

**The Westaim Corporation**

## Consolidated Statements of Financial Position

(unaudited)

(thousands of United States dollars)	September 30 2023	December 31 2022
<b>ASSETS</b>		
Cash	\$ 39,275	\$ 3,434
Other assets (note 3)	436	552
Investments		
Investment in Skyward Specialty (note 4)	289,459	218,879
Investment in Arena FINCOs (note 4)	148,084	160,113
Investment in Arena (note 4)	28,825	26,957
Investment in ASOF LP (note 4)	3,097	3,179
	<u>469,465</u>	<u>409,128</u>
Deferred tax assets (note 13)	1,748	178
	<u>\$ 510,924</u>	<u>\$ 413,292</u>
<b>LIABILITIES</b>		
Accounts payable and accrued liabilities (note 5)	\$ 13,956	\$ 12,940
Income taxes payable (note 13)	1,217	245
Preferred securities (note 6)	-	36,939
Derivative warrant liability (note 8)	-	94
	<u>15,173</u>	<u>50,218</u>
Commitments and contingent liabilities (note 9)		
<b>SHAREHOLDERS' EQUITY</b>		
Share capital (note 10)	363,871	378,563
Contributed surplus (note 2m)	16,188	17,735
Accumulated other comprehensive loss (note 2n)	(2,227)	(2,227)
Retained earnings (deficit)	117,919	(30,997)
	<u>495,751</u>	<u>363,074</u>
	<u>\$ 510,924</u>	<u>\$ 413,292</u>

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

**The Westaim Corporation**

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

	Three Months Ended September 30		Nine Months Ended September 30	
(thousands of United States dollars except share and per share data)	2023	2022	2023	2022
<b>Revenue</b>				
Interest income (note 12)	\$ 1,115	\$ 352	\$ 2,195	\$ 1,029
Dividend income from investment in Arena FINCOs (note 4 and 12)	-	2,850	4,400	7,850
Fee income (note 12)	113	238	361	713
	1,228	3,440	6,956	9,592
<b>Net results of investments</b>				
Increase (decrease) in value of investment in Skyward Specialty (note 4)	20,740	(8,630)	158,385	(13,666)
Increase (decrease) in value of investment in Arena FINCOs, less dividends (note 4)	828	(5,527)	(9,529)	(4,241)
Share of income (loss) from investment in Arena (note 4)	2,066	(4,185)	3,868	630
Increase (decrease) in value of investment in ASOF LP (note 4)	35	(151)	(82)	31
	23,669	(18,493)	152,642	(17,246)
<b>Net expenses</b>				
Salaries and benefits	1,204	1,096	3,819	3,617
General, administrative and other	237	191	721	688
Professional fees	462	213	948	1,254
Share-based compensation expense (recovery) (note 11)	114	701	3,778	687
Foreign exchange (gain) loss	(211)	(91)	346	(290)
Interest on preferred securities (note 6)	84	456	1,010	1,434
Derivative warrant (gain) loss (note 8)	-	15	(98)	(49)
	1,890	2,581	10,524	7,341
Profit (loss) before income taxes	23,007	(17,634)	149,074	(14,995)
Income taxes recovery (expense) (note 13)	68	875	(158)	170
Profit (loss) and comprehensive income (loss)	\$ 23,075	\$ (16,759)	\$ 148,916	\$ (14,825)
<b>Earnings (loss) per share (note 14)</b>				
Basic	\$ 0.17	\$ (0.12)	\$ 1.06	\$ (0.10)
Diluted	\$ 0.16	\$ (0.12)	\$ 1.05	\$ (0.10)
Weighted average common shares outstanding - basic	137,943,483	141,386,718	140,086,017	142,074,996
Weighted average common shares outstanding - diluted	142,482,308	141,386,718	143,892,100	142,074,996

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

**The Westaim Corporation**Consolidated Statements of Changes in Equity  
(unaudited)

<b>Nine months ended September 30, 2023</b>					
(thousands of United States dollars)	Share Capital	Contributed Surplus	Accumulated Other Comprehensive Loss	Retained Earnings (Deficit)	Total Equity
Balance at January 1, 2023	\$ 378,563	\$ 17,735	\$ (2,227)	\$ (30,997)	\$ 363,074
Cancellation of common shares (note 10)	(16,281)	-	-	-	(16,281)
Shares issued from exercise of stock options (note 10)	42	-	-	-	42
Exercise and net exercise of stock options (note 10)	1,547	(1,547)	-	-	-
Profit and comprehensive income	-	-	-	148,916	148,916
<b>Balance at September 30, 2023</b>	<b>\$ 363,871</b>	<b>\$ 16,188</b>	<b>\$ (2,227)</b>	<b>\$ 117,919</b>	<b>\$ 495,751</b>

<b>Nine months ended September 30, 2022</b>					
(thousands of United States dollars)	Share Capital	Contributed Surplus	Accumulated Other Comprehensive Loss	Retained Earnings (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)
<b>Balance at September 30, 2022</b>	<b>\$ 378,563</b>	<b>\$ 17,735</b>	<b>\$ (2,227)</b>	<b>\$ (63,783)</b>	<b>\$ 330,288</b>

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	
	2023	2022
<b>Operating activities</b>		
Profit (loss)	\$ 148,916	\$ (14,825)
(Increase) decrease in value of investment in Skyward Specialty (note 4)	(158,385)	13,666
Decrease in value of investment in Arena FINCOs, less dividends (note 4)	9,529	4,241
Share of income from investment in Arena (note 4)	(3,868)	(630)
Decrease (increase) in value of investment in ASOF LP (note 4)	82	(31)
Share-based compensation expense (note 11)	3,778	687
Share-based compensation payments (note 11)	(1,187)	-
Depreciation and amortization	104	106
Unrealized foreign exchange loss (gain)	432	(3,278)
Derivative warrant gain (note 8)	(98)	(49)
Change in income taxes receivable, payable and deferred (note 13)	(598)	(242)
Net changes in other non-cash balances		
Change in other assets	12	262
Change in other accounts payable and accrued liabilities	(1,026)	(1,724)
Cash used in operating activities	(2,309)	(1,817)
<b>Investing activities</b>		
Receipt from dissolution of HIIG Partnership (note 4)	449	-
Proceeds from partial sale of Skyward Specialty common shares (note 4)	87,356	-
Return of capital from investments in Arena FINCOs (note 4)	2,500	-
Distribution received from Arena	2,000	-
Cash provided from investing activities	92,305	-
<b>Financing activities</b>		
Settlement of Preferred Securities (note 6)	(37,916)	-
Purchase and cancellation of Common Shares (note 10)	(16,281)	(2,564)
Proceeds from exercise of options and issuance of Common Shares (note 10 and note 11)	42	-
Cash used in financing activities	(54,155)	(2,564)
Net increase (decrease) in cash	35,841	(4,381)
Cash, beginning of period	3,434	6,558
Cash, end of period	\$ 39,275	\$ 2,177
<b>Supplemental disclosure of cash flow information:</b>		
Interest paid	\$ 1,476	\$ 1,476

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, 2023 and 2022**

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

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**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 14, 2023.

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 (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 interim 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. Investments accounted for at FVTPL consist of Skyward Specialty (including Westaim HIIG Limited Partnership (the "HIIG Partnership")), the Arena FINCOs and Arena Special Opportunities Fund, LP ("ASOF LP"). See note 4 for investments' definitions.

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 and is reported under "Investment in Arena" in the interim consolidated statements of financial position, with the Company's share of income and comprehensive income of Arena reported under "Net results of investments" in the interim consolidated statements of profit (loss) and comprehensive income (loss).

*(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 classified as FVTPL, 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 classified as FVTPL, 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 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 interim consolidated statements of profit (loss) and comprehensive income (loss).

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 interim consolidated statements of profit (loss) and comprehensive income (loss).

*(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, 2023 and December 31, 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 Skyward Specialty, Arena FINCOs and ASOF LP are classified as FVTPL and are carried at fair value. At initial recognition, these investments were measured at cost, which was 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 interim consolidated statements of profit (loss) and comprehensive income (loss) for the period in which they arise. Transaction costs on the investments are expensed as incurred.

Investment in Arena was initially recorded at cost and subsequently adjusted to recognize the Company's share of profit and other comprehensive income of Arena, any dividends and/or distributions received from Arena, and the balance of the Company's revolving loan to Arena.

Investments in public entities are valued at unadjusted published quotes for identical investments exchanged in active markets. 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 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 taxes expense is recognized in the interim consolidated statements of profit (loss) and comprehensive income (loss). Current taxes, based on taxable income in countries where the Company operates, may differ from profit (loss) and comprehensive income (loss) 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 assets 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 interim consolidated statements of profit (loss) and comprehensive income (loss) 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. When the Company enters into an issuer automatic purchase plan agreement ("ASPP") that is effective during the reporting period, the Company records a decrease in contributed surplus for the remaining maximum amount that would be required to settle the ASPP.

*(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. For the purpose of calculating diluted earnings per share, the Company assumes the exercise of dilutive options. The assumed proceeds from these options shall be regarded as having been received from the issue of Common Shares at the average market price of the Common Shares during the period. The difference between the number of Common Shares issued and the number of Common Shares that would have been issued at the average market price of Common Shares during the period shall be treated as an issue of Common Shares for no consideration.

**3 Other Assets**

Other assets consist of the following:

	September 30, 2023	December 31, 2022
Capital assets	\$ 10	\$ 19
Right of use asset	147	242
Accounts receivable and other	279	291
	<b>\$ 436</b>	<b>\$ 552</b>

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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 interim 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 interim consolidated statements of profit (loss) and comprehensive income (loss). 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 interim consolidated statements of profit (loss) and comprehensive income (loss).

The right of use asset recorded for the Company's office premises was \$147 and \$242 at September 30, 2023 and December 31, 2022, respectively. The depreciation on the right of use asset was \$32 and \$95 in the three and nine months ended September 30, 2023, respectively, and \$32 and \$95 in the three and nine months ended September 30, 2022, respectively.

The lease liability recorded for the Company's office premises was \$159 and \$261 at September 30, 2023 and December 31, 2022, respectively. The lease payments were \$35 and \$105 in the three and nine months ended September 30, 2023, respectively, and the interest expense on the lease liability was a nominal amount and \$2 in the three and nine months ended September 30, 2023, 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 Company recorded an unrealized foreign exchange gain relating to the lease liability of \$4 and an unrealized loss of \$1 in the three and nine months ended September 30, 2023, respectively, and 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.

**4 Investments**

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

	Place of establishment	Principal place of business	Ownership interest at September 30, 2023	Ownership interest at December 31, 2022
Skyward Specialty	Delaware, U.S.	Texas, U.S.	26.8% owned by the Company <sup>1</sup>	43.8% owned by the Company <sup>1</sup>
Arena FINCOs	Delaware, U.S.	New York, U.S.	100% owned by the Company	100% owned by the Company
Arena	Delaware, U.S.	New York, U.S.	51% owned by the Company <sup>2</sup>	51% owned by the Company <sup>2</sup>

<sup>1</sup> See note 4 investment in Skyward Specialty for details of the Company's ownership in Skyward Specialty.

<sup>2</sup> Legal equity ownership is 51% (December 31, 2022 - 51%) 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".

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

The table below summarizes the fair value hierarchy under which the Company's investments classified as FVTPL 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.

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**4 Investments (continued)**

The Company's investments classified as FVTPL are as follows:

September 30, 2023	Fair value	Level 1	Level 2	Level 3
- Skyward Specialty	\$ 289,459	\$ 289,459	\$ -	\$ -
- Arena FINCOs	148,084	-	-	148,084
- ASOF LP	3,097	-	-	3,097
	<u>\$ 440,640</u>	<u>\$ 289,459</u>	<u>\$ -</u>	<u>\$ 151,181</u>

  

December 31, 2022	Fair value	Level 1	Level 2	Level 3
- Skyward Specialty	\$ 218,879	\$ -	\$ -	\$ 218,879
- Arena FINCOs	160,113	-	-	160,113
- ASOF LP	3,179	-	-	3,179
	<u>\$ 382,171</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 382,171</u>

During the nine months ended September 30, 2023, the Company's investment in Skyward Specialty transferred from a Level 3 investment to a Level 1, and there were no transfers among Levels 1, 2 and 3 for the Company's investments in Arena FINCOs or ASOF LP. During the three and nine months ended September 30, 2022, there were no transfers among Levels 1, 2 and 3. The Company's investment in Skyward Specialty became a Level 1 investment as a result of the availability of quoted prices in an active market following the closing of Skyward Specialty's initial public offering (the "IPO"), which took place on January 18, 2023. In connection with the IPO, the Skyward Specialty common shares became listed on the Nasdaq Global Select Market under the ticker symbol "SKWD".

**Investment in Skyward Specialty**

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

	Three months ended September 30, 2023						
	Opening Balance	Proceeds from sale of Skyward Specialty common shares	Realized gain in value of investment	Net change in unrealized gain (loss) in value of investment	Net increase (decrease) in value of investment	Dissolution of HIIG Partnership	Ending Balance
Company's share of Skyward Specialty common shares held by the HIIG Partnership	\$ 184,957	\$ -	\$ -	\$ (12,452)	\$ (12,452)	\$ (172,505)	\$ -
Company's share of other net assets of the HIIG Partnership	445	-	-	4	4	(449)	-
Skyward Specialty common shares held directly by the Company	83,766	-	-	33,188	33,188	\$ 172,505	289,459
	<u>\$ 269,168</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 20,740</u>	<u>\$ 20,740</u>	<u>\$ (449)</u>	<u>\$ 289,459</u>

	Three months ended September 30, 2022						
	Opening Balance	Proceeds from sale of Skyward Specialty common shares	Realized gain in value of investment	Net change in unrealized gain (loss) in value of investment	Net increase (decrease) in value of investment	Dissolution of HIIG Partnership	Ending Balance
Company's share of Skyward Specialty common shares held by the HIIG Partnership	\$ 93,273	\$ -	\$ -	\$ (4,308)	\$ (4,308)	\$ -	\$ 88,965
Company's share of other net assets of the HIIG Partnership	384	-	-	(12)	(12)	-	372
Skyward Specialty convertible preferred shares held directly by the Company	93,318	-	-	(4,310)	(4,310)	-	89,008
	<u>\$ 186,975</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (8,630)</u>	<u>\$ (8,630)</u>	<u>\$ -</u>	<u>\$ 178,345</u>

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**4 Investments (continued)**

Nine months ended September 30, 2023							
	Opening Balance	Proceeds from sale of Skyward Specialty common shares	Realized gain in value of investment	Net change in unrealized gain (loss) in value of investment	Net increase (decrease) in value of investment	Dissolution of HIIG Partnership	Ending Balance
Company's share of Skyward Specialty common shares held by the HIIG Partnership	\$ 109,227	\$ -	\$ -	\$ 63,278	\$ 63,278	\$ (172,505)	\$ -
Company's share of other net assets of the HIIG Partnership	372	-	-	77	77	(449)	-
Skyward Specialty common shares held directly by the Company	109,280	(87,356)	63,272	31,758	95,030	\$ 172,505	289,459
	<u>\$ 218,879</u>	<u>\$ (87,356)</u>	<u>\$ 63,272</u>	<u>\$ 95,113</u>	<u>\$ 158,385</u>	<u>\$ (449)</u>	<u>\$ 289,459</u>

  

Nine months ended September 30, 2022							
	Opening Balance	Proceeds from sale of Skyward Specialty common shares	Realized gain in value of investment	Net change in unrealized gain (loss) in value of investment	Net increase (decrease) in value of investment	Dissolution of HIIG Partnership	Ending Balance
Company's share of Skyward Specialty common shares held by the HIIG Partnership	\$ 95,785	\$ -	\$ -	\$ (6,820)	\$ (6,820)	\$ -	\$ 88,965
Company's share of other net assets of the HIIG Partnership	394	-	-	(22)	(22)	-	372
Skyward Specialty convertible preferred shares held directly by the Company	95,832	-	-	(6,824)	(6,824)	-	89,008
	<u>\$ 192,011</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (13,666)</u>	<u>\$ (13,666)</u>	<u>\$ -</u>	<u>\$ 178,345</u>

At September 30, 2023, the Company's \$289,459 valuation of its investment in Skyward Specialty consisted solely of the 10,579,639 Skyward Specialty common shares held directly by the Company. At December 31, 2022, the Company's \$218,879 valuation of its investment in Skyward Specialty consisted of the aggregate fair value of: (i) 7,281,780 Skyward Specialty common shares held by the HIIG Partnership of \$109,227, (ii) its share of the other net assets of the HIIG Partnership of \$372, and (iii) Skyward Specialty convertible preferred shares held directly by the Company, which were convertible into 7,285,359 Skyward Specialty common shares, of \$109,280.

On January 18, 2023, Skyward Specialty closed the IPO. With the closing of the IPO, the Skyward Specialty convertible preferred shares, including those which the Company owned, automatically converted into Skyward Specialty shares of common stock.

On June 12, 2023, Skyward Specialty closed its underwritten secondary public offering (the "Skyward Secondary Offering"). Under the Skyward Secondary Offering, Westaim sold 3,850,000 Skyward Specialty common shares at a price to the public of \$23.00 per Skyward Specialty common share (the "Secondary Offering Price"). The underwriters also exercised in full their option to purchase an additional 577,500 Skyward Specialty common shares from the selling stockholders at the Skyward Offering Price, of which 137,500 Skyward Specialty common shares were sold by Westaim. The proceeds to Westaim from the 3,987,500 Skyward Specialty common shares it sold, less underwriting commissions of 4.75%, were \$87,356. The accounting cost for the Skyward Specialty common shares sold, which the Company had held directly, was \$24,084 and resulted in the Company recognizing an accounting realized gain of \$63,272.

On July 31, 2023, the HIIG Partnership expired pursuant to the terms of HIIG Partnership's limited partnership agreement, originally made as of March 12, 2014 and amended and restated as of June 27, 2014 and as further amended on November 10, 2022. Accordingly, on July 31, 2023, the HIIG Partnership was dissolved and distributed its net assets to its limited partners, resulting in the Company (in its capacity as limited partner) receiving 7,281,780 Skyward Specialty common shares and \$449 in cash.

The Company, through HIIG GP, had a management services agreement with Skyward Specialty (the "Skyward Specialty MSA"), whereby HIIG GP was entitled to receive from Skyward Specialty an advisory fee of \$500 annually. The Skyward Specialty MSA automatically terminated with the closing of IPO of Skyward Specialty on January 18, 2023. The Company earned advisory fees of \$nil and \$23 from Skyward Specialty in the three and nine months ended September 30, 2023, respectively, and \$125 and \$375 in the three and nine months ended September 30, 2022, respectively.

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**4 Investments (continued)**

FVTPL

The investment in Skyward Specialty is classified at Level 1 of the fair value hierarchy and is accounted for at FVTPL. The fair value of the Company's investment in Skyward Specialty was determined to be \$289,459 at September 30, 2023 and \$218,879 at December 31, 2022.

At September 30, 2023, the Company's estimated fair value of Skyward Specialty common shares held (directly or indirectly) by the Company was supported by the SKWD closing trading price on September 30, 2023. At September 30, 2023, the Company's investment in Skyward Specialty of \$289,459 consisted of 10,579,639 Skyward Specialty common shares held directly by the Company at \$27.36 per share.

At December 31, 2022, the Company used multiple valuation techniques including a series of discussions with various market participants. The market participants' valuation was determined through the process Skyward Specialty initiated in 2022 with third party firms to establish a public market through an initial public offering of the Skyward Specialty common shares (the "IPO"). Westaim's management selected \$15.00 per Skyward Specialty share at December 31, 2022 as the best estimate of fair value for its valuation for Skyward Specialty's common shares. The Skyward Specialty convertible preferred shares were valued at their common share equivalent on an as converted basis.

The Company recorded a net realized and unrealized increase in the value on its investment in Skyward Specialty of \$20,740 and \$158,385 in the three and nine months ended September 30, 2023, respectively, and in the three and nine months ended September 30, 2022, the Company recorded an unrealized decrease in the value on its investment in Skyward Specialty of \$8,630 and \$13,666, respectively, in the interim consolidated statements of profit (loss) and comprehensive income (loss).

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 multiples of net asset value, 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 certainty, the 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.

For purposes of assessing the sensitivity of the Skyward Specialty per share value on the valuation of the Company's investment in Skyward Specialty, if the value of a Skyward Specialty common share was higher by \$1.00 per share, the fair value of the Company's investment in Skyward Specialty at September 30, 2023 would have increased by approximately \$10,580 (December 31, 2022 - \$14,567) and the change in the value of investment in Skyward Specialty for the three and nine months ended September 30, 2023 would have increased by approximately \$10,580 (for the three and nine months ended September 30, 2022 - \$14,567). If the value of a Skyward Specialty common share at September 30, 2023 was lower by \$1.00 per share, 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.

Arena FINCOs are private companies which 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 and/or other third parties. The Company's investment in the Arena FINCOs is accounted for at FVTPL in the Company's interim consolidated financial statements.

The Company's investment in the Arena FINCOs consists of the following:

	Three months ended September 30		Nine months ended September 30	
	2023	2022	2023	2022
Opening balance	\$ 147,256	\$ 174,152	\$ 160,113	\$ 172,866
Return of capital from the Arena FINCOs to the Company	-	-	(2,500)	-
Increase (decrease) in value before dividends	828	(2,677)	(5,129)	3,609
Dividends paid by the Arena FINCOs to the Company	-	(2,850)	(4,400)	(7,850)
Ending balance	\$ 148,084	\$ 168,625	\$ 148,084	\$ 168,625

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**4 Investments (continued)**

FVTPL

The Company's investment in the Arena FINCOs is classified at Level 3 of the fair value hierarchy and is accounted for at FVTPL. The fair value of the Company's investment in the Arena FINCOs was determined to be \$148,084 at September 30, 2023 and \$160,113 at December 31, 2022.

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, 2023 in the amount of \$148,084 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, 2023. This same valuation technique was used to determine the fair value of the Company's investment in the Arena FINCOs of \$160,113 at December 31, 2022.

The significant unobservable inputs used in the valuation of the Arena FINCOs at September 30, 2023 were the aggregate equity of the Arena FINCOs at September 30, 2023 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, 2023, as described below (December 31, 2022 – 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.

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**4 Investments (continued)**

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 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.

The Company recorded an increase in the value of its investment in the Arena FINCOs of \$828 and a decrease of \$5,129 before dividends paid of \$nil and \$4,400 in the three and nine months ended September 30, 2023, respectively, in the interim consolidated statements of profit (loss) and comprehensive income (loss). In addition, Arena FINCOs returned capital in the amount of \$nil and \$2,500 in the three and nine months ended September 30, 2023, respectively. The Company recorded a decrease in the 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. There was no return of capital in the three and nine months ended September 30, 2022.

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, 2023 was higher by \$1,000, the fair value of the Company's investment in the Arena FINCOs at September 30, 2023 would have increased by \$1,000 (December 31, 2022 - \$1,000) and the change in the value of the investment in the Arena FINCOs for the three and nine months ended September 30, 2023 would have increased by \$1,000 (for the three and nine months ended September 30, 2022 - \$1,000). If the equity of the Arena FINCOs at September 30, 2023 was lower by \$1,000, an opposite effect would have resulted.

***Investment in Arena***

Arena Investors Group Holdings, LLC ("AIGH" or "Arena"), a private company, operates two businesses, Arena Investors and Arena Institutional Services ("AIS"). Arena Investors is 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. Arena Investors provides investment services to third-party clients consisting of but not limited to institutional clients, insurance companies, private investment funds, other pooled investment vehicles, and the Arena FINCOs. AIS provides non-investment advisory services for Arena and third parties.

On August 31, 2015, agreements were entered into between the Company and BP LLC in respect of Arena (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 Arena and share up to 75% of the profit of Arena 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 September 30, 2023 and December 31, 2022, the Company's equity ownership of Arena 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 Arena. The Company's investment in Arena is therefore accounted for using the equity method in accordance with IAS 28.

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**4 Investments (continued)**

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

	September 30, 2023	December 31, 2022
Financial information of Arena:		
Assets	\$ 81,098	\$ 86,525
Liabilities	(67,036)	(80,798)
Net assets	14,062	5,727
Less: net assets attributable to non-controlling interests	4,852	178
Net assets attributable to Arena	\$ 9,210	\$ 5,549
Company's share	\$ 4,825	\$ 2,957
Arena Revolving Loan with the Company	24,000	24,000
Carrying amount of the Company's investment in Arena	\$ 28,825	\$ 26,957

	Three months ended September 30		Nine months ended September 30	
	2023	2022	2023	2022
Financial information of Arena:				
Revenue and other investment gains (losses)	\$ 20,780	\$ 1,929	\$ 51,712	\$ 37,298
Operating expenses <sup>1</sup>	(13,857)	(10,134)	(39,456)	(36,062)
Income and comprehensive income	6,923	(8,205)	12,256	1,236
Income and comprehensive income attributable to non-controlling interests	2,871	-	4,674	-
Income and comprehensive income attributable to Arena	\$ 4,052	\$ (8,205)	\$ 7,582	\$ 1,236
Company's share of income and comprehensive income of Arena (51%)	\$ 2,066	\$ (4,185)	\$ 3,868	\$ 630

<sup>1</sup> Includes interest expense on the Arena's Revolving Loan granted by the Company of \$439 and \$1,204 in the three and nine months ended September 30, 2023, respectively, and \$339 and \$1,005 in the three and nine months ended September 30, 2022, respectively.

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

	Three months ended September 30		Nine months ended September 30	
	2023	2022	2023	2022
Carrying amount of investment in Arena:				
Opening balance	\$ 26,759	\$ 30,989	\$ 26,957	\$ 26,174
Company's share of income and comprehensive income of Arena (51%)	2,066	(4,185)	3,868	630
Company's share of cash distribution from Arena to members (51%)	-	-	(2,000)	-
Ending balance	\$ 28,825	\$ 26,804	\$ 28,825	\$ 26,804

The Company has a revolving loan to Arena (the "Arena Revolving Loan") with a limit of \$35,000 at September 30, 2023 (December 31, 2022 - \$35,000) in order to continue funding growth initiatives and working capital needs of Arena. The loan facility matures on March 31, 2025 and bore an interest rate of 5.60% per annum through to March 31, 2023 and increased to 7.25% per annum effective on April 1, 2023. Arena had drawn down the loan facility by \$24,000 at September 30, 2023 (December 31, 2022 - \$24,000). The loan facility is secured by all the assets of Arena. The Company earned and received interest on the Arena Revolving Loan of \$439 and \$1,204 for the three and nine months ended September 30, 2023, respectively, and \$339 and \$1,005 for the three and nine months ended September 30, 2022, respectively, which was reported under "Interest income" in the interim consolidated statements of profit (loss) and comprehensive income (loss).

The total of the Company's 51% share of income (loss) and comprehensive income (loss) of Arena was \$2,066 and \$3,868 in the three and nine months ended September 30, 2023, respectively, and (\$4,185) and \$630 in the three and nine months ended September 30, 2022, respectively, which was reported under "Share of income (loss) from investment in Arena" in the interim consolidated statements of profit (loss) and comprehensive income (loss).

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**4 Investments (continued)**

***Investment in ASOF LP***

The Company's investment 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, 2023 and December 31, 2022, the fair value of the Company's minority interest in ASOF LP was determined by Arena Investors to be \$3,097 and \$3,179, respectively. The Company reported an increase in the value of its investment in ASOF LP of \$35 and a decrease of \$82 in the three and nine months ended September 30, 2023, respectively, and a decrease of \$151 and an increase of \$31 in the three and nine months ended September 30, 2022, respectively, which was reported under "Increase (decrease) in value of investment in ASOF LP" in the interim consolidated statements of profit (loss) and comprehensive income (loss).

**5 Accounts Payable and Accrued Liabilities**

Accounts payable and accrued liabilities consist of the following:

	September 30, 2023	December 31, 2022
RSUs (note 11)	\$ 8,333	\$ 5,781
DSUs (note 11)	2,600	2,633
Lease liability (note 3)	159	261
Interest on Preferred Securities (note 6)	-	466
C\$ exchange forward contract payable (note 7)	-	478
Other accounts payable and accrued liabilities	2,864	3,321
Ending balance	\$ 13,956	\$ 12,940

**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 governed by the terms of an indenture dated June 2, 2017 between, inter alia, Westaim and Computershare Trust Company of Canada (the "Indenture"). On June 2, 2017, the Company closed the subscription by Fairfax of C\$50 million of Preferred Securities (the "Fairfax Financing").

On July 17, 2023, the Company redeemed and delisted all of the 5,000,000 Preferred Securities for C\$ 50 million (\$37,916), plus all accrued and unpaid interest thereon. In connection with the redemption: (a) the Company and Fairfax terminated the governance agreement dated June 2, 2017 between the parties; (b) Fairfax surrendered and disposed of, without any further consideration, all of the Warrants, which were immediately cancelled by the Company; and (c) Westaim paid a \$100 work fee to Fairfax which was included in accrued liabilities at June 30, 2023. As a result, there were no Preferred Securities outstanding at September 30, 2023 (December 31, 2022: 5,000,000).

The Preferred Securities were 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 were subordinate secured securities that would mature on May 26, 2116 but were redeemable by Westaim, in whole or in part, at the sole discretion of the Company at any time on or after June 2, 2022 at a price equal to C\$10 per Preferred Security, plus all accrued and unpaid interest up to the date of redemption.

The Preferred Securities liability was translated into US\$ at rates of exchange at the end of each reporting period and any resulting foreign exchange gain or loss was included in the interim consolidated statements of profit (loss) and comprehensive income (loss). The carrying amount of the Preferred Securities, which approximated fair value, was \$nil and \$36,939 at September 30, 2023 and December 31, 2022, respectively. The Company recorded an unrealized foreign exchange loss relating to the Preferred Securities of \$150 and \$977 in the three and nine months ended September 30, 2023, respectively, and an unrealized foreign exchange gain of \$2,650 and \$3,357 in the three and nine months ended September 30, 2022, respectively.

Interest expense on the Preferred Securities amounted to \$84 and \$1,010 in the three and nine months ended September 30, 2023, respectively, and \$456 and \$1,434 in the three and nine months ended September 30, 2022, respectively. Accrued interest expense was \$nil and \$466 at September 30, 2023 and December 31, 2022, respectively, and was reported under accounts payable and accrued liabilities in the interim consolidated statements of financial position.

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**7 C\$ Exchange Forward Contracts**

On June 14, 2023, the Company settled its C\$ exchange forward contract to purchase C\$50 million and the Company is no longer party to any C\$ exchange forward contract. The Company's C\$ exchange forward contracts to purchase C\$50 million resulted in foreign exchange gain of \$nil and \$344 in the three and nine months ended September 30, 2023, respectively, and a foreign exchange loss of \$3,043 and \$3,750 for the three and nine months ended September 30, 2022, respectively, and was reported under foreign exchange (gain) loss in the interim consolidated statements of profit (loss) and comprehensive income (loss).

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

At September 30, 2023, the Company has no C\$ exchange forward contract and, as a result, a C\$ exchange forward contract payable of \$nil. At December 31, 2022, a C\$ exchange forward contract payable of \$478 was recorded under accounts payable and accrued liabilities in the interim consolidated statements of financial position.

**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 on June 2, 2017. On July 17, 2023, in connection with the redemption of the Preferred Securities, Fairfax surrendered and disposed of, without any further consideration, all of the Warrants, which were immediately cancelled by the Company.

Changes to the derivative warrant liability are as follows:

	September 30, 2023	December 31, 2022
Opening balance	\$ 94	\$ 156
Change in fair value – (gain)	(98)	(57)
Unrealized foreign exchange – loss (gain)	4	(5)
Ending balance	\$ -	\$ 94

At September 30, 2023, the Company has no Warrants outstanding and reported a derivative warrant liability of \$nil. At December 31, 2022, the Company reported the fair value of the vested Warrants of \$94 using the Monte Carlo pricing model assuming no dividends are paid on the Common Shares, a risk-free interest rate of 4.37%, an expiration date between January 1, 2023 and June 2, 2024, a volatility of the underlying Common Shares of 24.87%, a closing price of the Common Shares of C\$2.63 and a strike price of C\$3.50.

The Company recorded an unrealized gain resulting from a change in the fair value of the vested Warrants of \$nil and \$98 in the three and nine months ended September 30, 2023, respectively, and an unrealized loss \$15 and an unrealized gain of \$49 in the three and nine months ended September 30, 2022, respectively. The Company also recorded an unrealized foreign exchange loss with respect to the vested Warrants of \$nil and \$4 in the three and nine months ended September 30, 2023, respectively, and 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, under foreign exchange (gain) loss in the interim consolidated statements of profit (loss) and comprehensive income (loss).

**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, 2023, the Company had a total commitment of \$306 for future occupancy cost payments including payments due not later than one year of \$262 and payments due later than one year of \$44. At December 31, 2022, the Company had a total commitment of \$513 for future occupancy cost payments including payments due not later than one year of \$268 and payments due later than one year of \$245.

**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, 2023, Westaim had 135,491,943 Common Shares issued and outstanding (December 31, 2022 – 141,386,718), with a stated capital of \$363,871 (December 31, 2022 - \$378,563). In the three and nine months ended September 30, 2023, Westaim acquired and canceled 3,740,478 Common Shares at a cost of \$9,847 and 6,135,078 Common Shares at a cost of \$16,281, respectively, through its normal course issuer bid (the "NCIB"). In the year ended December 31, 2022, Westaim cancelled 1,300,000 Common Shares that it had acquired at a cost of \$2,564 through its prior NCIB.

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**10 Share Capital (continued)**

The NCIB, which was approved by the TSXV, provides that Westaim may, during the 12-month period commencing October 1, 2022 and ending September 30, 2023, purchase up to 11,005,494 Common Shares in total, representing approximately 10% of Westaim's public float and not more than 2,827,734 Common Shares within a 30 day period. The NCIB for the 12-month period which commenced October 1, 2021 and ended September 30, 2022, provided that Westaim could purchase up to 11,208,044 Common Shares in total and not more than 2,863,734 Common Shares within a 30 day period. Westaim is conducting the NCIB because it believes the Common Shares currently trade in a price range that represents an attractive investment and a desirable use of its corporate funds as cash becomes available. See note 17 for subsequent events.

In the three and nine months ended September 30, 2023, Westaim issued 240,303 Common Shares to option holders following the settlement of stock options with an equity book value of \$1,547 which increased share capital and decreased contributed surplus. See note 11 for share-based compensation, stock options.

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, 2023 and December 31, 2022.

**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 13,549,194 at September 30, 2023 (December 31, 2022 – 14,138,671). 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, 2023		Nine months ended September 30, 2022	
	Number	Weighted Average Exercise Price	Number	Weighted Average Exercise Price
Opening balance	10,428,337	C\$ 3.10	10,428,337	C\$ 3.10
Settled options	(2,752,940)	C\$ 3.25	-	C\$ -
Forfeited options	(51,442)	C\$ 3.05	-	C\$ -
Ending balance	7,623,955	C\$ 3.05	10,428,337	C\$ 3.10
Options vested at end of period	7,623,955	C\$ 3.05	10,428,337	C\$ 3.10

September 30, 2023		Weighted Average Contractual Life (years)	Outstanding Weighted Average Exercise Price	Number of stock options vested	Vested Weighted Average Exercise Price
Exercise prices	Number of stock options outstanding				
C\$ 3.10	3,790,000	1.30	C\$ 3.10	3,790,000	C\$ 3.10
C\$ 3.00	3,833,955	0.50	C\$ 3.00	3,833,955	C\$ 3.00
	7,623,955	0.90	C\$ 3.05	7,623,955	C\$ 3.05

December 31, 2022		Weighted Average Contractual Life (years)	Outstanding Weighted Average Exercise Price	Number of stock options vested	Vested Weighted Average Exercise Price
Exercise prices	Number of stock options outstanding				
C\$ 3.10	3,815,000	2.05	C\$ 3.10	3,815,000	C\$ 3.10
C\$ 3.00	3,860,397	1.25	C\$ 3.00	3,860,397	C\$ 3.00
C\$ 3.25	2,752,940	0.25	C\$ 3.25	2,752,940	C\$ 3.25
	10,428,337	1.28	C\$ 3.10	10,428,337	C\$ 3.10

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**11 Share-based Compensation (continued)**

On April 1, 2016, 2,752,940 options were granted to certain officers and employees of Westaim (the "2016 Options"). Subject to the terms of the Option Plan (including extensions for options expiring during Company blackout periods), the 2016 Options had a term of seven years, vested in three equal instalments on April 1, 2017, April 1, 2018 and April 1, 2019, and had an exercise price of C\$3.25. The fair value of the 2016 Options 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 August 23, 2023, 17,647 of the 2016 Options were exercised and the Company received \$42 and issued 17,647 Common Shares to the option holder. On August 24, 2023, the remaining 2,735,293 2016 Options were net exercised (issuance of Common Shares representing the in-the-money value of the 2016 Options at the time of exercise, as more fully set out in the Option Plan) resulting in the issuance of an aggregate of 222,656 Common Shares to the option holders. As a result, at September 30, 2023, there are no 2016 Options outstanding.

On April 3, 2017, 3,860,397 options were granted to certain officers and employees of Westaim (the "2017 Options"). Subject to the terms of the Option Plan, the 2017 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 2017 Options 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. In January 2023, 26,442 of the 2017 Options were forfeited by a prior employee. As a result, at September 30, 2023, there are 3,833,955 2017 Options outstanding.

On January 18, 2018, 3,815,000 options were granted to certain officers and employees of Westaim (the "2018 Options"). Subject to the terms of the Option Plan, the 2018 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 2018 Options 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. In January 2023, 25,000 of the 2018 Options were forfeited by a prior employee. As a result, at September 30, 2023, there are 3,790,000 2018 Options outstanding.

No options were granted or issued in the three and nine months ended September 30, 2023 or the year ended December 31, 2022.

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, 2023 and 2022.

**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	
	2023	2022
Opening balance	2,975,198	2,975,198
Granted	480,000	-
Ending balance	3,455,198	2,975,198

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, 2023, all of these RSUs have vested, of which 325,000 RSUs have 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, 2023, all of these RSUs have vested and none have been exercised.

On January 23, 2023, an additional 480,000 RSUs were granted to certain officers and employees of Westaim. These RSUs vest in three equal instalments on January 23, 2024, September 30, 2024 and September 30, 2025 and have a term of fifteen years from date of issue. At September 30, 2023, none of these RSUs have vested or have been settled.

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**11 Share-based Compensation (continued)**

There were 3,455,198 RSUs outstanding at September 30, 2023 (December 31, 2022 - 2,975,198). In the three and nine months ended September 30, 2023, 480,000 RSUs were granted. There were no RSUs granted in the year ended December 31, 2022. There were no RSUs settled in the three and nine months ended September 30, 2023 and in the year ended December 31, 2022.

Compensation expenses relating to RSUs, including the impact of the change in the market value of the Common Shares, was an expense of \$69 and \$2,601 in the three and nine months ended September 30, 2023, respectively, and an expense of \$409 and \$214 in the three and nine months ended September 30, 2022, respectively. The Company also recorded an unrealized foreign exchange gain with respect to the RSUs of \$196 and \$49 in the three and nine months ended September 30, 2023, respectively, and an unrealized foreign exchange gain of \$381 and \$476 in the three and nine months ended September 30, 2022, respectively, under foreign exchange (gain) loss in the interim consolidated statements of profit (loss) and comprehensive income (loss). At September 30, 2023, a liability of \$8,333 (December 31, 2022 - \$5,781) had been accrued by Westaim with respect to outstanding RSUs in the interim 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:

	Three months ended September 30		Nine months ended September 30	
	2023	2022	2023	2022
Opening balance	962,266	1,225,984	1,355,133	1,093,603
Granted	33,353	65,404	126,273	197,785
Exercised	-	-	(485,787)	-
Ending balance	995,619	1,291,388	995,619	1,291,388

The Company issued 33,353 and 126,273 DSUs in the three and nine months ended September 30, 2023, respectively, in lieu of director fees of \$87 and \$307, respectively. The Company issued 65,404 and 197,785 DSUs in the three and nine months ended September 30, 2022, respectively, in lieu of director fees of \$123 and \$373, respectively. In the three months ended September 30, 2023, no DSUs were exercised. In the nine months ended September 30, 2023, 485,787 DSUs were exercised for cash of \$1,187 paid to a former director of the Company. In the three and nine months ended September 30, 2022, no DSUs were exercised.

Compensation expenses relating to DSUs, including the impact of the change in the market value of the Common Shares was an expense of \$45 and \$1,177 in the three and nine months ended September 30, 2023, respectively, and \$292 and \$473 in the three and nine months ended September 30, 2022, respectively. The Company also recorded an unrealized foreign exchange gain with respect to the DSUs of \$62 and \$23 in the three and nine months ended September 30, 2023, respectively, and 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, under foreign exchange (gain) loss in the interim consolidated statements of profit (loss) and comprehensive income (loss). At September 30, 2023, a liability of \$2,600 (December 31, 2022 - \$2,633) had been accrued with respect to outstanding DSUs in the interim 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	
	2023	2022	2023	2022
Salaries and benefits <sup>1</sup>	\$ 1,028	\$ 926	\$ 3,281	\$ 3,110
Share-based compensation expense	189	700	3,998	687
Compensation expense	\$ 1,217	\$ 1,626	\$ 7,279	\$ 3,797

<sup>1</sup> Salaries and benefits include director fees paid in cash and accrued totaling \$33 and \$89 in the three and nine months ended September 30, 2023, respectively, and \$27 and \$82 in the three and nine months ended September 30, 2022, respectively.

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**12 Related Party Transactions (continued)**

The Company received dividends from the Arena FINCOs in the amount of \$nil and \$4,400 in the three and nine months ended September 30, 2023, respectively, and \$2,850 and \$7,850 in the three and nine months ended September 30, 2022, respectively.

Arena FINCOs returned capital to the Company in the amount of \$nil and \$2,500 in the three and nine months ended September 30, 2023, respectively, and \$nil in each of the three and nine months ended September 30, 2022.

The Company earned and received interest on the Arena Revolving Loan of \$439 and \$1,204 in the three and nine months ended September 30, 2023, respectively, and \$339 and \$1,005 in the three and nine months ended September 30, 2022, respectively. Interest on the Arena Revolving Loan plus interest received from the Company's bank balance are included in interest income in the interim consolidated statements of profit (loss) and comprehensive income (loss).

The Company earned advisory fees of \$nil and \$23 from Skyward Specialty in the three and nine months ended September 30, 2023, respectively, and \$125 and \$375 in the three and nine months ended September 30, 2022, respectively. The Company earned advisory fees of \$50 and \$63 from the Arena FINCOs and Arena, respectively, in each of the three months ended September 30, 2023 and 2022, and \$150 and \$188 from Arena FINCOs and Arena, respectively, in each of the nine months ended September 30, 2023 and 2022. Advisory fees are included in fee income in the interim consolidated statements of profit (loss) and comprehensive income (loss).

**13 Income Taxes**

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

	Three months ended September 30		Nine months ended September 30	
	2023	2022	2023	2022
Profit (loss) before income taxes	\$ 23,007	\$ (17,634)	\$ 149,074	\$ (14,995)
Statutory income tax rates	26.5%	26.5%	26.5%	26.5%
Income taxes at statutory income tax rates	6,097	(4,673)	39,505	(3,974)
Variations due to:				
Non-taxable portion of unrealized (increase) decrease on investments classified as FVTPL	(3,005)	2,060	(20,261)	2,531
Taxable gain on sale of Skyward Specialty common shares	-	-	7,192	-
Taxable gain from foreign currency settlement of Preferred Securities	202	-	202	-
Tax losses allocated from the HIIG Partnership	1	(4)	20	(8)
Non-deductible (non-taxable) items	(1)	(1,173)	87	(2,474)
Difference between statutory and foreign tax rates	-	71	-	14
Unrecognized tax losses and investment and minimum tax credits	(3,361)	2,844	(26,586)	3,741
Income taxes (recovery) expense	\$ (68)	\$ (875)	\$ 158	\$ (170)

At September 30, 2023, a current income taxes payable of \$1,217 (December 31, 2022 - \$245), and deferred tax assets of \$1,748 (December 31, 2022 - \$178) were recorded in the interim consolidated statements of financial position.

As the realization of any additional Canadian income tax benefits are not probable, the following have not been recognized in the calculation of the Company's deferred income tax assets:

	September 30, 2023	December 31, 2022
Non-capital loss carry-forwards	\$ 3,507	\$ 52,776
Capital loss carry-forwards	-	5,367
Corporate minimum tax credits	-	350
Investment tax credits	-	1,668

The non-capital loss carry-forwards of \$3,507 not recognized at September 30, 2023 will expire in 2032.

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**14 Earnings (loss) per Share**

Westaim had 7,623,955 stock options, 3,455,198 RSUs and no Warrants outstanding at September 30, 2023. At December 31, 2022, Westaim had 10,428,337 stock options, 2,975,198 RSUs and 14,285,715 Warrants outstanding. The stock options for the three and nine months ended September 30, 2023, were included in the calculation of diluted earnings per share as they were dilutive and the stock options for the three and nine months ended September 30, 2022, were excluded as they were not dilutive. The Warrants for the three and nine months ended September 30, 2023 and 2022, were excluded in the calculation of diluted earnings per share as they were not dilutive. The RSUs for the three and nine months ended September 30, 2023, were included in the calculation of diluted earnings per share as they dilutive and the RSUs for the three and nine months ended September 30, 2022, were excluded as they were not dilutive.

Earnings (loss) per share, basic and diluted, are as follows:

	Three months ended September 30		Nine months ended September 30	
	2023	2022	2023	2022
Basic earnings (loss) per share:				
Profit (loss) and comprehensive income (loss)	\$ 23,075	\$ (16,759)	\$ 148,916	\$ (14,825)
Weighted average number of Common Shares outstanding	137,943,483	141,386,718	140,086,017	142,074,996
Basic earnings (loss) per share	\$ 0.17	\$ (0.12)	\$ 1.06	\$ (0.10)
Diluted earnings (loss) per share:				
Profit (loss) and comprehensive income (loss)	\$ 23,075	\$ (16,759)	\$ 148,916	\$ (14,825)
Dilutive RSU expense (recovery) and related foreign exchange	(127)	-	2,552	-
Profit (loss) and comprehensive income (loss) on a diluted basis	\$ 22,948	\$ (16,759)	\$ 151,468	\$ (14,825)
Weighted average number of Common Shares outstanding	137,943,493	141,386,718	140,086,017	142,074,996
Dilutive impact of in-the-money options (treasury method)	1,083,627	-	389,566	-
Dilutive impact of RSUs	3,455,198	-	3,416,517	-
Weighted average number of Common Shares outstanding on a dilutive basis	142,482,308	141,386,718	143,892,100	142,074,996
Diluted earnings (loss) per share	\$ 0.16	\$ (0.12)	\$ 1.05	\$ (0.10)

Common Shares outstanding at September 30, 2023 was 135,491,943 (December 31, 2022 - 141,386,718).

**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.

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## 16 Financial Risk Management

The Company is exposed to a number of risks due to its business operations. The Company's interim consolidated statement of financial position at September 30, 2023 consists of short-term financial assets and financial liabilities with maturities of less than one year, and investments in Skyward Specialty, Arena FINCOs, Arena, and ASOF LP. 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.

### 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 level 3 investments classified as FVTPL and investments in 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, 2023, the Company's short-term financial liabilities amounted to \$4,081 (December 31, 2022 - \$4,510), 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. During the nine months ending September 30, 2023, the Company's C\$ exchange forward contracts and its Canadian dollar bank balance have been effective at reducing a significant portion of the risk associated with changes in the C\$ currency exchange. At September 30, 2023, it is estimated a 10% strengthening of the C\$ against the US\$ would have increased the foreign exchange loss by approximately \$834 and \$724 in the nine months ended September 30, 2023 and 2022, 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 or loans receivable. The Company is subject to interest rate risks indirectly as a result of its investments in Skyward Specialty and the Arena FINCOs as certain underlying investments made by these entities are sensitive to interest rate movements.

### Equity risk

Since the close of Skyward Specialty's IPO on January 18, 2023, there has been an active market for the Company's investment in Skyward Specialty common shares. There is no active market for the Company's Level 3 investments. The Company holds its 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.

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**17 Subsequent Events**

Westaim's has approval from the TSXV for a NCIB (the "2023 NCIB") which provides that Westaim may, during the 12-month period commencing October 1, 2023 and ending September 30, 2024, purchase, on an opportunistic basis, up to 11,400,000 Common 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 approximately 2,700,000 Common Shares. In connection with the NCIB commencing October 1, 2023, the Company established an ASPP, whereby Common Shares may be repurchased at the discretion of the third party broker to the ASPP using commercially reasonable efforts and subject to the trading parameters set out in the ASPP.

Subsequent to September 30, 2023, through to the close of trading on November 13, 2023, Westaim acquired 2,851,500 Common Shares at a cost of \$7,595 through the 2023 NCIB. These acquired shares will automatically be canceled. Westaim has 132,640,443 outstanding Common Shares as a result of these share purchases.

On November 13, 2023, Westaim announced that, as part of a follow-on offering by Skyward Specialty (the "Follow-on Offering"), it is offering 2,350,000 Skyward Specialty common shares. Westaim has granted the underwriters a 30-day option to purchase up to an additional 675,000 Skyward Specialty common shares held by it. As part of the Follow-on Offering, in addition to the Skyward Specialty common shares being offered by Westaim, Skyward Specialty is selling 2,150,000 of Skyward Specialty common shares from treasury.