \$1,005 for the three and nine months ended September 30, 2022, respectively, and \$339 and \$1,059 for the three and nine months ended September 30, 2021, respectively, which was reported under "Interest income" in the consolidated statements of (loss) profit and comprehensive (loss) income.

The total of the Company's 51% share of (loss) profit and comprehensive (loss) income of the associates was (\$4,185) and \$630 in the three and nine months ended September 30, 2022, respectively, and \$1,026 and \$4,248 in the three and nine months ended September 30, 2021, respectively, which was reported under "Share of (loss) income from investment in associates" in the consolidated statements of (loss) profit and comprehensive (loss) income.

INVESTMENTS IN ASOF LP

The Company's investments in ASOF LP, a fund managed by Arena Investors, is classified at Level 3 of the fair value hierarchy and measured at FVTPL. At September 30, 2022 and December 31, 2021, the fair value of the Company's interest in ASOF LP was determined by Arena Investors to be \$3,253 and \$3,222, respectively. The Company reported a decrease in the unrealized value of its investment in ASOF LP of \$151 and an increase of \$31 in the three and nine months ended September 30, 2022, respectively, and \$43 and \$208 in the three and nine months ended September 30, 2021, respectively, which was reported under "(Decrease) increase in unrealized value of other investments" in the consolidated statements of (loss) profit and comprehensive (loss) income.

5 Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities consist of the following:

	September 30, 2022	December 31, 2021
RSUs (note 11)	\$ 5,622	\$ 5,884
DSUs (note 11)	2,440	2,163
Lease liability (note 3)	287	413
Interest on Preferred Securities (note 6)	456	498
C\$ exchange forward contract payable (note 7)	1,220	443
Site restoration provision	-	726
Other accounts payable and accrued liabilities	2,721	3,579
Ending balance	\$ 12,746	\$ 13,706

At December 31, 2021, the Company reported a site restoration provision liability for the remaining indemnities that the Company had provided to certain third parties for environmental liabilities. In February 2022 and March 2022, the Company made net payments of \$726 to settle the environmental liability provision balance at December 31, 2021 and, as a result, at September 30, 2022, the site restoration provision liability was \$nil.

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6 Preferred Securities

On April 3, 2017, the Company announced that it had entered into an agreement pursuant to which Fairfax Financial Holdings Limited, through certain of its subsidiaries (collectively, "Fairfax"), had agreed to make an investment of up to C\$100 million in Westaim in exchange for the issuance by Westaim of 5% interest bearing notes (the "Preferred Securities") and Common Share purchase warrants (the "Warrants") (see note 8).

The Preferred Securities are denominated in C\$, each issuable for a principal amount of C\$10 and carry interest at a rate of 5% per annum. The Preferred Securities are subordinate secured securities that will mature on May 26, 2116 but may be repaid, in whole or in part, by the Company at any time after June 2, 2022 if the volume-weighted average trading price of the Common Shares for any 10 day period prior to the date on which the applicable redemption notice is given is at least C\$5.60.

On June 2, 2017, the Company closed the subscription by Fairfax of C\$50 million of Preferred Securities (the "Fairfax Financing"). There were 5,000,000 Preferred Securities outstanding at September 30, 2022 and December 31, 2021.

The Preferred Securities are repayable on demand upon a change of control of Westaim and the liability is recorded at the principal amount in the consolidated statements of financial position. The Preferred Securities liability is translated into US\$ at rates of exchange at the end of each reporting period and any resulting foreign exchange gain or loss is included in the consolidated statements of (loss) profit and comprehensive (loss) income. The carrying amount of the Preferred Securities, which approximated fair value, was \$36,197 and \$39,554 at September 30, 2022 and December 31, 2021, respectively. The Company recorded an unrealized foreign exchange gain relating to the Preferred Securities of \$2,650 and \$3,357 in the three and nine months ended September 30, 2022, respectively, and an unrealized foreign exchange gain relating to the Preferred Securities of \$793 and an unrealized foreign exchange loss of \$251 in the three and nine months ended September 30, 2021, respectively.

Interest expense on the Preferred Securities amounted to \$456 and \$1,434 in the three and nine months ended September 30, 2022, respectively, and \$498 and \$1,491 in the three and nine months ended September 30, 2021, respectively. Accrued interest expense was \$456 and \$498 at September 30, 2022 and December 31, 2021, respectively, and was reported under accounts payable and accrued liabilities in the consolidated statements of financial position.

7 C\$ Exchange Forward Contracts

At September 30, 2022, the Company has a 188 day C\$ exchange forward contract to purchase C\$50 million maturing on March 28, 2023. During the three months ended September 30, 2022, the Company settled a C\$ exchange forward contract to purchase C\$50 million and incurred a realized foreign exchange loss of \$2,973. Additionally, during the year ended December 31, 2021, the Company settled three C\$ exchange forward contracts to purchase C\$40 million. The impact was to primarily offset C\$ currency gains or losses on the Company's underlying C\$ currency liabilities, including the currency exposure arising from the Preferred Securities.

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

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

	September 30, 2022	December 31, 2021
C\$ exchange forward contract payable, opening balance	\$ (443)	\$ (11)
Change in value of C\$ exchange forward contracts – (loss)	(3,750)	(426)
Net cash settlements paid (received) from C\$ exchange forward contracts	2,973	(6)
C\$ exchange forward contract payable, closing balance	\$ (1,220)	\$ (443)

A C\$ exchange forward contract payable was accrued in the amount of \$1,220 at September 30, 2022 and was recorded under accounts payable and accrued liabilities in the consolidated statements of financial position. At December 31, 2021, a C\$ exchange forward contract payable was accrued in the amount of \$443 and was recorded under accounts payable and accrued liabilities in the consolidated statements of financial position. The change in value of C\$ exchange forward contracts resulted in a net loss of \$3,043 and \$3,750 for the three and nine months ended September 30, 2022, respectively, and a net loss of \$1,190 and \$481 for the three and nine months ended September 30, 2021, respectively, and was reported under foreign exchange (gain) loss in the consolidated statements of (loss) profit and comprehensive (loss) income.

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8 Derivative Warrant Liability

In connection with the Preferred Securities (see note 6), Westaim issued to Fairfax 14,285,715 Warrants, each exercisable for one Common Share at an exercise price of C\$3.50. The Warrants vest proportionately based upon the aggregate percentage of Preferred Securities purchased by Fairfax, with 14,285,715 having vested on June 2, 2017. Each vested Warrant was originally exercisable on or prior to June 2, 2022, but the expiry date automatically extended to June 2, 2024 since the volume-weighted average trading price of the Common Shares for the 10 day period ending on June 2, 2022 was less than C\$5.60. The Company can elect to require early exercise of the Warrants if the volume-weighted average trading price of the Common Shares for any 10 day period prior to the election is at least C\$5.60.

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

Changes to the derivative warrant liability are as follows:

	September 30, 2022	December 31, 2021
Opening balance	\$ 156	\$ 1,026
Change in fair value – (gain)	(49)	(884)
Unrealized foreign exchange – (gain) loss	(7)	14
Ending balance	\$ 100	\$ 156

The fair value liability of the vested Warrants at September 30, 2022 of \$100 (December 31, 2021 - \$156) was estimated using the Monte Carlo pricing model assuming no dividends are paid on the Common Shares, a risk-free interest rate of 3.71% (December 31, 2021 - 0.17%), an expiration date between October 1, 2022 and June 2, 2024 (December 31, 2021: January 1, 2022 and June 2, 2024), a volatility of the underlying Common Shares of 25.82% (December 31, 2021 – 26.50%), a closing price of the Common Shares of C\$2.61 (December 31, 2021 - C\$2.50) and a strike price of C\$3.50. The amounts computed according to the Monte Carlo pricing model may not be indicative of the actual values realized upon the exercise of the vested Warrants by Fairfax. A sensitivity analysis is performed within the Monte Carlo pricing model, which produces a probability distribution of possible outcomes by identifying which inputs impact the outcome the most.

The Company recorded an unrealized loss resulting from a change in the fair value of the vested Warrants of \$15 in the three months ended September 30, 2022, an unrealized gain of \$49 in the nine months ended September 30, 2022, and an unrealized gain from a change in the fair value of the vested Warrants of \$282 and \$427 in the three and nine months ended September 30, 2021, respectively. The Company also recorded an unrealized foreign exchange gain with respect to the vested Warrants of \$6 and \$7 in the three and nine months ended September 30, 2022, respectively, and an unrealized foreign exchange gain with respect to the vested Warrants of \$18 and an unrealized foreign exchange loss of \$13 in the three and nine months ended September 30, 2021, respectively, under foreign exchange (gain) loss in the consolidated statements of (loss) profit and comprehensive (loss) income.

9 Commitments and Contingent Liabilities

Effective, December 1, 2019, Westaim entered into a new operating lease for the office premises in Toronto expiring on November 30, 2024. At September 30, 2022, the Company had a total commitment of \$567 for future occupancy cost payments including payments due not later than one year of \$261 and payments due later than one year of \$306. At December 31, 2021, the Company had a total commitment of \$827 for future occupancy cost payments including payments due not later than one year of \$278 and payments due later than one year of \$549.

10 Share Capital

Westaim's authorized share capital consists of an unlimited number of Common Shares with no par value, Class A preferred shares with no par value and Class B preferred shares with no par value.

At September 30, 2022, Westaim had 141,386,718 Common Shares issued and outstanding (December 31, 2021 – 142,686,718), with a stated capital of \$378,563 (December 31, 2021 - \$381,127). In the nine months ended September 30, 2022, Westaim cancelled 1,300,000 Common Shares it had acquired at a cost of \$2,564 through its normal course issuer bid (the "NCIB"). In the year ended December 31, 2021, Westaim cancelled 500,000 Common Shares that it had acquired at a cost of \$1,055 through the NCIB.

No shares of Westaim are held by the Company, and there were no Class A preferred shares or Class B preferred shares outstanding at September 30, 2022 and December 31, 2021.

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11 Share-based Compensation

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

The Option Plan is a "rolling plan" which provides that, subject to the terms of the Option Plan, the aggregate number of Common Shares which may be reserved for issuance under the Option Plan is limited to not more than 10% of the aggregate number of Common Shares outstanding or 14,138,671 at September 30, 2022 (December 31, 2021 – 14,268,671). However, each of the Incentive Plan and the Option Plan provide that, subject to the terms of the plan, the number of Common Shares issuable under such plan, together with all other security-based compensation arrangements of Westaim, shall not exceed 10% of the aggregate number of Common Shares outstanding. As the DSUs are settled solely in cash, they are not included in this 10% limitation.

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

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

	Nine months ended September 30, 2022		Nine months ended September 30, 2021	
	Number	Weighted Average Exercise Price	Number	Weighted Average Exercise Price
Opening balance	10,428,337	C\$ 3.10	10,428,337	C\$ 3.10
Granted	-	C\$ -	-	C\$ -
Ending balance	10,428,337	C\$ 3.10	10,428,337	C\$ 3.10
Options vested at end of period	10,428,337	C\$ 3.10	10,428,337	C\$ 3.10

September 30, 2022					
Exercise prices	Number of stock options outstanding	Weighted Average Remaining Contractual Life (years)	Outstanding Weighted Average Exercise Price	Number of stock options vested	Vested Weighted Average Exercise Price
C\$ 3.10	3,815,000	2.30	C\$ 3.10	3,815,000	C\$ 3.10
C\$ 3.00	3,860,397	1.51	C\$ 3.00	3,860,397	C\$ 3.00
C\$ 3.25	2,752,940	0.50	C\$ 3.25	2,752,940	C\$ 3.25
	10,428,337	1.53	C\$ 3.10	10,428,337	C\$ 3.10

December 31, 2021					
Exercise prices	Number of stock options outstanding	Weighted Average Remaining Contractual Life (years)	Outstanding Weighted Average Exercise Price	Number of stock options vested	Vested Weighted Average Exercise Price
C\$ 3.10	3,815,000	3.05	C\$ 3.10	3,815,000	C\$ 3.10
C\$ 3.00	3,860,397	2.25	C\$ 3.00	3,860,397	C\$ 3.00
C\$ 3.25	2,752,940	1.25	C\$ 3.25	2,752,940	C\$ 3.25
	10,428,337	2.28	C\$ 3.10	10,428,337	C\$ 3.10

On April 1, 2016, 2,752,940 options were granted to certain officers and employees of Westaim. These options have a term of seven years, vested in three equal instalments on April 1, 2017, April 1, 2018 and April 1, 2019, and have an exercise price of C\$3.25. The fair value of the options granted on April 1, 2016 was C\$0.7332 per option estimated using the Black-Scholes option pricing model assuming no dividends are paid on the Common Shares, a risk-free interest rate of 0.61%, an average life of 4.0 years, a volatility of 46.49%, and a grant date share price of C\$2.54 converted to US\$ at an exchange rate of \$1.3047.

On April 3, 2017, 3,860,397 additional options were granted to certain officers and employees of Westaim. These options have a term of seven years, vested in three equal instalments on December 31, 2017, December 31, 2018 and December 31, 2019, and have an exercise price of C\$3.00. The fair value of the options granted on April 3, 2017 was C\$0.8616 per option estimated using the Black-Scholes option pricing model assuming no dividends are paid on the Common Shares, a risk-free interest rate of 1.00%, an average life of 4.0 years, a volatility of 35.45%, and a grant date share price of C\$2.98 converted to US\$ at an exchange rate of \$1.3386.

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11 Share-based Compensation (continued)

On January 18, 2018, 3,815,000 additional options were granted to certain officers and employees of Westaim. These options have a term of seven years, vested in three equal instalments on December 31, 2018, December 31, 2019 and December 31, 2020, and have an exercise price of C\$3.10. The fair value of the options granted on January 18, 2018 was C\$0.7185 per option estimated using the Black-Scholes option pricing model assuming no dividends are paid on the Common Shares, a risk-free interest rate of 1.92%, an average life of 4.0 years, a volatility of 25.35%, and a grant date share price of C\$3.10 converted to US\$ at an exchange rate of \$1.2429.

No options were granted or issued in the three and nine months ended September 30, 2022 or the year ended December 31, 2021.

The amounts computed according to the Black-Scholes pricing model may not be indicative of the actual values realized upon the exercise of options by the holders.

Compensation expense relating to options was \$nil in the three and nine months ended September 30, 2022 and 2021.

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

Changes to the number of RSUs are as follows:

	Nine months ended September 30	
	2022	2021
Opening balance	2,975,198	3,034,261
Exercised	-	-
Ending balance	2,975,198	3,034,261

On November 14, 2014, an aggregate of 2,375,000 RSUs were granted to certain officers, employees and consultants of Westaim. These RSUs have a term of fifteen years from date of issue and at September 30, 2022, all of these RSUs had vested, of which 325,000 RSUs had been exercised and 2,050,000 RSUs were outstanding.

On April 1, 2016, an additional 925,198 RSUs were granted to certain officers and employees of Westaim. These RSUs have a term of fifteen years from date of issue and at September 30, 2022, all of these RSUs had vested and none have been exercised.

There were 2,975,198 RSUs outstanding at September 30, 2022 and December 31, 2021. No RSUs were granted in the nine months ended September 30, 2022 or the year ended December 31, 2021. There were no RSUs exercised in the nine months ended September 30, 2022, and 59,063 RSUs were exercised in the year ended December 31, 2021.

Compensation expenses relating to RSUs, including the impact of the change in the market value of the Common Shares was an expense of \$409 and \$214 for the three and nine months ended September 30, 2022, respectively, and an expense of \$72 and \$506 for the three and nine months ended September 30, 2021, respectively. The Company also recorded an unrealized foreign exchange gain with respect to the RSUs of \$381 and \$476 in the three and nine months ended September 30, 2022, respectively, and an unrealized foreign exchange gain with respect to the RSUs of \$128 and an unrealized foreign exchange loss of \$35 in the three and nine months ended September 30, 2021, respectively, under foreign exchange (gain) loss in the consolidated statements of (loss) profit and comprehensive (loss) income. At September 30, 2022, a liability of \$5,622 (December 31, 2021 - \$5,884) had been accrued by Westaim with respect to outstanding RSUs in the consolidated statements of financial position.

Deferred Share Units - DSUs are issued to certain directors of Westaim in lieu of director fees, at their election, at the market value of the Common Shares at the date of grant and are paid out solely in cash no later than the end of the calendar year following the year the participant ceases to be a director.

Changes to the number of DSUs are as follows:

	Nine months ended September 30	
	2022	2021
Opening balance	1,093,603	855,228
Granted	197,785	175,251
Ending balance	1,291,388	1,030,479

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11 Share-based Compensation (continued)

In the nine months ended September 30, 2022, 197,785 DSUs were issued in lieu of director fees of \$373 and in the nine months ended September 30, 2021, 175,251 DSUs were issued in lieu of director fees of \$375. No DSUs were exercised in the nine months ended September 30, 2022 and 2021.

Compensation expenses relating to DSUs, including the impact of the change in the market value of the Common Shares was an expense of \$292 and \$473 in the three and nine months ended September 30, 2022, respectively, and an expense of \$148 and \$520 in the three and nine months ended September 30, 2021, respectively. The Company also recorded an unrealized foreign exchange gain with respect to the DSUs of \$157 and \$196 in the three and nine months ended September 30, 2022, respectively, and an unrealized foreign exchange gain with respect to the DSUs of \$40 and an unrealized foreign exchange loss of \$7 in the three and nine months ended September 30, 2021, respectively, under foreign exchange (gain) loss in the consolidated statements of (loss) profit and comprehensive (loss) income. At September 30, 2022, a liability of \$2,440 (December 31, 2021 - \$2,163) had been accrued with respect to outstanding DSUs in the consolidated statements of financial position.

12 Related Party Transactions

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

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

	Three months ended September 30		Nine months ended September 30	
	2022	2021	2022	2021
Salaries and benefits ¹	\$ 926	\$ 1,006	\$ 3,110	\$ 3,086
Share-based compensation expense	700	218	687	1,015
Compensation expense	\$ 1,626	\$ 1,224	\$ 3,797	\$ 4,101

¹ Salaries and benefits include director fees paid in cash totaling \$27 and \$82 in the three and nine months ended September 30, 2022, respectively, and \$27 and \$82 in the three and nine months ended September 30, 2021, respectively.

The Company received dividends from the Arena FINCOs in the amount of \$2,850 and \$7,850 in the three and nine months ended September 30, 2022, respectively, and \$nil in the three and nine months ended September 30, 2021.

The Company earned and received interest on the Arena Investors Revolving Loan of \$339 and \$1,005 in the three and nine months ended September 30, 2022, respectively, and \$339 and \$1,059 in the three and nine months ended September 30, 2021, respectively. Interest on the Arena Investors Revolving Loan plus interest received from the Company's bank balance are included in interest income in the consolidated statements of (loss) profit and comprehensive (loss) income.

The Company earned advisory fees of \$125 from Skyward Specialty in each of the three months ended September 30, 2022 and 2021, and \$375 in each of the nine months ended September 30, 2022 and 2021. The Company earned advisory fees of \$50 and \$63 from the Arena FINCOs and Arena Investors, respectively, in each of the three months ended September 30, 2022 and 2021, and \$150 and \$188 from the Arena FINCOs and Arena Investors, respectively, in each of the nine months ended September 30, 2022 and 2021. Advisory fees are included in fee income in the consolidated statements of (loss) profit and comprehensive (loss) income.

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13 Income Taxes

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

	Three months ended September 30		Nine months ended September 30	
	2022	2021	2022	2021
(Loss) profit before income tax	\$ (17,634)	\$ 1,602	\$ (14,995)	\$ 21,603
Statutory income tax rates	26.5%	26.5%	26.5%	26.5%
Income taxes at statutory income tax rates	(4,673)	425	(3,974)	5,725
Variations due to:				
Non-taxable portion of unrealized loss (gain)				
on investments in private entities	2,060	(861)	2,531	(1,772)
Tax losses allocated from the HIIG Partnership	(4)	(7)	(8)	(16)
(Non-taxable) non-deductible items	(1,173)	(61)	(2,474)	(91)
Difference between statutory and foreign tax rates	71	128	14	50
Unrecognized tax losses	2,844	384	3,741	(3,851)
Income tax (recovery) expense	\$ (875)	\$ 8	\$ (170)	\$ 45

At September 30, 2022, a current income tax receivable of \$64 (December 31, 2021 - \$64) and current income tax payable of \$29 (December 31, 2021 - \$153), and a deferred tax liability for United States taxes of \$297 (December 31, 2021 - \$415) were recorded in the consolidated statements of financial position.

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

	September 30, 2022	December 31, 2021
Non-capital loss carry-forwards	\$ 55,420	\$ 56,911
Capital loss carry-forwards	5,367	5,511
Deductible temporary differences	13,836	4,553
Corporate minimum tax credits	350	350
Investment tax credits	1,668	2,175

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

Non-capital losses by year of expiry:		Investment tax credits by year of expiry:	
2027	\$ 2,866	2023	\$ 256
2028	4,852	2024	138
2029	7,137	2025	313
2030	81	2026	264
2031	199	2027	522
2032	16,539	2028	175
2033	3,021		\$ 1,668
2034	3,848		
2035	2,013		
2036	47		
2037	3,931		
2038	5,624		
2039	-		
2040	-		
2041	90		
2042	5,172		
	\$ 55,420		

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14 (Loss) Earnings per Share

Westaim had 10,428,337 stock options, 2,975,198 RSUs and 14,285,715 Warrants outstanding at September 30, 2022. At September 30, 2021, Westaim had 10,428,337 stock options, 3,034,261 RSUs and 14,285,715 Warrants outstanding. The stock options and Warrants for the three and nine months ended September 30, 2022 and 2021, the RSUs for the three and nine months ended September 30, 2022 and the RSUs for the nine months ended September 30, 2021 were excluded in the calculation of diluted (loss) earnings per share as they were not dilutive. The RSUs for the three months ended September 30, 2021 were included in the calculation of diluted (loss) earnings per share as they were dilutive.

(Loss) earnings per share, basic and diluted, are as follows:

	Three months ended September 30		Nine months ended September 30	
	2022	2021	2022	2021
Basic (loss) earnings per share:				
(Loss) profit and comprehensive (loss) income	\$ (16,759)	\$ 1,594	\$ (14,825)	\$ 21,558
Weighted average number of Common Shares outstanding	141,386,718	143,186,718	142,074,996	143,186,718
Basic (loss) earnings per share	\$ (0.12)	\$ 0.01	\$ (0.10)	\$ 0.15
Diluted (loss) earnings per share:				
(Loss) profit and comprehensive (loss) income	\$ (16,759)	\$ 1,594	\$ (14,825)	\$ 21,558
Dilutive RSU recovery and related foreign exchange ¹	-	(56)	-	-
(Loss) profit and comprehensive (loss) income on a diluted basis	\$ (16,759)	\$ 1,538	\$ (14,825)	\$ 21,558
Weighted average number of Common Shares outstanding	141,386,718	143,186,718	142,074,996	143,186,718
Dilutive impact of RSUs ¹	-	3,034,261	-	-
Weighted average number of Common Shares outstanding on a dilutive basis	141,386,718	146,220,979	142,074,996	143,186,718
Diluted (loss) earnings per share	\$ (0.12)	\$ 0.01	\$ (0.10)	\$ 0.15

¹ The RSUs for the three and nine months ended September 30, 2022 and for the nine months ended September 30, 2021 were not dilutive. Common Shares outstanding at September 30, 2022 was 141,386,718 (September 30, 2021: 143,186,718).

15 Capital Management

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

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

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

16 Financial Risk Management

The Company is exposed to a number of risks due to its business operations. The Company's consolidated statement of financial position at September 30, 2022 consists of short-term financial assets and financial liabilities with maturities of less than one year, investments in private entities and associates, Preferred Securities, and derivative warrant liability. The most significant identified risks which arise from holding financial instruments include credit risk, liquidity risk, currency risk, interest rate risk and equity risk. The Company has a comprehensive risk management framework to monitor, evaluate and manage the risks assumed in conducting its business.

Credit risk

Credit risk refers to the risk that counterparty will default on its contractual obligations resulting in financial loss to the Company. The Company's credit risk arises primarily from its cash and cash equivalents. The Company manages such risk by maintaining bank accounts with Schedule 1 banks in Canada and a major bank in the United States.

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16 Financial Risk Management (continued)

Liquidity risk

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

The Company has made investments in private entities and associates which do not typically have an active market. Private investment transactions can be highly structured, and the Company takes measures, where possible, to create defined liquidity events and as part of its strategy, the Company has sought to create or accelerate such liquidity events. However, such liquidity events are rarely expected in the first two or three years of making an investment and may not be realized as expected.

At September 30, 2022, the Company's short-term financial liabilities amounted to \$4,426 (December 31, 2021 - \$4,673), and the Company has access to cash and other resources to meet these financial obligations.

Currency risk

The Company's C\$ denominated monetary liabilities exceed C\$ denominated monetary assets and most of its operating expenses are paid in C\$. From time to time, the Company may enter into C\$ to US\$ exchange forward contracts to manage its C\$ currency exposures. At September 30, 2022, the Company's C\$50 million (December 31, 2021 – C\$50 million) C\$ exchange forward contract is effective at reducing a significant portion of the risk associated with changes in the C\$ currency exchange. At September 30, 2022, it is estimated a 10% strengthening of the C\$ against the US\$ would have increased the foreign exchange loss by approximately \$724 and \$806 for the nine months ended September 30, 2022 and 2021, respectively. A similar weakening of the C\$ would result in an opposite effect.

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

Interest rate risk

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

Equity risk

There is no active market for the Company's investment in preferred shares of Skyward Specialty and investments in Skyward Specialty (through the HIIG Partnership) and the Arena FINCOs. The Company holds these investments for strategic and not trading purposes. The fair values of these investments recorded in the Company's interim consolidated financial statements have been arrived at using industry accepted valuation techniques. Due to the inherent uncertainty of valuation, these fair values may not be indicative of the actual values which can be realized upon a liquidity event for these investments.

17 Subsequent Events

Westaim's has approval from the TSX-V for a NCIB which provides that Westaim may, during the 12-month period commencing October 1, 2022 and ending September 30, 2023, purchase, on an opportunistic basis, up to 11,005,494 Shares, representing approximately 10% of the public float and not more than 2% of its issued and outstanding Shares during any 30-day period, which as of the date hereof represents 2,827,734 Shares. The Company believes that the recent market prices of the Shares do not properly reflect the underlying value of such Shares. As a result, depending upon future price movements and other factors, the Company believes that the purchase of the Shares would be a desirable use of corporate funds in the best interests of the Company and its shareholders. Furthermore, the purchases are expected to benefit all persons who continue to hold Shares by increasing their equity interest in the Company when such repurchased Shares are cancelled.