



**Third Quarter Report to Shareholders  
for the quarter ended September 30, 2023**

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The "Company" in this Management's Discussion and Analysis ("MD&A") refers to The Westaim Corporation ("Westaim") on a consolidated basis. This MD&A, which has been approved by the Board of Directors of Westaim, should be read in conjunction with the Company's unaudited interim consolidated financial statements including notes for the three and nine months ended September 30, 2023 and 2022 as set out on pages 35 to 58 of this quarterly report ("Financial Statements"). Financial data in this MD&A has been derived from the Financial Statements and is intended to enable the reader to assess the Company's results of operations for the three and nine months ended September 30, 2023 and financial condition as at September 30, 2023. The Company reports its consolidated Financial Statements using generally accepted accounting principles ("GAAP") and accounting policies consistent with International Financial Reporting Standards ("IFRS"). All currency amounts are in United States dollars ("US\$"), the functional and presentation currency of the Company, unless otherwise indicated. Canadian dollars are referenced as C\$. The following commentary is current as of November 14, 2023. Additional information relating to the Company is available on [www.sedarplus.ca](http://www.sedarplus.ca). Certain comparative figures have been reclassified to conform to the presentation of the current year, and certain totals, subtotals and percentages may not reconcile due to rounding.

### **IFRS for Investment Entities**

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

### **Functional and Presentation Currency**

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

### **Non-GAAP Measures**

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

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**Cautionary Statement Regarding the Valuation of Investments in Private Entities**

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

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

Supplementary financial measures concerning the Arena FINCOs (as hereinafter defined) and Arena (as hereinafter defined) (the "Arena Supplementary Financial Measures") contained in this MD&A are unaudited and have been derived from the audited consolidated financial statements of the Arena FINCOs and Arena for the year ended December 31, 2022 and the unaudited consolidated financial statements of Arena FINCOs and Arena for the three and nine months ended September 30, 2023 and 2022, which have been prepared in accordance with either IFRS or US GAAP. Such statements are the responsibility of the management of the Arena FINCOs and Arena. The Arena Supplementary Financial Measures, including any Arena FINCOs and Arena non-GAAP measures contained therein, may not be reconciled to IFRS and so may not be comparable to the financial information of issuers that present their financial information in accordance with IFRS.

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

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

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

**Forward-Looking Information**

This MD&A may contain forward-looking statements that involve risks and uncertainties. The Company's actual results could differ materially from these forward-looking statements as a result of various factors, including those discussed hereinafter, and in the Company's Annual Information Form dated March 30, 2023 for its fiscal year ended December 31, 2022 which is available on SEDAR+ at [www.sedarplus.ca](http://www.sedarplus.ca). Please refer to Section 16, *Cautionary Note Regarding Forward-Looking Information* of this MD&A.

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**1. THE COMPANY**

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

The Company's principal investments consist of Skyward Specialty Insurance Group, Inc. ("Skyward Specialty"), the Arena FINCOs and Arena. See discussion in Section 3, *Investments* of this MD&A for additional information on these investments.

**2. OVERVIEW OF PERFORMANCE**

Highlights	Three months ended September 30		Nine months ended September 30	
	2023	2022	2023	2022
Revenue and net change in value of investments	\$ 24.8	\$ (15.1)	\$ 159.5	\$ (7.7)
Net expenses	(1.8)	(2.5)	(10.5)	(7.3)
Income taxes recovery (expense)	-	0.9	(0.2)	0.2
Profit (loss) and comprehensive income (loss)	\$ 23.0	\$ (16.7)	\$ 148.8	\$ (14.8)
Earnings (loss) per share – basic	\$ 0.17	\$ (0.12)	\$ 1.06	\$ (0.10)
Earnings (loss) per share – diluted	\$ 0.16	\$ (0.12)	\$ 1.05	\$ (0.10)
At September 30:				
Shareholders' equity			\$ 495.7	\$ 330.4
Number of Common Shares outstanding <sup>1</sup>			135,491,943	141,386,718
Book value per fully diluted share – in US\$ <sup>2</sup>			\$ 3.56	\$ 2.33
Book value per fully diluted share – in C\$ <sup>3</sup>			\$ 4.82	\$ 3.22

<sup>1</sup> Westaim's common shares ("Common Shares") are listed and posted for trading on the TSX Venture Exchange ("TSXV") under the symbol "WED".

<sup>2</sup> See Section 15, *Non-GAAP Measures* of this MD&A.

<sup>3</sup> Period end exchange rates: 1.35535 at September 30, 2023 and 1.38135 at September 30, 2022.

Three months ended September 30, 2023 and 2022

The Company reported a profit and comprehensive income of \$23.0 and a loss and comprehensive loss of \$16.7 for the three months ended September 30, 2023 and 2022, respectively.

Revenue and net change in value of investments was a net increase of \$24.8 for the three months ended September 30, 2023 (2022 – net decrease \$15.1), and consisted of interest income of \$1.0 (2022 - \$0.3), dividend income paid to the Company from the Arena FINCOs of \$nil (2022 - \$2.9), advisory fees of \$0.1 (2022 - \$0.2), an increase of \$20.7 in the value of the investment in Skyward Specialty (2022 – decrease of \$8.6), an increase of \$0.9 in the value of the investments in the Arena FINCOs (2022 – decrease of \$5.5, which was a decrease of \$2.6 before dividends paid of \$2.9), the Company's share of income and comprehensive income of Arena of \$2.1 (2022 – loss and comprehensive loss of \$4.2) and an increase in the value of the Company's investment in Arena Special Opportunities Fund, LP ("ASOF LP") of a nominal amount (2022 – decrease of \$0.2).

Net expenses for the three months ended September 30, 2023 of \$1.8 (2022 – \$2.5) consisted of salaries and benefits of \$1.2 (2022 - \$1.1), general, administrative and other expenses of \$0.2 (2022 - \$0.2), professional fees of \$0.5 (2022 - \$0.3), share-based compensation expense \$0.1 (2022 – \$0.7), a foreign exchange gain of \$0.3 (2022 – \$0.2), interest on preferred securities of \$0.1 (2022 - \$0.4) and an unrealized gain resulting from a change in the fair value of the vested Warrants (as hereinafter defined) of \$nil (2022 – unrealized loss of a nominal amount).

The Company reported income taxes recovery for the three months ended September 30, 2023 of a nominal amount (2022 – recovery of \$0.9).

Nine months ended September 30, 2023 and 2022

The Company reported a profit and comprehensive income of \$148.8 and a loss and comprehensive loss of \$14.8 for the nine months ended September 30, 2023 and 2022, respectively.

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**2. OVERVIEW OF PERFORMANCE (continued)**

Revenue and net change in value of investments was a net increase of \$159.5 for the nine months ended September 30, 2023 (2022 – net decrease of \$7.7), and consisted of interest income of \$2.1 (2022 - \$1.0), dividend income paid to the Company from the Arena FINCOs of \$4.4 (2022 - \$7.9), advisory fees of \$0.3 (2022 - \$0.7), an increase of \$158.4 in the value of the investment in Skyward Specialty (2022 – decrease of \$13.7), a decrease of \$9.5 in the value of the investments in the Arena FINCOs, which was a decrease of \$5.1 before dividends paid of \$4.4 (2022 – decrease of \$4.2, which was an increase of \$3.7 before dividends paid of \$7.9), the Company's share of income and comprehensive income of Arena of \$3.9 (2022 – \$0.6) and a decrease in the value of the Company's investment in ASOF LP of \$0.1 (2022 – an increase of a nominal amount).

Net expenses for the nine months ended September 30, 2023 of \$10.5 (2022 – \$7.3) consisted of salaries and benefits of \$3.8 (2022 - \$3.6), general, administrative and other expenses of \$0.7 (2022 - \$0.7), professional fees of \$1.0 (2022 - \$1.3), share-based compensation expense \$3.8 (2022 – \$0.7), a foreign exchange loss of \$0.3 (2022 – gain of \$0.3), interest on preferred securities of \$1.0 (2022 - \$1.4) and an unrealized gain resulting from a change in the fair value of the vested Warrants (as hereinafter defined) of \$0.1 (2022 – \$0.1).

The Company reported income taxes expense for the nine months ended September 30, 2023 of \$0.2 (2022 – expense recovery of \$0.2).

**3. INVESTMENTS**

The Company's principal investments consist of its investments in Skyward Specialty, the Arena FINCOs and Arena.

	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 the Company <sup>2</sup>	51% owned the Company <sup>2</sup>

<sup>1</sup> See section 3.A. 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%) is subject to change over time pursuant to the earn-in rights granted to Bernard Partners, LLC ("BP LLC") described below under "Investment in Arena".

For additional information on the Company's corporate structure, see the Company's Annual Information Form dated March 30, 2023 for its fiscal year ended December 31, 2022 which is available on SEDAR+ at [www.sedarplus.ca](http://www.sedarplus.ca). For reconciliation purposes, the Company notes that the Annual Information Form dated March 30, 2023: (a) defines "Arena" as the combination of Arena Investors Group Holdings, LLC and the Arena FINCOs; and (b) uses the definition of "Arena Investors" to describe Arena Investors Group Holdings, LLC.

Skyward Specialty

The Company owns a significant ownership interest in Skyward Specialty (NASDAQ: SKWD), a U.S. based publicly traded diversified specialty property & casualty insurance holding company that underwrites select property, casualty, surety, and accident and health insurance coverages through its insurance and reinsurance subsidiaries. The Company's investment in Skyward Specialty is recorded under investments in the Company's interim consolidated financial statements. For additional information on Skyward Specialty, see Electronic Data Gathering, Analysis, and Retrieval ("EDGAR") filings at [www.sec.gov/edgar/search-and-access](http://www.sec.gov/edgar/search-and-access).

Arena FINCOs

The 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 Investors and/or other third parties. Fundamentals-based, asset-oriented credit investments refer to loans or credit arrangements which are generally secured by assets. Fundamentals-based, asset-oriented lenders and investors manage their risk and exposure by carefully assessing the value of the assets securing the loan or investment, receiving periodic and frequent reports on collateral value and the status of those assets, and tracking the financial performance of borrowers. The Company's investments in the Arena FINCOs are recorded under investments in the Company's interim consolidated financial statements. Arena FINCOs refers to WOH, AFHC (as each is defined hereinafter) and each of their respective subsidiaries.

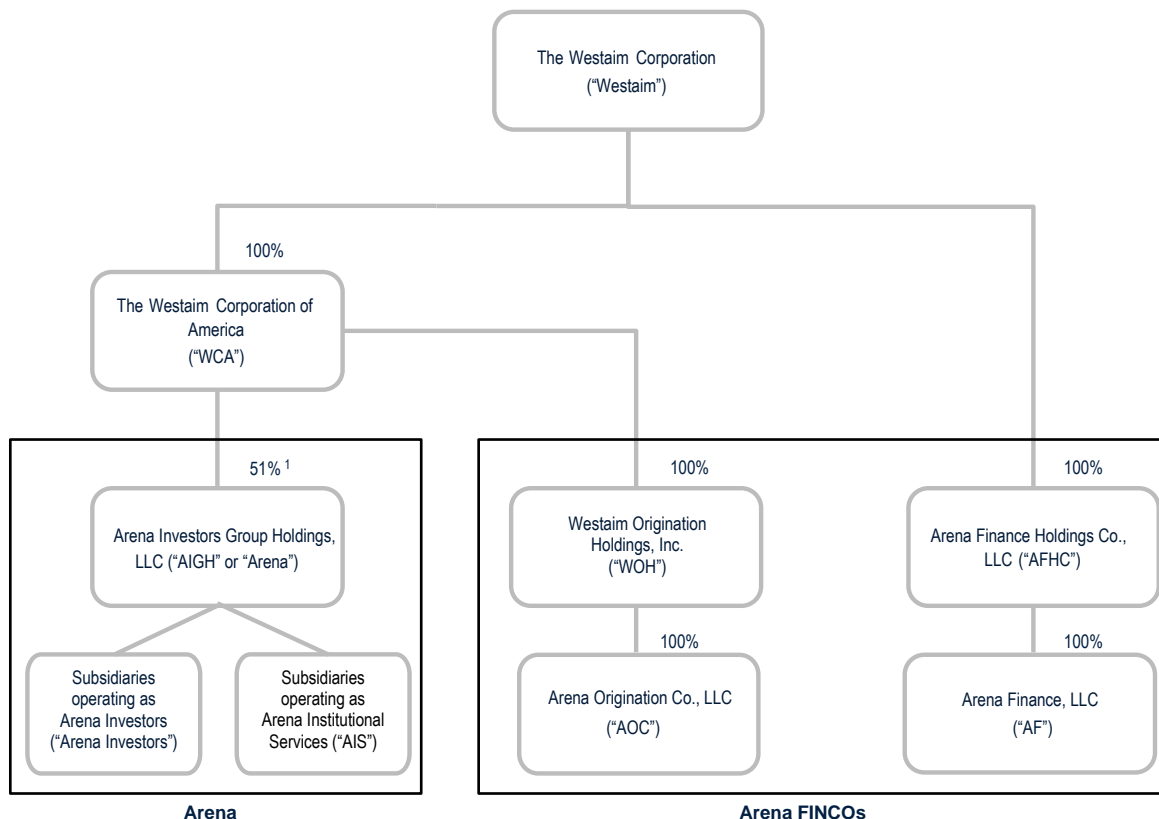
Arena

Arena Investors Group Holdings, LLC ("AIGH" or "Arena"), is a private company, through its wholly-owned subsidiaries and subsidiaries which Arena has a controlling interest. Arena operates as two businesses, Arena Investors and Arena Institutional Services ("AIS"). Arena Investors operates as an investment manager offering third-party clients access to 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 and other pooled investment vehicles. AIS provides non-investment advisory services for

**3. INVESTMENTS (continued)**

Arena and third parties. The Company's investment in Arena is accounted for using the equity method and consists of investments in corporations or limited partnerships where the Company has significant influence.

The following chart illustrates a simplified organizational structure of Arena and the Arena FINCOs:



<sup>1</sup> Legal equity ownership and profit percentage are 51%. Ownership and profit percentage are subject to change over time pursuant to the earn-in rights granted to BP LLC described under "Investment in Arena".

For a detailed discussion of the business of Arena and the Arena FINCOs, see the Company's Annual Information Form dated March 30, 2023 for its fiscal year ended December 31, 2022 which is available on SEDAR+ at [www.sedarplus.ca](http://www.sedarplus.ca).

Accounting for the Company's Investments

The Company qualifies as an investment entity under IFRS and uses fair value as the key measure to monitor and evaluate its primary investments. Accordingly, the Company's investments in Skyward Specialty, the Arena FINCOs and ASOF LP are accounted for at fair value through profit or loss ("FVTPL"). The Company's investment in Arena is accounted for using the equity method since the Company does not exercise control but exercises significant influence over Arena. For a detailed description of the accounting and valuation of the Company's investments, see Note 4, *Investments* in the Notes to the Financial Statements.

Dividend income from investments in private entities are reported under "Revenue" in the interim consolidated statements of profit and comprehensive income. Changes in the fair value of the Company's investments in Skyward Specialty, the Arena FINCOs and ASOF LP and the Company's share of income (loss) and other comprehensive income (loss) of Arena are reported under "Net results of investments" in the interim consolidated statements of profit (loss) and comprehensive income (loss).

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**3. INVESTMENTS (continued)**

**A. INVESTMENT IN SKYWARD SPECIALTY**

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

	Three months ended September 30, 2023					
	Opening Balance	Skyward Specialty preferred shares converted to common shares	Proceeds from sale of Skyward Specialty common shares	Net increase (decrease) in value of investment	Dissolution of HIIG Partnership	Ending Balance
HIIG Partnership-Company's share of Skyward Specialty common shares <sup>1</sup>	\$ 185.0	\$ -	\$ -	\$ (12.5)	\$ (172.5)	\$ -
HIIG Partnership-Company's share of other HIIG Partnership net assets	0.4	-	-	-	(0.4)	-
Skyward Specialty convertible preferred shares held by the Company <sup>2</sup>	-	-	-	-	-	-
Skyward Specialty common shares held by the Company <sup>2</sup>	83.8	-	-	33.2	172.5	289.5
	<u>\$ 269.2</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 20.7</u>	<u>\$ (0.4)</u>	<u>\$ 289.5</u>

	Three months ended September 30, 2022					
	Opening Balance	Skyward Specialty preferred shares converted to common shares	Proceeds from sale of Skyward Specialty common shares	Net increase (decrease) in value of investment	Dissolution of HIIG Partnership	Ending Balance
HIIG Partnership-Company's share of Skyward Specialty common shares <sup>1</sup>	\$ 93.3	\$ -	\$ -	\$ (4.3)	\$ -	\$ 89.0
HIIG Partnership-Company's share of other HIIG Partnership net assets	0.4	-	-	-	-	0.4
Skyward Specialty convertible preferred shares held by the Company <sup>2</sup>	93.3	-	-	(4.3)	-	89.0
Skyward Specialty common shares held by the Company <sup>2</sup>	-	-	-	-	-	-
	<u>\$ 187.0</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (8.6)</u>	<u>\$ -</u>	<u>\$ 178.4</u>

	Nine months ended September 30, 2023					
	Opening Balance	Skyward Specialty preferred shares converted to common shares	Proceeds from sale of Skyward Specialty common shares	Net increase (decrease) in value of investment	Dissolution of HIIG Partnership	Ending Balance
HIIG Partnership-Company's share of Skyward Specialty common shares <sup>1</sup>	\$ 109.2	\$ -	\$ -	\$ 63.3	\$ (172.5)	\$ -
HIIG Partnership-Company's share of other HIIG Partnership net assets	0.4	-	-	-	(0.4)	-
Skyward Specialty convertible preferred shares held by the Company <sup>2</sup>	109.3	(109.3)	-	-	-	-
Skyward Specialty common shares held by the Company <sup>2</sup>	-	109.3	(87.4)	95.1	172.5	289.5
	<u>\$ 218.9</u>	<u>\$ -</u>	<u>\$ (87.4)</u>	<u>\$ 158.4</u>	<u>\$ (0.4)</u>	<u>\$ 289.5</u>

	Nine months ended September 30, 2022					
	Opening Balance	Skyward Specialty preferred shares converted to common shares	Proceeds from sale of Skyward Specialty common shares	Net increase (decrease) in value of investment	Dissolution of HIIG Partnership	Ending Balance
HIIG Partnership-Company's share of Skyward Specialty common shares <sup>1</sup>	\$ 95.8	\$ -	\$ -	\$ (6.8)	\$ -	\$ 89.0
HIIG Partnership-Company's share of other HIIG Partnership net assets	0.4	-	-	-	-	0.4
Skyward Specialty convertible preferred shares held by the Company <sup>2</sup>	-	-	-	-	-	-
Skyward Specialty common shares held by the Company <sup>2</sup>	95.9	-	-	(6.9)	-	89.0
	<u>\$ 192.1</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (13.7)</u>	<u>\$ -</u>	<u>\$ 178.4</u>

<sup>1</sup> The Company's share of Skyward Specialty common shares held by the Westaim HIIG Limited Partnership (the "HIIG Partnership").

<sup>2</sup> The Skyward Specialty convertible preferred shares were automatically converted in Skyward Specialty common shares on January 18, 2023.

On January 18, 2023, Skyward Specialty closed its initial public offering (the "IPO"). In connection with the IPO, the Skyward Specialty common shares became listed on the Nasdaq Global Select Market under the ticker symbol "SKWD". Also in connection with the IPO, the Skyward Specialty convertible preferred shares, including those which the Company owned, automatically converted to Skyward Specialty common shares.

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**3. INVESTMENTS (continued)**

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 approximately \$87.4. Pursuant to the terms of a lock-up agreement, Westaim was restricted from further trades in Skyward Specialty common shares until September 6, 2023.

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 a limited partner) receiving 7,281,780 Skyward Specialty common shares valued at \$172.5 (\$23.69 per Skyward Specialty common share on July 31, 2023) and \$0.4 in cash on the dissolution date.

At September 30, 2023, Westaim directly held 10,579,639 Skyward Specialty common shares. At December 31, 2022, Westaim directly held Skyward Specialty preferred shares which were convertible into 7,285,359 common shares and indirectly held 7,281,780 Skyward Specialty common shares through the Company's interest in the HIIG Partnership for a total of 14,567,139 Skyward Specialty common shares.

(i) Fair Value

The investment in Skyward Specialty is classified at Level 1 of the fair value hierarchy and is accounted for at FVTPL. At September 30, 2023, the Company's estimated fair value of Skyward Specialty common shares held directly by the Company was supported by the "SKWD" closing trading price on the Nasdaq Global Select Market of \$27.36 per share on September 30, 2023. At December 31, 2022, the Company's estimated fair value of Skyward Specialty's fully diluted common shares, using multiple valuation techniques, was determined to be \$15.00 per Skyward Specialty common shares. See Note 4, *Investment in Skyward Specialty* in the Notes to the Financial Statements.

At September 30, 2023, the fair value of the Company's investment in Skyward Specialty was determined to be \$289.5 which consisted of 10,579,639 Skyward Specialty common shares held directly by the Company at \$27.36 per share. At December 31, 2022 the fair value of the Company's investment in Skyward Specialty was determined to be \$218.9 and consisted of the aggregate fair value of (i) its share of the Skyward Specialty common shares held by the HIIG Partnership of 7,281,780 Skyward Specialty common shares at \$15.00 per share for \$109.2, (ii) its share of the other net assets of the HIIG Partnership of \$0.4, and (iii) convertible preferred shares held directly by the Company, which were convertible into 7,285,359 Skyward Specialty common shares at \$15.00 per share for \$109.3.

The Company recorded an increase in the value on its investment in Skyward Specialty of \$20.7 and \$158.4 in the three and nine months ended September 30, 2023, respectively, and a decrease in the value on its investment in Skyward Specialty of \$8.6 and \$13.7 in the three and nine months ended September 30, 2022, respectively.

**B. INVESTMENT IN THE ARENA FINCOs**

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

	Three months ended September 30		Nine months ended September 30	
	2023	2022	2023	2022
Opening balance	\$ 147.2	\$ 174.1	\$ 160.1	\$ 172.8
Return of capital to the Company	-	-	(2.5)	-
Increase (decrease) in value before dividends	0.9	(2.6)	(5.1)	3.7
Dividends paid to the Company	-	(2.9)	(4.4)	(7.9)
Ending balance	\$ 148.1	\$ 168.6	\$ 148.1	\$ 168.6



### 3. INVESTMENTS (continued)

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

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

#### **Corporate Private Investments**

Senior private corporate debt, bank debt, including, without limitation, secondary market bank debt, distressed debt such as senior secured bank debt before or during a Chapter 11 bankruptcy filing, corporate bonds, including, without limitation, bonds in liquidation or out-of-court exchange offers and trade claims of distressed companies in anticipation of a recapitalization, bridge loans/transition financing, debtor-in-possession ("DIP") financings, junior secured loans, junior capital to facilitate restructurings, equity co-investments or warrants alongside corporate loans.

#### **Real Estate Private Investments**

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

#### **Structured Finance and Assets**

Commercial receivables, investments in entities (including, without limitation, start-up businesses) engaged, or to be engaged, in activities or investments such as distressed commercial and industrial loans, commercial and industrial assets such as small-scale asset-based loans, trade claims and vendor puts, specialized or other types of equipment leases and machinery, non-performing loans globally, hard assets (including, without limitation, airplanes and components, industrial machinery), commodities (physical and synthetic), reinsurance and premium finance within life and property casualty insurance businesses, legal-related finance including, without limitation, law firm loans, settled and appellate judgments and probate finance, royalties, trust certificates, intellectual property and other financial instruments that provide for the contractual or conditional payment of an obligation. Thinly traded or more illiquid loans and securities backed by mortgages (commercial and residential), other small loans including, without limitation, equipment leases, auto loans, commercial mortgage-backed securities, residential mortgage-backed securities, collateralized loan obligations, collateralized debt obligations, other structured credits and consumer-related assets, aviation and other leased asset securitizations, esoteric asset securitization, revenue interests, synthetics, and catastrophe bonds. Auto and title loans, credit cards, consumer installment loans, charged-off consumer obligations, consumer bills, consumer receivables, product-specific purchase finance, residential mortgages, tax liens, real estate owned homes, other consumer-related assets, retail purchase loans and unsecured consumer loans as well as distressed or charged-off obligations of all of these types, peer-to-peer originated loans of all types, manufactured housing, and municipal consumer obligations.

#### **Corporate and Other Securities**

Illiquid positions in asset-backed securities, collateralized debt obligations, collateralized loan obligations, residential mortgage backed securities, commercial mortgage backed securities, other securitized bonds or non-bond tranches and liquid positions including, hedged and unhedged investments in public securities (including, without limitation, public real estate and special purpose acquisition companies ("SPACs")), preferred stock, common stock, municipal bonds, senior public corporate debt, other industry relative value, merger arbitrage in transactions such as mergers, hedged investments in regulated utilities, integrated utilities, merchant energy providers, acquisitions, tender offers, spin-offs, recapitalizations and Dutch auctions, limited partnership interests, interests in fund start-ups and investment managers, event-driven relative value equity investments in transactions such as corporate restructurings, strategic block, other clearly defined events, high-yield bonds, credit arbitrage and convertible bond arbitrage, in/post-bankruptcy equities, demutualizations, liquidations and litigation claims, real estate securities, business development companies, master limited partnership interests, royalty trusts, publicly traded partnerships, options and other equity derivatives.

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

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

**3. INVESTMENTS (continued)**

(i) Accounting for the Arena FINCOs

The Company's investment in the Arena FINCOs is accounted for at FVTPL. Using net asset value as the primary valuation technique, management determined that 1.0x the book value, or 100% of the shareholder's equity of the Arena FINCOs at September 30, 2023, in the amount of \$148.1 approximated the fair value of the Company's investments in the Arena FINCOs. See Note 4, *Investments in the Arena FINCOs* in the Notes to the Financial Statements.

The fair value of the Company's investment in the Arena FINCOs was determined to be \$148.1 and \$160.1 at September 30, 2023 and December 31, 2022, respectively.

The Company recorded an increase in the value of its investments in the Arena FINCOs of \$0.9 in the three months ended September 30, 2023, and a decrease in the value of its investments in the Arena FINCOs of \$9.5, which was a decrease of \$5.1 before dividends paid to the Company of \$4.4 in the nine months ended September 30, 2023. The Company recorded a decrease in the value of its investments in the Arena FINCOs of \$5.5, which was a decrease of \$2.6 before dividends paid to the Company of \$2.9 in the three months ended September 30, 2022, and a decrease in the value of its investments in the Arena FINCOs of \$4.2, which was an increase of \$3.7 before dividends paid to the Company of \$7.9 in the nine months ended September 30, 2022. In addition, the Arena FINCOs returned capital in the amount of \$nil and \$2.5 in the three and nine months ended September 30, 2023, respectively. There was no capital returned to the Company in the three and nine months ended September 30, 2022.

(ii) Arena FINCOs Supplementary Financial Measures for the three and nine months ended September 30, 2023 and 2022

The Company considers certain financial results of the Arena FINCOs to be important measures in assessing the Company's financial position and performance, in particular, the net assets which can be invested to generate investment income, and operating expenses. Supplementary Financial Measures related to the Arena FINCOs set out below is unaudited and has been derived from the unaudited financial statements of WOH, AFHC, AOC and the consolidated financial statements of AF and its subsidiaries for the three and nine months ended September 30, 2023 and 2022 and the audited financial statements of AOC, AF and its subsidiaries for the year ended December 31, 2022, which have been prepared in accordance with IFRS or US GAAP. AOC financial statements and AF consolidated financial statements are the responsibility of the management of the Arena FINCOs. Readers are cautioned that the financial information has not been reconciled to IFRS and so may not be comparable to the financial information of issuers that present their financial information in accordance with IFRS.

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**3. INVESTMENTS (continued)**

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

	September 30, 2023	December 31, 2022
Cash and cash equivalents	\$ 12.6	\$ 16.7
Investments:		
Loans / private assets	159.5	161.2
Other securities	42.0	37.8
Total investments	201.5	199.0
Other net assets	4.6	7.9
Due to brokers, net	(4.8)	(17.0)
Senior secured notes payable	(44.3)	(43.9)
Revolving credit facility payable	(21.5)	(2.6)
Net assets of the Arena FINCOs	\$ 148.1	\$ 160.1

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

Arena Finance II LLC ("AFII"), one of the Arena FINCOs, has a private placement of \$45.0 of 6.75% senior secured notes payable to improve net returns by leveraging invested assets. AFII incurred issuance costs relating to the notes of \$1.7 which is recorded as a discount to the net proceeds received and is amortized over the life of the notes. The net proceeds received from these notes are being used by the Arena FINCOs in accordance with its investment objectives.

AFII has a revolving credit facility with third party lenders with a commitment amount of \$25.0 expiring on September 30, 2024. Unpaid principal amounts under the revolving credit facility will bear interest at the 3-month Secured Overnight Finance Rate ("SOFR") plus 3.06161%. Additionally, an unused facility fee accrues at a rate of 0.50% per annum and is payable monthly in arrears. At September 30, 2023 and December 31, 2022, there were draws of \$21.5 and \$2.6 outstanding, respectively. The loan is secured by AFII's equity interests in its subsidiaries, carries a parental guarantee from AF, and ranks senior to AFII's senior secured notes payable. The net proceeds received under the revolving credit facility are intended to be used as working capital and liquidity support in lieu of maintaining cash reserves and therefore are expected to keep AFII's equity and term debt capital fully invested.

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

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

	Three months ended September 30		Nine months ended September 30	
	2023	2022	2023	2022
Net operating results of the Arena FINCOs:				
Investment income (loss)	\$ 0.9	\$ (0.8)	\$ 0.6	\$ 3.3
Net gains on investments	2.3	0.3	1.6	7.9
Interest expense	(1.3)	(1.0)	(3.5)	(3.0)
Net investment income (loss)	1.9	(1.5)	(1.3)	8.2
Management and asset servicing fees	(1.0)	(1.2)	(2.9)	(3.3)
Incentive fees recovery (expense)	0.1	0.2	(0.1)	(0.5)
Other operating expenses	(0.1)	(0.1)	(0.7)	(0.6)
Net operating results before holding companies' expenses	0.9	(2.6)	(5.0)	3.8
Arena FINCOs holding companies' expenses:				
Advisory fees paid to the Company	-	-	(0.1)	(0.1)
Net operating results of the Arena FINCOs	\$ 0.9	\$ (2.6)	\$ (5.1)	\$ 3.7

The Net Return on the investment portfolios of the Arena FINCOs was +0.6% and -3.2% for the three and nine months ended September 30, 2023, respectively, and -1.5% and +2.2% for the three and nine months ended September 30, 2022, respectively. See Section 15, *Non-GAAP Measures* of this MD&A.

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**3. INVESTMENTS (continued)**

**C. INVESTMENT IN ARENA**

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

	Three months ended September 30		Nine months ended September 30	
	2023	2022	2023	2022
Investment in Arena				
Opening balance	\$ 26.7	\$ 31.0	\$ 26.9	\$ 26.2
The Company's share of profit (loss) and comprehensive income (loss)	2.1	(4.2)	3.9	0.6
The Company's share of cash distributions for tax purposes from Arena	-	-	(2.0)	-
Ending balance	\$ 28.8	\$ 26.8	\$ 28.8	\$ 26.8

Arena Investors generates revenues primarily from Management Fees, Incentive Fees and Asset Servicing Fees. "Management Fees" are the fees calculated on Arena Investors' various segregated client accounts including the Arena FINCOs and private pooled investment vehicles. Management Fees for separately managed and proprietary accounts are pro-rated on mid-month accounts and may be based on a percentage of the fair value of invested capital for the account during the ramp-up phase. "Incentive Fees" are the fees calculated as a percentage of net profits earned by Arena Investors as of the end of each accounting period or applicable withdrawal date related to client accounts, including the Arena FINCOs, subject to a "high water mark" and loss carryforward provisions for each measurement date. "Asset Servicing Fees" are the fees earned in connection with the management and servicing of the illiquid portion of clients' investment portfolios including the Arena FINCOs. AIS generates revenue primarily from fees by providing non-investment advisory services.

At September 30, 2023, Arena Investors had committed assets under management ("AUM") of approximately \$3.3 billion (December 31, 2022: \$3.5 billion). AUM refers to the assets for which Arena Investors provides investment management, advisory or certain other investment-related services. AUM is generally based on the net asset value of the funds managed by Arena Investors plus any unfunded commitments. Arena Investors' calculation of AUM may differ from the calculations of other asset managers, and as a result, may not be comparable to similar measures presented by other asset managers. Arena Investors' calculations of AUM are not based on any definition set forth in the governing documents of the investment funds and are not calculated pursuant to any regulatory definitions. At September 30, 2023, AUM included the net assets of the Arena FINCOs and the Company's investment in ASOF LP of approximately \$151 (December 31, 2022: \$163).

(i) Rights Granted to BP LLC

On August 31, 2015, agreements were entered into between the Company and BP LLC in respect of AIGH (the "Associate Agreements"). The Associate Agreements set forth the members' respective rights and obligations, as well as BP LLC's right to participate in distributions of the capital and profit of the associates. BP LLC's initial profit sharing percentage was 49%, and under the Associate Agreements, BP LLC has the right to earn-in up to 75% equity ownership percentage in the associates and to thereby share up to 75% of the profit of the associates based on achieving certain AUM and cash flow (measured by the margin of trailing twelve months earnings before interest, income taxes, depreciation and amortization ("EBITDA") to trailing twelve month revenues) thresholds in accordance with the Associate Agreements. At September 30, 2023 and 2022, the Company's equity ownership and profit sharing percentage of Arena was 51%.

(ii) Accounting for Arena

The Company has a revolving loan to Arena (the "Arena Revolving Loan") with a limit of \$35 at September 30, 2023 (December 31, 2022 - \$35) 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 on April 1, 2023. Arena had drawn down the loan facility by \$24 at September 30, 2023 (December 31, 2022 - \$24). The loan facility is secured by all the assets of Arena.

The Company's investment in Arena is accounted for using the equity method. The carrying amount of the Company's investment in Arena was \$28.8 and \$26.9 at September 30, 2023 and December 31, 2022, respectively. The Company's 51% share of Arena's income and comprehensive income that amounted to \$2.1 and \$3.9 for the three and nine months ended September 30, 2023, respectively, and a share of Arena's (loss) income and comprehensive (loss) income that amounted to (\$4.2) and \$0.6 for the three and nine months ended September 30, 2022, respectively, was reported under "Net results of investments" in the interim consolidated statements of profit and comprehensive income.

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**3. INVESTMENTS (continued)**

(iii) Arena Supplementary Financial Measures for the three and nine months ended September 30, 2023 and 2022

The Company considers certain financial results of Arena to be important measures in assessing the Company's financial position and performance, in particular, revenues from the provision of investment management services, and operating expenses. Supplementary Financial Measures related to Arena set out below is unaudited and has been derived from the unaudited financial statements of AIGH for the three and nine months ended September 30, 2023 and 2022 and the audited financial statements of AIGH for the year ended December 31, 2022, which have been prepared in accordance with US GAAP. Such statements are the responsibility of the management of Arena. Arena presents their performance results as Arena Investors' fee related earnings ("FRE"), Arena Investors' net incentive fees, and AIS EBITDA. Arena's Supplementary Financial Measures includes EBITDA which is a common measure for operating profitability. Management of the Company concluded that any reconciling items to IFRS are not material.

Supplementary Financial Measures from Arena's Statement of Financial Position

	September 30, 2023	December 31, 2022
Cash and cash equivalents	\$ 5.5	\$ 4.8
Restricted cash	15.6	28.2
Arena's Revolving Loan from the Company	(24.0)	(24.0)
Other net assets (liabilities)	17.0	(3.2)
<b>Net assets</b>	<b>14.1</b>	<b>5.8</b>
Less: net assets attributable to non-controlling interests	4.9	0.2
<b>Net assets attributable to Arena</b>	<b>\$ 9.2</b>	<b>\$ 5.6</b>
Company's share of Arena's net assets	\$ 4.8	\$ 2.9
Arena's Revolving Loan from the Company	24.0	24.0
<b>Carrying amount of the Company's investment in Arena</b>	<b>\$ 28.8</b>	<b>\$ 26.9</b>

Restricted cash includes deposits received in advance for pre-funded work fees and prepaid deposits primarily from investment loans.

Supplementary Financial Measures from Arena's Statement of Income and Comprehensive Income

	Three months ended September 30		Nine months ended September 30	
	2023	2022 <sup>1</sup>	2023 <sup>1</sup>	2022 <sup>1</sup>
<b>Arena Investors</b>				
Management fees	\$ 7.7	\$ 8.1	\$ 23.2	\$ 23.6
Asset servicing fees	2.9	3.0	8.3	8.3
Other income	0.1	(0.3)	0.6	(0.1)
<b>Total recurring revenue</b>	<b>10.7</b>	<b>10.8</b>	<b>32.1</b>	<b>31.8</b>
Operating expenses allocated to recurring revenue	(10.5)	(8.9)	(30.4)	(24.7)
<b>Fee related earnings</b>	<b>0.2</b>	<b>1.9</b>	<b>1.7</b>	<b>7.1</b>
Incentive fees	1.5	(8.9)	5.7	4.9
Incentive fees compensation expense	(1.1)	(0.4)	(3.9)	(7.3)
<b>Net incentive fees</b>	<b>0.4</b>	<b>(9.3)</b>	<b>1.8</b>	<b>(2.4)</b>
<b>Arena Investors' EBITDA</b>	<b>0.6</b>	<b>(7.4)</b>	<b>3.5</b>	<b>4.7</b>
<b>Arena Institutional Services</b>				
AIS revenue	8.1	-	13.1	-
AIS operating expenses	(0.9)	(0.1)	(1.4)	(0.4)
Employee profit share	(2.9)	-	(4.7)	-
<b>AIS EBITDA</b>	<b>4.3</b>	<b>(0.1)</b>	<b>7.0</b>	<b>(0.4)</b>
AIGH general and administrative costs	(0.1)	(0.2)	(0.5)	(0.6)
AIGH other income and expenses	(0.2)	(0.1)	(0.9)	(1.2)
<b>Total Arena EBITDA</b>	<b>4.6</b>	<b>(7.8)</b>	<b>9.1</b>	<b>2.5</b>
Depreciation	(0.1)	-	(0.3)	(0.1)
Revolving loan interest expense paid to the Company	(0.4)	(0.3)	(1.2)	(1.0)
Taxes	-	(0.1)	-	(0.2)
<b>Net income (loss) attributable to Arena</b>	<b>4.1</b>	<b>(8.2)</b>	<b>7.6</b>	<b>1.2</b>
Company's share of income (loss) and comprehensive income (loss) of Arena (51%)	\$ 2.1	\$ (4.2)	\$ 3.9	\$ 0.6

<sup>1</sup> Adjusted to conform to the presentation of the current period financial statements.

**3. INVESTMENTS (continued)**

**D. INVESTMENT IN ASOF LP**

The Company's investment in ASOF LP, a fund managed by Arena Investors, with a fair value of \$3.1 and \$3.2 at September 30, 2023 and December 31, 2022, respectively, is included under investments in the interim consolidated statements of financial position. The Company's increase in the value on its investment in ASOF LP was a nominal amount and a decrease of \$0.1 in the three and nine months ended September 30, 2023, respectively, and a decrease of \$0.2 and an increase of a nominal amount in the three and nine months ended September 30, 2022, respectively.

**4. FINANCING**

**Preferred Securities**

On June 2, 2017, the Company closed the sale to certain affiliates of Fairfax Financial Holdings Limited (collectively referred to as "Fairfax") of 5,000,000 Preferred Securities for C\$50 million. On July 17, 2023, the Company redeemed and delisted all of the 5,000,000 Preferred Securities and paid C\$50 million (equivalent to \$37.9), 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 \$0.1 work fee to Fairfax which was included in accrued liabilities at June 30, 2023. The C\$ principal amount of the Preferred Securities was converted to US\$ at the period end exchange rate, resulting in a carrying amount of the Preferred Securities at September 30, 2023 of \$nil (December 31, 2022 - \$36.9). See Note 6, *Preferred Securities* in the Notes to the Financial Statements.

**Canadian Dollar Currency 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. During the three and nine months ended September 30, 2023, the Company's C\$ forward contracts resulted in foreign exchange gain of \$nil and \$0.3, respectively. During the three and nine months ended September 30, 2022, the Company's C\$ forward contracts resulted in foreign exchange loss of \$3.1 and \$3.8, respectively. See Note 7, *C\$ Exchange Forward Contracts* in the Notes to the Financial Statements. The Company has not designated these Canadian dollar currency forward contracts as accounting hedges.

**Derivative Warrant Liability**

In conjunction with the purchase by Fairfax of C\$50 million in Preferred Securities on June 2, 2017, Westaim issued to Fairfax 14,285,715 warrants to purchase Common Shares (the "Warrants") at a strike price of C\$3.50, with all of the Warrants having vested 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. The Warrants were subject to a cashless exercise at the discretion of Fairfax and were classified as a derivative liability and measured at FVTPL. At September 30, 2023, a liability of \$nil (December 31, 2022 - \$0.1) has been reported in the interim consolidated statements of financial position. See Note 8, *Derivative Warrant Liability* in the Notes to the Financial Statements.

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**5. ANALYSIS OF FINANCIAL RESULTS**

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

	Three months ended September 30		Nine months ended September 30	
	2023	2022	2023	2022
Revenue				
Interest income	\$ 1.0	\$ 0.3	\$ 2.1	\$ 1.0
Dividend income from investments in private entities	-	2.9	4.4	7.9
Advisory fees	0.1	0.2	0.3	0.7
	<u>\$ 1.1</u>	<u>\$ 3.4</u>	<u>\$ 6.8</u>	<u>\$ 9.6</u>
Net results of investments	23.7	(18.5)	152.7	(17.3)
Net expenses				
Salaries and benefits	(1.2)	(1.1)	(3.8)	(3.6)
General, administrative and other	(0.2)	(0.2)	(0.7)	(0.7)
Professional fees	(0.5)	(0.3)	(1.0)	(1.3)
Share-based compensation	(0.1)	(0.7)	(3.8)	(0.7)
Foreign exchange gain (loss)	0.3	0.2	(0.3)	0.3
Interest on preferred securities	(0.1)	(0.4)	(1.0)	(1.4)
Derivative warrant gain	-	-	0.1	0.1
	<u>\$ (1.8)</u>	<u>\$ (2.5)</u>	<u>\$ (10.5)</u>	<u>\$ (7.3)</u>
Income taxes recovery (expense)	-	0.9	(0.2)	0.2
Profit (loss) and comprehensive income (loss)	<u>\$ 23.0</u>	<u>\$ (16.7)</u>	<u>\$ 148.8</u>	<u>\$ (14.8)</u>

**5.1 Revenue**

In the three months ended September 30, 2023, the Company earned interest on loans made to Arena of \$0.4 (2022 - \$0.3), earned interest on bank balances of \$0.6 (2022 - a nominal amount), received dividends paid to the Company from the Arena FINCOs of \$nil (2022 - \$2.9), and earned advisory fees from Skyward Specialty of \$nil (2022 - \$0.1) and from the Arena FINCOs and Arena of \$0.1 (2022 - \$0.1).

In the nine months ended September 30, 2023, the Company earned interest on loans made to Arena of \$1.2 (2022 - \$1.0), earned interest on bank balances of \$0.9 (2022 - a nominal amount), received dividends paid to the Company from the Arena FINCOs of \$4.4 (2022 - \$7.9), and earned advisory fees from Skyward Specialty of a nominal amount (2022 - \$0.4) and from the Arena FINCOs and Arena of \$0.3 (2022 - \$0.3).

**5.2 Net Results of Investments**

In the three months ended September 30, 2023, the net results of investments of \$23.7 (2022 - decrease of \$18.5) consisted of an increase of \$20.7 in the value of the investment in Skyward Specialty (2022 - decrease of \$8.6), an increase of \$0.9 in the value of the investments in the Arena FINCOs (2022 - decrease of \$5.5, which was a decrease of \$2.6 before dividends paid of \$2.9), the Company's share of income and comprehensive income of Arena of \$2.1 (2022 - loss and comprehensive loss of \$4.2) and an increase in the value of the Company's investment in ASOF LP of a nominal amount (2022 - a decrease of \$0.2).

In the nine months ended September 30, 2023, the net results of investments of \$152.7 (2022 - decrease of \$17.3) consisted of an increase of \$158.4 in the value of the investment in Skyward Specialty (2022 - decrease of \$13.7), a decrease of \$9.5 in the value of the investments in the Arena FINCOs, which was a decrease of \$5.1 before dividends paid of \$4.4 (2022 - decrease of \$4.2, which was an increase of \$3.7 before dividends paid of \$7.9), the Company's share of income and comprehensive income of Arena of \$3.9 (2022 - \$0.6) and a decrease in the value of the Company's investment in ASOF LP of \$0.1 (2022 - increase of a nominal amount).

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

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**5. ANALYSIS OF FINANCIAL RESULTS (continued)**

5.3 Expenses

Salaries and benefits in the three and nine months ended September 30, 2023 were comparable to the corresponding periods in the prior year.

General, administrative and other expenses in the three and nine months ended September 30, 2023 were comparable to the corresponding periods in the prior year.

Professional fees decreased by \$0.3 in the nine months ended September 30, 2023 when compared to the corresponding period in the prior year due to certain expenses in the prior year relating to non-recurring consultation and legal fees.

Changes in share-based compensation expense from period to period result from the issuance of restricted share units ("RSUs") to Westaim management and deferred share units ("DSUs") to directors in lieu of director fees, as well as movement in the Company's share price which affects the per unit valuation of outstanding RSUs and DSUs. See Section 8, *Liquidity and Capital Resources* of this MD&A for additional information on the Company's share-based compensation plans.

The Company, from time to time, holds C\$ denominated assets and liabilities and the Company's operating results include foreign exchange gains or losses arising from the revaluation of the Company's C\$ denominated net liabilities and revaluation of C\$ foreign exchange forward contracts into US\$ at period end exchange rates. The following is a breakdown of the major components of the foreign exchange gain (loss) in the three and nine months ended September 30, 2023 and 2022:

	Three months ended September 30		Nine months ended September 30	
	2023	2022	2023	2022
Foreign exchange gains (losses) relating to:				
- Liabilities for RSUs and DSUs	\$ 0.3	\$ 0.6	\$ 0.1	\$ 0.7
- Preferred securities	(0.2)	2.7	(1.0)	3.4
- Canadian dollar currency forward contracts	-	(3.1)	0.3	(3.8)
- Other	0.2	-	0.3	-
	\$ 0.3	\$ 0.2	\$ (0.3)	\$ 0.3



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**6. ANALYSIS OF FINANCIAL POSITION**

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

	September 30, 2023	December 31, 2022
<b>Assets</b>		
Cash	\$ 39.3	\$ 3.4
Other assets	0.4	0.6
Investments	469.5	409.1
Deferred tax assets	1.7	0.2
	\$ 510.9	\$ 413.3
<b>Liabilities</b>		
Accounts payable and accrued liabilities	\$ 14.0	\$ 12.9
Income taxes payable	1.2	0.2
Preferred securities	-	36.9
Derivative warrant liability	-	0.1
	15.2	50.1
Shareholders' equity	495.7	363.2
<b>Total liabilities and shareholders' equity</b>	<b>\$ 510.9</b>	<b>\$ 413.3</b>

**6.1 Cash**

At September 30, 2023, the Company had cash of \$39.3 (December 31, 2022 - \$3.4).

**6.2 Other Assets**

At September 30, 2023, the Company had other assets of \$0.4 (December 31, 2022 - \$0.6). Other assets at September 30, 2023, included right of use asset of \$0.1 (December 31, 2022 - \$0.3), and other receivables of \$0.3 (December 31, 2022 - \$0.3). See Note 3, *Other Assets* in the Notes to the Financial Statements.

**6.3 Investments**

Investments were \$469.5 and \$409.1 at September 30, 2023 and December 31, 2022, respectively, and consisted of the investments in: Skyward Specialty, the Arena FINCOs, Arena, and ASOF LP.

The Company's investment in Skyward Specialty, which is accounted for at FVTPL, was determined to be \$289.5 and \$218.9 at September 30, 2023 and December 31, 2022, respectively. See discussion in Section 3, *Investment in Skyward Specialty* of this MD&A.

The Company's investment in the Arena FINCOs, which is accounted for at FVTPL, was determined to be \$148.1 and \$160.1 at September 30, 2023 and December 31, 2022, respectively. See discussion in Section 3, *Investment in the Arena FINCOs* of this MD&A.

The Company's investment in Arena, which is accounted for using the equity method, was determined to be \$28.8 and \$26.9 at September 30, 2023 and December 31, 2022, respectively. See discussion in Section 3, *Investment in Arena* of this MD&A.

The Company's investment in ASOF LP, which is accounted for at FVTPL, was determined to be \$3.1 and \$3.2 at September 30, 2023 and December 31, 2022, respectively. See discussion in Section 3, *Investment in ASOF LP* of this MD&A.

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**6. ANALYSIS OF FINANCIAL POSITION (continued)**

6.4 Deferred Tax Assets

At September 30, 2023, the Company reported a deferred tax assets of \$1.7 (December 31, 2022 – \$0.2) primarily related to recognized temporary differences of its Canadian and United States taxable income and it is probable that taxable profits will be available against which those temporary differences can be utilized. See Note 2(k), *Summary of Significant Accounting Policies Income Taxes* and Note 13, *Income Taxes* in the Notes to Financial Statements.

6.5 Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities were \$14.0 at September 30, 2023 (December 31, 2022 - \$12.9). Accounts payable and accrued liabilities at September 30, 2023 included liabilities related to accrued employee bonuses of \$1.9 (December 31, 2022 - \$2.4), RSUs of \$8.3 (December 31, 2022 - \$5.8), DSUs of \$2.6 (December 31, 2022 - \$2.6), lease liability of \$0.2 (December 31, 2022 - \$0.3), interest accrued on the Preferred Securities of \$nil (December 31, 2022 - \$0.5), fair value of Canadian dollar currency forward contract of \$nil (December 31, 2022 - \$0.5), and other accrued liabilities of \$1.0 (December 31, 2022 - \$0.8). See Note 3, *Other Assets* in the Notes to the Financial Statements for additional information on the lease liability. See Section 8, *Liquidity and Capital Resources* of this MD&A for additional information on the Company's share-based compensation plans.

6.6 Income Taxes Payable

At September 30, 2023, the Company had an income taxes payable of \$1.2 for its Canadian and United States current year income taxes (December 31, 2022 - \$0.2).

6.7 Preferred Securities

At September 30, 2023, the Company had no Preferred Securities outstanding and, as a result, the Preferred Securities liability was \$nil. See discussion in Section 4, *Financing* of this MD&A. At December 31, 2022, the C\$50 million principal amount of the Preferred Securities outstanding at that time was converted to US\$ at the period end exchange rate, resulting in a carrying amount of the Preferred Securities of \$36.9.

6.8 Derivative Warrant Liability

At September 30, 2023, the Company had no Warrants outstanding and, as a result, the Derivative Warrant Liability was \$nil. See discussion in Section 4, *Financing* of this MD&A. At December 31, 2022, a liability of \$0.1 representing the estimated fair value of the vested Warrants had been accrued in the interim consolidated statements of financial position.

6.9 Shareholders' Equity

The details of shareholders' equity are as follows:

	September 30, 2023	December 31, 2022
Share capital	\$ 363.8	\$ 378.6
Contributed surplus	16.2	17.7
Accumulated other comprehensive loss	(2.2)	(2.2)
Retained earnings (deficit)	117.9	(30.9)
Shareholders' equity	\$ 495.7	\$ 363.2

*Share Capital*

Westaim had 135,491,943 Common Shares outstanding at September 30, 2023 and 141,386,718 outstanding at December 31, 2022. In the three and nine months ended September 30, 2023, Westaim acquired and canceled 3,740,478 and 6,135,078, respectively, Common Shares that it had acquired at a cost of \$9.8 and \$16.3, respectively through its normal course issuer bid ("NCIB"). In the year ended December 31, 2022, Westaim cancelled 1,300,000 Common Shares that it had acquired at a cost of \$2.5 through its NCIB. In the three and nine months ended September 30, 2023, the Company issued 240,303 Common Shares through the exercise and net exercise of 2,752,940 of the Company's stock options which increased share capital by \$1.5. See discussion in Section 8, *Liquidity and Capital Resources, Share Based Compensation Plans* of this MD&A and Note 10, *Share Capital* in the Notes to the Financial Statements.

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**6. ANALYSIS OF FINANCIAL POSITION (continued)**

*Contributed Surplus*

The Company had \$16.2 in contributed surplus at September 30, 2023 and \$17.7 at December 31, 2022. The decrease of \$1.5 in contributed surplus, which was offset by a \$1.5 increase in share capital, was to record the settlement of 2,752,940 of the Company's stock options in August 2023. See discussion in Section 8, Liquidity and Capital Resources, Share Based Compensation Plans of this MD&A and Note 10, Share Capital in the Notes to the Financial Statements.

*Accumulated Other Comprehensive Loss*

Accumulated other comprehensive loss of \$2.2 at September 30, 2023 and December 31, 2022 was comprised of the cumulative exchange differences from currency translation as a result of a change in presentation currency from the C\$ to the US\$ on August 31, 2015.

*Retained Earnings*

The increase in the retained earnings to \$117.9 at September 30, 2023 from a deficit of \$30.9 at December 31, 2022 is due to the profit and comprehensive income for the nine months ended September 30, 2023.

**7. OUTLOOK**

With the Arena platform largely built (product suite, geographies, IT systems, investment capability), its 150+ professionals are poised to deploy committed capital within Arena Investors and intellectual capital within Arena Institutional Services to grow its earnings.

Generally, the US property and casualty insurance market has shifted to a cycle of increasing insurance rates and improved underwriting terms. Skyward Specialty is well positioned to take advantage of the continued hard insurance market and accelerate its profitable growth and return on equity. Skyward Specialty continues to acquire additional key talent, executes on underwriting actions to optimize its product mix and effectively manages its investment portfolio to result in improved investment returns. Skyward Specialty has an AM Best rating "A-" with a Positive Outlook. Skyward Specialty's objective is to build a top quartile property and casualty specialty publicly traded insurer trading at or above peer multiples of book value.

The Company will continue to evaluate opportunities to monetize its investments and use the proceeds to acquire its shares. The Company will also continue to seek additional investment opportunities to create shareholder value through partnering with other aligned and experienced management teams to build profitable businesses that generate attractive returns to the Company's shareholders over the long term.

**8. LIQUIDITY AND CAPITAL RESOURCES**

Capital Management Objectives

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

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

The Company monitors the mix and adequacy of its capital on a continuous basis. The Company employs internal metrics. The capital of the Company is not subject to any restrictions.

Share Capital

Westaim's authorized share capital consists of an unlimited number of Common Shares, Class A preferred shares and Class B preferred shares.

At September 30, 2023, Westaim had 135,491,943 Common Shares outstanding (December 31, 2022 – 141,386,718), with a stated capital of \$363.8 (December 31, 2022 - \$378.6).

There were no Class A or Class B preferred shares outstanding at September 30, 2023 or December 31, 2022. See Note 10, *Share Capital* in the Notes to the Financial Statements.

Dividends

No dividends were paid by the Company in the three and nine months ended September 30, 2023 and 2022 or the year ended December 31, 2022.

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**8. LIQUIDITY AND CAPITAL RESOURCES (continued)**

Share-based Compensation Plans

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, subject to the terms of the Option Plan, the aggregate number of Common Shares which may be reserved for issuance thereunder is limited to not more than 10% of the aggregate number of Common Shares outstanding. However, each of the Incentive Plan and the Option Plan provide that, 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.

Westaim had 7,623,955 stock options outstanding at September 30, 2023 at strike prices ranging from C\$3.00 to C\$3.10 (December 31, 2022 - 10,428,337 stock options outstanding at strike prices ranging from C\$3.00 to C\$3.25). During the three and nine months ended September 30, 2023, 2,752,940 stock options were exercised or net exercised and the Company issued 240,303 Common Shares to the option holders. Also, during the nine months ended September 30, 2023, 51,442 stock options were forfeited by a former employee.

Westaim had 3,455,198 RSUs outstanding at September 30, 2023 (December 31, 2022 - 2,975,198 RSUs). In the nine months ended September 30, 2023, 480,000 RSUs were issued to certain members of the Company's management. There were no RSUs issued in the nine months ended September 30, 2022. The RSUs, at the election of the holder, can be settled in Common Shares or cash based on the prevailing market price of the Common Shares on the settlement date. There were no RSUs settled in the three and nine months ended September 30, 2023 and 2022.

At September 30, 2023, 995,619 DSUs were vested and outstanding (December 31, 2022 - 1,355,133 DSUs). DSUs are issued to certain directors in lieu of director fees, at their election, at the market value of Common Shares at the date of grant.

With respect to the DSUs that are outstanding, they are paid out solely in cash no later than the end of the calendar year following the year the participant ceases to be a director. In the nine months ended September 30, 2023, 485,787 DSUs were settled for \$1.2 in cash paid to a former director of the Company. In the three months ended September 30, 2023 and in the three and nine months ended September 30, 2022, no DSUs were settled.

At September 30, 2023, accounts payable and accrued liabilities included amounts related to outstanding RSUs of \$8.3 (December 31, 2022 - \$5.8) and outstanding DSUs of \$2.6 (December 31, 2022 - \$2.6).

See Note 11, *Share-based Compensation* in the Notes to the Financial Statements.

Market for Securities

Westaim's Common Shares are listed and posted for trading on the TSXV under the symbol "WED".

Cash Flow Objectives

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

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

September 30, 2023	One year or less	One to five years	No specific date / later than five years	Total
Financial assets:				
Cash	\$ 39.3	\$ -	\$ -	\$ 39.3
Other assets (excluding capital, right-of-use and deferred tax assets)	0.3	-	-	0.3
Investments	-	24.0	445.5	469.5
Total financial assets	39.6	24.0	445.5	509.1
Financial obligations:				
Other liabilities (excluding lease liability)	4.1	-	10.9	15.0
Total financial obligations	4.1	-	10.9	15.0
Net financial assets	\$ 35.5	\$ 24.0	\$ 434.6	\$ 494.1

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**8. LIQUIDITY AND CAPITAL RESOURCES (continued)**

December 31, 2022	One year or less	One to five years	No specific date / later than five years	Total
Financial assets:				
Cash	\$ 3.4	\$ -	\$ -	\$ 3.4
Other assets (excluding capital, right-of-use and deferred tax assets)	0.3	-	-	0.3
Investments	-	24.0	385.1	409.1
Total financial assets	3.7	24.0	385.1	412.8
Financial obligations:				
Other liabilities (excluding lease and derivative warrant liabilities)	4.4	-	8.4	12.8
Preferred securities	-	-	36.9	36.9
Total financial obligations	4.4	-	45.3	49.7
Net financial (obligations) assets	\$ (0.7)	\$ 24.0	\$ 339.8	\$ 363.1

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

**9. RELATED PARTY TRANSACTIONS**

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

See Note 12, *Related Party Transactions* in the Notes to the Financial Statements.

**10. CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS**

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

Management used the trading price of the publicly traded shares at the close of the reporting period as the primary valuation technique in determining the fair value of the Company's investment in Skyward Specialty and net asset value as the primary valuation technique in determining the fair value of the Company's investment in the Arena FINCOs and ASOF LP at September 30, 2023. Management determined that these valuation techniques produced the best indicator of the fair value of the Company's investments measured at FVTPL at September 30, 2023. The significant unobservable inputs used in the valuation of the Arena FINCOs at September 30, 2023 was the equity of the entities at September 30, 2023 and the multiple applied to net assets of the Arena FINCOs. For a detailed description of the valuation of the Company's investments in private entities, see Note 4, *Investments* in the Notes to the Financial Statements. Due to the inherent uncertainty of valuation, management's estimated values may differ significantly from the values that would have been used had an active market for the investment existed, and the differences could be material.

Other key estimates include the Company's fair value of share-based compensation and unrecognized deferred tax assets. Details of these items are disclosed in Note 11 and Note 13, respectively, to the Company's unaudited interim consolidated financial statements for the three and nine months ended September 30, 2023 and 2022.

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

A description of the Company's accounting policies is disclosed in Note 2, *Summary of Significant Accounting Policies* in the Notes to the Financial Statements.

At September 30, 2023, there were no new pronouncements that impacted the Company.

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**12. QUARTERLY FINANCIAL INFORMATION**

	Q3 2023	Q2 2023	Q1 2023	Q4 2022	Q3 2022	Q2 2022	Q1 2022	Q4 2021
Revenue	\$ 1.1	\$ 3.3	\$ 2.4	\$ 1.1	\$ 3.4	\$ 3.2	\$ 3.0	\$ 0.6
Increase (decrease) in value of investments, less dividends	23.7	32.6	96.4	34.0	(18.5)	(2.7)	3.9	6.2
Net (expenses) recovery of expenses	(1.8)	(4.7)	(4.0)	(2.5)	(2.5)	(2.4)	(2.4)	0.1
Income taxes recovery (expense)	-	0.1	(0.3)	0.2	0.9	0.3	(1.0)	(0.2)
<b>Profit (loss) and comprehensive income (loss)</b>	<b>\$ 23.0</b>	<b>\$ 31.3</b>	<b>\$ 94.5</b>	<b>\$ 32.8</b>	<b>\$ (16.7)</b>	<b>\$ (1.6)</b>	<b>\$ 3.5</b>	<b>\$ 6.7</b>

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

**13. RISKS**

The Company is subject to a number of risks which could affect its business, prospects, financial condition, results of operations and cash flows, including risks relating to lack of significant revenues, regulatory risks, foreign exchange risks and risks relating to the businesses of Skyward Specialty, the Arena FINCOs and Arena. A detailed description of the risk factors associated with the Company and its business is contained in the Company's Annual Information Form dated March 30, 2023 for its fiscal year ended December 31, 2022 which is available on SEDAR+ at [www.sedarplus.ca](http://www.sedarplus.ca).

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**14. ADDITIONAL ARENA FINCOs' INVESTMENT SCHEDULES**

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

Investments by Strategy	Number of positions	Cost	Fair value	Percentage of investments at fair value	September 30, 2023	
					% Debt investments	% Equity, hard assets and real estate owned investments
Corporate Private Investments	26	\$ 50.0	\$ 52.8	26.2%	5.6%	20.6%
Real Estate Private Investments	45	51.3	51.2	25.4%	16.8%	8.6%
Structured Finance and Assets	46	56.1	55.5	27.6%	21.5%	6.1%
Other Securities	108	41.5	42.0	20.8%	3.9%	16.9%
	225	\$ 198.9	\$ 201.5	100.0%	47.8%	52.2%

Investments by Strategy	Number of positions	Cost	Fair value	Percentage of investments at fair value	December 31, 2022	
					% Debt investments	% Equity, hard assets and real estate owned investments
Corporate Private Investments	24	\$ 50.1	\$ 60.2	30.2%	7.6%	22.6%
Real Estate Private Investments	36	47.0	45.8	23.0%	15.9%	7.1%
Structured Finance and Assets	49	59.1	55.2	27.8%	21.7%	6.1%
Other Securities	188	44.0	37.8	19.0%	5.8%	13.2%
	297	\$ 200.2	\$ 199.0	100.0%	51.0%	49.0%

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

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

Investments by Geographic Breakdown	September 30, 2023			December 31, 2022		
	Cost	Fair value	Percentage of investments at fair value	Cost	Fair value	Percentage of investments at fair value
<b>Loans / Private Assets</b>						
North America	\$ 108.1	\$ 107.3	53.3%	\$ 111.1	\$ 111.8	56.2%
Europe	36.1	42.0	20.8%	30.1	35.1	17.6%
Asia/Pacific	12.2	8.8	4.4%	13.4	12.5	6.3%
Latin America	1.0	1.4	0.7%	1.6	1.8	0.9%
	157.4	159.5	79.2%	156.2	161.2	81.0%
<b>Other Securities <sup>1</sup></b>						
North America	28.1	29.9	14.8%	30.7	30.6	15.4%
Asia/Pacific	4.6	4.6	2.3%	5.2	3.9	2.0%
Europe	8.5	7.0	3.5%	7.8	3.1	1.5%
Latin America	0.3	0.6	0.3%	-	-	0.0%
Other	-	(0.1)	(0.1)%	0.3	0.2	0.1%
	41.5	42.0	20.8%	44.0	37.8	19.0%
	\$ 198.9	\$ 201.5	100.0%	\$ 200.2	\$199.0	100.0%

<sup>1</sup> Net of short positions.

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**14. ADDITIONAL ARENA FINCOs' INVESTMENT SCHEDULES (continued)**

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

Investments by Industry	September 30, 2023			December 31, 2022		
	Cost	Fair value	Percentage of investments at fair value	Cost	Fair value	Percentage of investments at fair value
<b>Loans / Private Assets</b>						
Corporate Private Investments						
Basic Materials	\$ -	\$ -	0.0%	\$ 0.5	\$ 0.6	0.3%
Business Services	8.8	6.1	3.0%	9.9	10.0	5.0%
Consumer Products	2.4	2.7	1.3%	2.5	2.6	1.3%
Financial Services	1.4	0.7	0.4%	1.4	0.8	0.4%
Oil and Gas <sup>1</sup>	20.3	23.3	11.6%	20.7	27.4	13.7%
Other Assets	15.2	17.9	8.9%	14.5	18.1	9.1%
Retail	1.9	2.1	1.0%	0.6	0.7	0.4%
	<u>50.0</u>	<u>52.8</u>	<u>26.2%</u>	<u>50.1</u>	<u>60.2</u>	<u>30.2%</u>
Real Estate Private Investments						
Commercial	2.5	2.9	1.4%	1.4	1.3	0.6%
Hospitality	11.9	13.7	6.8%	8.9	9.8	4.9%
Land - Commercial Development	6.8	8.4	4.2%	6.5	6.8	3.4%
Land - Multi-Family Development	5.5	3.5	1.7%	4.7	2.7	1.4%
Land - Single-Family Development	3.9	3.0	1.5%	4.4	3.9	2.0%
Mixed Use	0.4	0.4	0.2%	0.4	0.4	0.2%
Retail	5.1	5.1	2.5%	6.8	6.7	3.4%
Residential	14.9	13.9	6.9%	13.9	14.2	7.1%
Multi-Family	0.3	0.3	0.2%	-	-	0.0%
	<u>51.3</u>	<u>51.2</u>	<u>25.4%</u>	<u>47.0</u>	<u>45.8</u>	<u>23.0%</u>
Structured Finance and Assets						
Lease/Equipment	0.8	1.2	0.6%	1.7	2.5	1.3%
Other Assets	38.5	38.2	19.0%	37.5	36.7	18.4%
Consumer Assets	16.8	16.1	8.0%	19.9	16.0	8.1%
	<u>56.1</u>	<u>55.5</u>	<u>27.6%</u>	<u>59.1</u>	<u>55.2</u>	<u>27.8%</u>
<b>Total Loans / Private Assets</b>	<u>157.4</u>	<u>159.5</u>	<u>79.2%</u>	<u>156.2</u>	<u>161.2</u>	<u>81.0%</u>
<b>Other Securities <sup>(2)</sup></b>						
Basic Materials	-	-	0.0%	2.0	2.1	1.1%
Biotechnology	1.4	1.9	0.9%	0.8	0.9	0.4%
Business Services	4.4	5.2	2.6%	-	-	0.0%
Consumer Products	12.4	8.9	4.4%	11.9	8.9	4.5%
Diversified	7.2	7.4	3.7%	9.0	7.8	3.9%
Energy	-	0.1	0.1%	0.3	0.4	0.2%
Financial Services	2.8	2.6	1.3%	2.5	2.4	1.2%
Foreign Exchange Forwards/Options	3.1	3.7	1.8%	-	(1.0)	(0.5)%
Fund Investment	-	0.7	0.3%	3.2	3.6	1.8%
Healthcare Services	-	-	0.0%	0.5	0.7	0.4%
Industrial	0.3	0.6	0.3%	3.1	2.3	1.1%
Information Technology	-	-	0.0%	1.6	1.2	0.6%
Interest Rate Derivatives	-	-	0.0%	0.4	0.4	0.2%
Mining	4.8	4.8	2.4%	0.1	0.1	0.1%
Oil and Gas	0.3	-	0.0%	0.8	1.3	0.7%
Real Estate	0.4	0.6	0.3%	2.0	0.8	0.4%
Retail	0.1	0.1	0.1%	0.1	0.1	0.1%
Technology	-	-	0.0%	3.4	3.5	1.7%
Telecommunications	1.1	1.4	0.7%	2.3	2.3	1.1%
	<u>41.5</u>	<u>42.0</u>	<u>20.8%</u>	<u>44.0</u>	<u>37.8</u>	<u>19.0%</u>
	<u>\$ 198.9</u>	<u>\$ 201.5</u>	<u>100.0%</u>	<u>\$ 200.2</u>	<u>\$ 199.0</u>	<u>100.0%</u>

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

<sup>2</sup> Net of short positions.



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**14. ADDITIONAL ARENA FINCOs' INVESTMENT SCHEDULES (continued)**

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

Details of Loan and Private Asset Positions							September 30, 2023	
Ref. no.	Investments by industry	Principal <sup>(1)</sup>	Investments at cost	Investments at fair value	Geographic location	Collateral	Total coupon (including PIK) <sup>(2)</sup>	LTV <sup>(3)</sup>
<b>Corporate Private Investments</b>								
CPC-3222	Oil & Gas	11.5	11.7	17.0	North America	Equity	n/a <sup>(14)</sup>	n/a <sup>(14)</sup>
CPC-2209	Other Assets	13.0	14.0	16.7	Europe	Equity	n/a <sup>(14)</sup>	n/a <sup>(14)</sup>
CPC-5143EQY	Oil & Gas	2.6	2.6	2.8	North America	Hard Asset	n/a <sup>(14)</sup>	n/a <sup>(14)</sup>
CPC-7044	Consumer Products	3.6	2.4	2.7	North America	1st Lien	14.00%	30.0%
CPC-3349	Business Services	5.8	5.8	2.7	Asia Pacific	Equity	n/a <sup>(14)</sup>	n/a <sup>(14)</sup>
CPC-4985	Oil & Gas	1.3	1.3	1.6	North America	1st Lien	10.00%	77.5%
CPC-6859	Business Services	1.1	1.1	1.4	Asia Pacific	1st Lien	12.00%	30.5%
CPC-9129	Retail	1.3	1.3	1.4	Europe	1st Lien	14.50%	49.3%
CPC-7227EQY	Other Assets	0.7	0.7	0.7	North America	Equity	n/a <sup>(14)</sup>	n/a <sup>(14)</sup>
CPC-5325	Oil & Gas	1.8	1.9	0.7	North America	1st Lien	12.00%	36.9%
CPC-5027	Retail	0.6	0.6	0.7	North America	1st Lien	14.53%	6.4%
CPC-2170	Oil & Gas	1.7	1.2	0.6	North America	1st Lien	8.75%	45.7%
CPC-7227	Other Assets	0.5	0.5	0.5	North America	Asset Pool	n/a <sup>(10)</sup>	n/a <sup>(10)</sup>
CPC-5325EQY	Oil & Gas	1.4	1.4	0.4	North America	Equity	n/a <sup>(14)</sup>	n/a <sup>(14)</sup>
CPC-6677	Business Services	0.4	0.4	0.4	Europe	1st Lien	10.00%	2.1%
CPC-2397	Financial Services	1.1	1.0	0.4	North America	Equity	n/a <sup>(14)</sup>	n/a <sup>(14)</sup>
CPC-5913	Business Services	0.3	0.3	0.3	Europe	1st Lien	10.00%	1.2%
CPC-7312EQY	Business Services	0.3	0.3	0.3	North America	Equity	n/a <sup>(14)</sup>	n/a <sup>(14)</sup>
CPC-7677	Financial Services	0.4	0.4	0.3	North America	1st Lien	19.33%	100%+
CPC-5914	Business Services	0.2	0.2	0.2	Europe	1st Lien	10.00%	1.5%
CPC-6374	Business Services	0.2	0.1	0.2	Europe	Equity	n/a <sup>(14)</sup>	n/a <sup>(14)</sup>
CPC-5830	Business Services	1.1	0.2	0.2	Europe	Equity	n/a <sup>(14)</sup>	n/a <sup>(14)</sup>
CPC-1010	Oil & Gas	0.2	0.2	0.2	North America	1st Lien	n/a <sup>(14)</sup>	43.0%
CPC-6373	Business Services	0.1	0.2	0.2	Europe	1st Lien	10.00%	1.2%
CPC-5856	Business Services	0.1	0.1	0.1	Europe	1st Lien	12.00%	3.8%
CPC-9140	Business Services	0.2	0.1	0.1	North America	Equity	n/a <sup>(14)</sup>	n/a <sup>(14)</sup>
CPC-7018	Business Services	0.0	0.0	0.0	Europe	Equity	n/a <sup>(14)</sup>	n/a <sup>(14)</sup>
CPC-3083	Business Services	0.0	0.0	0.0	North America	Equity	n/a <sup>(14)</sup>	n/a <sup>(14)</sup>
CPC-5889	Consumer Products	0.0	0.0	0.0	North America	1st Lien	14.00%	30.0%
CPC-7167	Business Services	0.0	0.0	0.0	North America	Equity	n/a <sup>(14)</sup>	n/a <sup>(14)</sup>
Subtotal / Weighted average %		51.5	50.0	52.8			12.50%	57.2%

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**14. ADDITIONAL ARENA FINCOs' INVESTMENT SCHEDULES (continued)**

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

Details of Loan and Private Asset Positions (continued)							September 30, 2023	
Ref. no.	Investments by industry	Principal <sup>(1)</sup>	Investments at cost	Investments at fair value	Geographic location	Collateral	Total coupon (including PIK) <sup>(2)</sup>	LTV <sup>(3)</sup>
<b>Real Estate Private Investments</b>								
REPC-6932	Hospitality	4.8	5.9	6.9	Europe	1st Mortgage	19.05%	100%+
	Land - Commercial							
REPC-2277	Development	3.3	3.3	4.9	North America	1st Mortgage	24.00%	100%+
REPC-8192	Retail	4.5	4.5	4.5	North America	1st Mortgage	10.83%	40.8%
REPC-1068S4	Residential	5.1	5.1	3.5	North America	Real Property	n/a <sup>(9)</sup>	n/a <sup>(9)</sup>
REPC-7586	Residential	2.3	2.4	2.7	Europe	1st Mortgage	12.50%	84.5%
REPC-8135	Hospitality	2.2	2.2	2.6	Europe	Real Property	n/a <sup>(9)</sup>	n/a <sup>(9)</sup>
	Land - Multi-Family							
REPC-2683	Development	4.4	4.4	2.4	North America	Real Property	n/a <sup>(9)</sup>	n/a <sup>(9)</sup>
REPC-4220	Residential	2.4	2.4	2.0	North America	Real Property	n/a <sup>(9)</sup>	n/a <sup>(9)</sup>
REPC-7488	Residential	1.2	1.7	2.0	Asia Pacific	1st Mortgage	13.00%	78.2%
REPC-8031	Commercial	1.1	1.1	1.4	Europe	Real Property	n/a <sup>(9)</sup>	n/a <sup>(9)</sup>
REPC-7319	Residential	0.9	0.9	1.2	Europe	1st Mortgage	19.15%	66.0%
	Land - Commercial							
REPC-2592	Development	1.1	1.1	1.2	North America	1st Mortgage	n/a <sup>(9)</sup>	n/a <sup>(9)</sup>
	Land - Commercial							
REPC-5905	Development	1.2	1.2	1.2	North America	1st Mortgage	17.89%	65.7%
REPC-9232	Residential	1.0	1.1	1.1	Europe	Real Property	n/a <sup>(9)</sup>	n/a <sup>(9)</sup>
	Land - Multi-Family							
REPC-8795	Development	1.1	1.1	1.1	North America	1st Mortgage	25.00%	42.5%
REPC-6592	Hospitality	0.9	0.9	1.1	North America	1st Mortgage	11.83%	50.1%
	Land - Commercial							
REPC-8888	Development	1.0	1.0	1.0	North America	1st Mortgage	15.33%	49.0%
REPC-2560	Hospitality	1.3	1.3	1.0	North America	Real Property	n/a <sup>(9)</sup>	n/a <sup>(9)</sup>
	Land - Single-Family							
REPC-6996	Development	0.9	0.9	1.0	Asia Pacific	1st Mortgage	18.00%	65.8%
REPC-7027	Hospitality	0.7	0.7	0.9	Europe	Real Property	n/a <sup>(9)</sup>	n/a <sup>(9)</sup>
REPC-6854	Residential	0.7	0.7	0.8	Europe	1st Mortgage	14.00%	74.2%
REPC-8433	Hospitality	0.5	0.5	0.8	Europe	Real Property	n/a <sup>(9)</sup>	n/a <sup>(9)</sup>
	Land - Single-Family							
REPC-6506TL1	Development	0.9	1.0	0.7	Asia Pacific	1st Mortgage	8.00%	98.8%
REPC-7554	Commercial	0.6	0.7	0.6	Europe	Real Property	n/a <sup>(9)</sup>	n/a <sup>(9)</sup>
REPC-7654	Retail	0.6	0.6	0.6	North America	1st Mortgage	11.50%	10.1%
	Land - Single-Family							
REPC-6995	Development	0.5	0.5	0.5	Asia Pacific	1st Mortgage	12.00%	54.7%
REPC-6384EQ	Commercial	0.3	0.3	0.4	North America	Asset Pool	n/a <sup>(4)</sup>	n/a <sup>(4)</sup>
REPC-6129	Hospitality	0.4	0.4	0.4	North America	1st Mortgage	14.00%	73.2%
	Land - Single-Family							
REPC-8040	Development	0.3	0.3	0.3	North America	1st Mortgage	16.33%	34.0%
REPC-7826	Multi-Family	0.3	0.3	0.3	Europe	Real Property	n/a <sup>(9)</sup>	n/a <sup>(9)</sup>
REPC-7390	Residential	0.3	0.3	0.3	North America	1st Mortgage	20.00%	100%+
REPC-6334	Commercial	0.2	0.2	0.3	Europe	Real Property	n/a <sup>(9)</sup>	n/a <sup>(9)</sup>
REPC-8203	Mixed Use	0.3	0.3	0.3	Europe	Equity	n/a <sup>(4)</sup>	n/a <sup>(4)</sup>
REPC-8843	Commercial	0.2	0.2	0.2	Europe	1st Lien	19.08%	27.1%
REPC-9087	Residential	0.2	0.2	0.2	Europe	Real Property	n/a <sup>(9)</sup>	n/a <sup>(9)</sup>
	Land - Single-Family							
REPC-6505	Development	0.4	0.5	0.2	Asia Pacific	1st Mortgage	11.50%	100%+
	Land - Single-Family							
REPC-8118	Development	0.2	0.2	0.2	Asia Pacific	1st Mortgage	15.13%	30.5%
	Land - Single-Family							
REPC-6242	Development	0.5	0.5	0.1	Asia Pacific	1st Mortgage	13.67%	100%+
REPC-8682	Residential	0.1	0.1	0.1	Europe	Real Property	n/a <sup>(9)</sup>	n/a <sup>(9)</sup>
	Land - Commercial							
REPC-1047	Development	0.1	0.1	0.1	North America	1st Mortgage	15.00%	53.0%
REPC-8622	Mixed Use	0.1	0.1	0.1	North America	1st Mortgage	18.00%	51.5%
REPC-8417	Residential	0.0	0.0	0.0	Asia Pacific	1st Mortgage	12.00%	54.7%
	Land - Commercial							
REPC-1015	Development	0.2	0.1	0.0	North America	Real Property	n/a <sup>(9)</sup>	n/a <sup>(9)</sup>
	Land - Single-Family							
REPC-9238	Development	0.0	0.0	0.0	Asia Pacific	1st Lien	n/a <sup>(9)</sup>	54.7%
	Land - Single-Family							
REPC-9372	Development	0.0	0.0	0.0	Asia Pacific	1st Lien	25.63%	100.0%
Subtotal / Weighted average %		49.3	51.3	51.2			16.70%	90.3%

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**14. ADDITIONAL ARENA FINCOs' INVESTMENT SCHEDULES (continued)**

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

Details of Loan and Private Asset Positions (continued)							September 30, 2023	
Ref. no.	Investments by industry	Principal <sup>(1)</sup>	Investments at cost	Investments at fair value	Geographic location	Collateral	Total coupon (including PIK) <sup>(2)</sup>	LTV <sup>(3)</sup>
<b>Structured Finance and Assets</b>								
SF-2239	Other Assets	4.4	5.1	5.5	North America	1st Lien	n/a <sup>(10)</sup>	31.2%
CI-4898	Other Assets	4.0	4.0	4.1	North America	1st Lien	18.37%	41.5%
CI-6785	Other Assets	3.3	3.1	3.1	North America	1st Lien	13.50%	71.0%
CA-5898	Consumer	2.3	2.2	3.1	North America	Asset Pool	n/a <sup>(10)</sup>	n/a <sup>(10)</sup>
CI-8707	Other Assets	2.3	2.3	3.0	North America	1st Lien	14.22%	49.1%
CI-2651	Other Assets	4.0	4.3	2.5	North America	Hard Asset	n/a <sup>(14)</sup>	n/a <sup>(14)</sup>
CA-5596	Consumer	2.3	2.3	2.4	North America	Asset Pool	n/a <sup>(10)</sup>	n/a <sup>(10)</sup>
CA-7474	Consumer	1.3	1.3	2.4	North America	Asset Pool	n/a <sup>(10)</sup>	n/a <sup>(10)</sup>
SF-8578	Other Assets	1.6	1.5	2.2	North America	1st Lien	14.75%	17.5%
CI-3045	Other Assets	1.0	1.0	2.1	North America	Asset Pool	n/a <sup>(7)</sup>	56.9%
CA-4946	Consumer	1.8	1.8	1.8	North America	1st Lien	20.25%	100%+
CI-2000	Other Assets	1.0	1.0	1.6	North America	Equity	n/a <sup>(14)</sup>	n/a <sup>(14)</sup>
CI-1999EQ	Other Assets	3.0	3.0	1.5	North America	Equity	n/a <sup>(14)</sup>	n/a <sup>(14)</sup>
CA-5596C	Consumer	1.5	1.5	1.5	North America	Asset Pool	n/a <sup>(10)</sup>	n/a <sup>(10)</sup>
CI-3978	Other Assets	1.8	1.8	1.4	North America	Hard Asset	n/a <sup>(4)</sup>	n/a <sup>(4)</sup>
CI-5554A	Other Assets	1.2	1.2	1.2	North America	1st Lien	10.00%	96.8%
CI-5177	Other Assets	0.8	0.8	1.2	North America	Hard Asset	n/a <sup>(14)</sup>	n/a <sup>(14)</sup>
CA-6154	Consumer	0.9	0.9	1.0	Europe	1st Lien	18.50%	66.0%
CI-2201	Lease/Equipment	0.7	0.7	1.1	North America	Hard Asset	n/a <sup>(4)</sup>	n/a <sup>(4)</sup>
SF-7254	Other Assets	1.0	1.0	1.0	North America	1st Lien	20.00%	81.3%
CA-6444	Consumer	0.7	0.7	1.0	Latin America	Asset Pool	n/a <sup>(10)</sup>	n/a <sup>(10)</sup>
CI-6750	Other Assets	0.9	0.9	0.9	Europe	Asset Pool	24.00%	77.3%
CI-6648TL	Other Assets	0.8	0.8	0.8	North America	1st Lien	16.20%	77.3%
CI-7442	Other Assets	0.7	0.7	0.7	North America	Hard Asset	n/a <sup>(14)</sup>	n/a <sup>(14)</sup>
CI-8104	Other Assets	0.7	0.7	0.7	North America	Hard Asset	n/a <sup>(14)</sup>	n/a <sup>(14)</sup>
CI-8399	Other Assets	0.6	0.6	0.6	North America	1st Lien	13.83%	85.2%
CA-7092	Consumer	0.6	0.6	0.6	North America	1st Lien	9.00%	31.1%
CA-7491	Consumer	0.3	0.0	0.6	North America	Asset Pool	n/a <sup>(10)</sup>	n/a <sup>(10)</sup>
CI-6565	Other Assets	0.5	0.5	0.5	North America	1st Lien	18.00%	77.3%
SF-7242	Other Assets	0.5	0.5	0.5	North America	1st Lien	17.40%	100%+
CA-8720	Consumer	0.5	0.5	0.4	North America	Asset Pool	n/a <sup>(10)</sup>	n/a <sup>(10)</sup>
CA-4718	Consumer	0.5	0.4	0.4	North America	Asset Pool	n/a <sup>(10)</sup>	n/a <sup>(10)</sup>
CI-6253	Other Assets	0.4	0.4	0.4	North America	1st Lien	10.88%	100%+
CI-6004	Other Assets	0.3	0.3	0.4	Latin America	Hard Asset	n/a <sup>(14)</sup>	n/a <sup>(14)</sup>
CI-1520	Other Assets	0.2	0.2	0.3	North America	1st Lien	n/a <sup>(11)</sup>	47.5%
CI-1035	Other Assets	0.4	0.4	0.3	North America	1st Lien	0.00%	100.0%
CI-7492	Other Assets	0.3	0.3	0.3	North America	Hard Asset	n/a <sup>(14)</sup>	n/a <sup>(14)</sup>
CI-4967	Other Assets	0.3	0.3	0.3	North America	Hard Asset	n/a <sup>(14)</sup>	n/a <sup>(14)</sup>
CA-8621	Consumer	0.2	0.3	0.3	North America	Asset Pool	n/a <sup>(10)</sup>	n/a <sup>(10)</sup>
CI-7166	Other Assets	0.2	0.2	0.3	North America	Hard Asset	n/a <sup>(14)</sup>	n/a <sup>(14)</sup>
CA-6288	Consumer	0.2	0.2	0.3	North America	1st Lien	10.00%	32.9%
CI-2064	Other Assets	0.0	0.0	0.3	North America	2nd Lien	15.00%	67.0%
CI-7985	Other Assets	0.2	0.2	0.2	North America	1st Lien	15.00%	77.3%
SF-5396	Other Assets	0.2	0.2	0.2	North America	1st Lien	18.53%	83.3%
CA-4727	Consumer	0.2	0.0	0.2	North America	1st Lien	29.00%	66.0%
CA-6328	Other Assets	0.1	0.1	0.1	North America	1st Lien	12.00%	79.5%
CI-6006	Lease/Equipment	0.1	0.1	0.1	North America	1st Lien	13.70%	94.5%
CA-2729	Consumer	0.1	0.1	0.1	North America	1st Lien	n/a <sup>(10)</sup>	100.0%
CA-1052F	Consumer	2.5	2.5	0.0	North America	1st Lien	15.00%	65.0%
CA-1052S	Consumer	1.4	1.5	0.0	North America	1st Lien	n/a <sup>(10)</sup>	100.0%
CI-7140	Other Assets	1.0	0.6	0.0	North America	1st Lien	n/a <sup>(14)</sup>	n/a <sup>(14)</sup>
CI-2686	Other Assets	0.3	0.3	0.0	North America	Equity	n/a <sup>(14)</sup>	n/a <sup>(14)</sup>
CI-1018	Other Assets	0.2	0.2	0.0	North America	1st Lien	0.00%	100.0%
CI-8048	Other Assets	0.0	0.0	0.0	North America	Hard Asset	n/a <sup>(14)</sup>	n/a <sup>(14)</sup>
CI-1999	Other Assets	0.0	0.0	0.0	North America	1st Lien	n/a <sup>(14)</sup>	n/a <sup>(14)</sup>
CA-7573	Consumer	0.0	0.0	0.0	Asia Pacific	Asset Pool	n/a <sup>(10)</sup>	n/a <sup>(10)</sup>
Subtotal / Weighted average %		56.3	56.1	55.5			15.97%	60.4%
Total / Weighted average %		\$ 157.1	\$ 157.4	\$ 159.5			15.72%	72.5%

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**14. ADDITIONAL ARENA FINCOs' INVESTMENT SCHEDULES (continued)**

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

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**Details of Loan and Private Asset Positions (continued)**

**September 30, 2023**

- <sup>1</sup> Principal represents the total funding commitment of a loan which, if applicable, is inclusive of any unfunded portion of the commitment at the end of the reporting period. Where a loan is issued at a discount, the cost amount includes the accreted discount as of the end of the reporting period. A loan may also be acquired at a cost lower than the par value of the principal outstanding.
- <sup>2</sup> Some investments bear interest at a rate that may be determined by reference to SOFR or Prime which reset daily, monthly, quarterly, or semi-annually and may be subject to a floor. For each, the Company has provided the current contractual interest rate in effect at September 30, 2023. Interest rates listed are inclusive of PIK, where applicable. PIK is interest paid in kind through an increase in the principal amount of the loan. The internal rate of return for many investments is generally greater than or equal to the total coupon (additional yield resulting from original issue discounts and/or some form of profit sharing, e.g. warrants). In the event that the internal rate of return on the investment is less than the stated rate, the lower rate is noted.
- <sup>3</sup> Loan to value ("LTV") represents the value of the outstanding loan as a percentage of the estimated fair value of the underlying collateral as of September 30, 2023.
- <sup>4</sup> Investment is not a loan. Metric is not applicable.
- <sup>5</sup> Denotes subordinate position within the structure.
- <sup>6</sup> Interest not accrued on loans purchased as non-performing.
- <sup>7</sup> Investment represents a credit pool purchase with no stated interest rate.
- <sup>8</sup> Investment is a maturity default past its maturity date and has an uncertain holding period as of September 30, 2023.
- <sup>9</sup> Investment represents owned real estate. Metric is not available.
- <sup>10</sup> Investment represents an unsecured credit pool purchase with no stated interest rate.
- <sup>11</sup> This investment represents a claim against proceeds subject to a litigation result whereby the FINCOs are not accruing interest.
- <sup>12</sup> Investment with no stated coupon rate.
- <sup>13</sup> Investment is a preferred equity investment.
- <sup>14</sup> Investment is an equity interest in an operating company. Stated coupon and LTV are not applicable.
- <sup>15</sup> Investment is a warrant to purchase an equity interest in an operating company. Stated coupon and LTV are not applicable.
- <sup>16</sup> Investment is in maturity default where the Company and its partners acquired the borrower in bankruptcy. LTV is not applicable.
- <sup>17</sup> LTV is not applicable.

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**14. ADDITIONAL ARENA FINCOs' INVESTMENT SCHEDULES (continued)**

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

Details of Loan and Private Asset Positions							December 31, 2022	
Ref. no.	Investments by industry	Principal <sup>(1)</sup>	Investments at cost	Investments at fair value	Geographic location	Collateral	Total coupon (including PIK) <sup>(2)</sup>	LTV <sup>(3)</sup>
<b>Corporate Private Investments</b>								
CPC-3222	Oil & Gas	13.6	13.8	20.3	North America	Equity	n/a <sup>(14)</sup>	n/a <sup>(14)</sup>
CPC-2209	Other Assets	12.2	13.8	17.4	Europe	Equity	n/a <sup>(14)</sup>	n/a <sup>(14)</sup>
CPC-3349	Business Services	5.4	5.4	4.6	Asia Pacific	Equity	n/a <sup>(14)</sup>	n/a <sup>(14)</sup>
CPC-5325	Oil & Gas	2.7	2.9	3.3	North America	1st Lien	12.75%	100%+
CPC-7044	Consumer Products	3.6	2.5	2.6	North America	1st Lien	14.00%	27.0%
CPC-6859	Business Services	1.3	1.4	1.6	Asia Pacific	1st Lien	11.00%	27.0%
CPC-4985	Oil & Gas	1.3	1.3	1.5	North America	1st Lien	10.00%	17.0%
CPC-5143EQY	Oil & Gas	1.3	1.3	1.4	North America	Hard Asset	n/a <sup>(14)</sup>	n/a <sup>(14)</sup>
CPC-2170	Oil & Gas	1.7	1.2	0.7	North America	1st Lien	3.50%	100%+
CPC-7227	Other Assets	0.7	0.7	0.7	North America	Asset Pool	n/a <sup>(14)</sup>	n/a <sup>(14)</sup>
CPC-5830	Business Services	0.5	0.6	0.7	Europe	1st Lien	10.00%	0.0%
CPC-5027	Retail	0.6	0.6	0.7	North America	1st Lien	13.77%	84.0%
CPC-7018	Business Services	0.5	0.5	0.6	Europe	1st Lien	9.50%	10.0%
CPC-8155	Basic Materials	0.6	0.5	0.6	Asia Pacific	1st Lien	20.00%	66.7%
CPC-6677	Business Services	0.4	0.5	0.5	Europe	1st Lien	10.00%	3.0%
CPC-6374	Business Services	0.0	0.1	0.5	Europe	Equity	n/a <sup>(14)</sup>	n/a <sup>(14)</sup>
CPC-2397	Financial Services	1.0	1.0	0.4	North America	Equity	n/a <sup>(14)</sup>	n/a <sup>(14)</sup>
CPC-5913	Business Services	0.3	0.4	0.4	Europe	1st Lien	10.00%	1.4%
CPC-7677	Financial Services	0.5	0.4	0.4	North America	1st Lien	12.29%	100%+
CPC-5914	Business Services	0.3	0.3	0.3	Europe	1st Lien	10.00%	2.3%
CPC-7312EQY	Business Services	0.3	0.3	0.3	North America	Equity	n/a <sup>(14)</sup>	n/a <sup>(14)</sup>
CPC-6373	Business Services	0.2	0.3	0.3	Europe	1st Lien	10.00%	2.2%
CPC-5856	Business Services	0.1	0.1	0.2	Europe	1st Lien	11.00%	4.0%
CPC-1010	Oil & Gas	0.2	0.2	0.2	North America	1st Lien	14.00%	43.0%
CPC-5889	Consumer Products	0.0	0.0	0.0	North America	1st Lien	14.00%	34.6%
CPC-7167	Business Services	0.0	0.0	0.0	North America	Equity	n/a <sup>(14)</sup>	n/a <sup>(14)</sup>
Subtotal / Weighted average %		49.3	50.1	60.2			11.79%	77.4%

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**14. ADDITIONAL ARENA FINCOs' INVESTMENT SCHEDULES (continued)**

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

Details of Loan and Private Asset Positions (continued)							December 31, 2022	
Ref. no.	Investments by industry	Principal <sup>(1)</sup>	Investments at cost	Investments at fair value	Geographic location	Collateral	Total coupon (including PIK) <sup>(2)</sup>	LTV <sup>(3)</sup>
<b>Real Estate Private Investments</b>								
RECPC-6932	Hospitality	3.6	4.7	5.0	Europe	1st Mortgage	13.80%	93.7%
RECPC-1068S4	Residential	5.1	5.1	5.0	North America	Real Property	n/a <sup>(9)</sup>	n/a <sup>(9)</sup>
RECPC-2277	Land - Commercial Development	3.2	3.2	4.5	North America	1st Mortgage	19.00%	65.0%
RECPC-8192	Retail	4.5	4.5	4.4	North America	1st Mortgage	9.68%	30.0%
RECPC-7586	Residential	2.1	2.4	2.5	Europe	1st Mortgage	12.50%	78.0%
RECPC-2683	Land - Multi-Family Development	4.3	4.3	2.4	North America	Real Property	n/a <sup>(9)</sup>	n/a <sup>(9)</sup>
RECPC-7654	Retail	2.3	2.3	2.3	North America	1st Mortgage	7.00%	30.0%
RECPC-4220	Residential	2.3	2.3	2.3	North America	Real Property	n/a <sup>(9)</sup>	n/a <sup>(9)</sup>
RECPC-7488	Residential	1.3	1.7	1.8	Asia Pacific	1st Mortgage	13.00%	71.0%
RECPC-8135	Hospitality	1.3	1.3	1.4	Europe	Real Property	n/a <sup>(9)</sup>	n/a <sup>(9)</sup>
RECPC-2592	Land - Commercial Development	2.0	2.0	1.1	North America	1st Mortgage	12.94%	100%+
RECPC-2560	Hospitality	0.9	0.9	1.1	North America	Real Property	n/a <sup>(9)</sup>	n/a <sup>(9)</sup>
RECPC-7319	Residential	0.9	1.0	1.1	Europe	1st Mortgage	15.69%	58.0%
RECPC-5905	Land - Commercial Development	1.1	1.1	1.1	North America	1st Mortgage	19.38%	62.0%
RECPC-6592	Hospitality	0.9	0.9	1.0	North America	1st Mortgage	9.53%	50.1%
RECPC-6996	Land - Single-Family Development	0.9	1.0	0.9	Asia Pacific	1st Mortgage	18.00%	57.0%
RECPC-7027	Hospitality	0.6	0.7	0.9	Europe	Real Property	n/a <sup>(9)</sup>	n/a <sup>(9)</sup>
RECPC-7390	Residential	0.8	0.8	0.8	North America	1st Mortgage	12.10%	100%+
RECPC-6506TL1	Land - Single-Family Development	0.8	0.8	0.8	Asia Pacific	1st Mortgage	8.00%	73.0%
RECPC-6854	Residential	0.6	0.6	0.7	Europe	1st Mortgage	16.69%	67.0%
RECPC-5476	Land - Single-Family Development	0.6	0.7	0.6	Asia Pacific	1st Mortgage	20.00%	91.0%
RECPC-6384EQ	Commercial	0.4	0.4	0.5	North America	Asset Pool	n/a <sup>(4)</sup>	n/a <sup>(4)</sup>
RECPC-6194	Land - Single-Family Development	0.5	0.5	0.5	Asia Pacific	1st Mortgage	15.00%	76.0%
RECPC-6995	Land - Single-Family Development	0.4	0.4	0.4	Asia Pacific	1st Mortgage	12.00%	40.0%
RECPC-6242	Land - Single-Family Development	0.4	0.5	0.4	Asia Pacific	1st Mortgage	9.18%	88.0%
RECPC-7554	Commercial	0.6	0.6	0.4	Europe	Real Property	n/a <sup>(9)</sup>	n/a <sup>(9)</sup>
RECPC-6129	Hospitality	0.4	0.4	0.4	North America	1st Mortgage	24.00%	75.2%
RECPC-8622	Mixed Use	0.4	0.4	0.4	North America	1st Mortgage	18.00%	51.5%
RECPC-6334	Commercial	0.2	0.2	0.3	Europe	Real Property	n/a <sup>(9)</sup>	n/a <sup>(9)</sup>
RECPC-4698	Land - Multi-Family Development	0.4	0.4	0.3	North America	Real Property	n/a <sup>(9)</sup>	n/a <sup>(9)</sup>
RECPC-6505	Land - Single-Family Development	0.4	0.4	0.2	Asia Pacific	1st Mortgage	11.50%	100%+
RECPC-8118	Land - Single-Family Development	0.1	0.1	0.1	Asia Pacific	1st Mortgage	11.00%	77.0%
RECPC-6048	Commercial	0.2	0.2	0.1	Europe	Real Property	n/a <sup>(9)</sup>	n/a <sup>(9)</sup>
RECPC-1047	Land - Commercial Development	0.1	0.1	0.1	North America	1st Mortgage	15.00%	53.0%
RECPC-8417	Residential	0.0	0.0	0.0	Asia Pacific	1st Mortgage	12.00%	40.0%
RECPC-1015	Land - Commercial Development	0.2	0.1	0.0	North America	Real Property	n/a <sup>(9)</sup>	n/a <sup>(9)</sup>
Subtotal / Weighted average %		44.8	47.0	45.8			13.59%	67.5%

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**14. ADDITIONAL ARENA FINCOs' INVESTMENT SCHEDULES (continued)**

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

Details of Loan and Private Asset Positions (continued)							December 31, 2022	
Ref. no.	Investments by industry	Principal <sup>(1)</sup>	Investments at cost	Investments at fair value	Geographic location	Collateral	Total coupon (including PIK) <sup>(2)</sup>	LTV <sup>(3)</sup>
<b>Structured Finance and Assets</b>								
SF-2239	Other Assets	5.0	5.7	6.5	North America	1st Lien	n/a <sup>(10)</sup>	29.0%
CI-4898	Other Assets	4.0	4.0	4.2	North America	1st Lien	16.80%	42.1%
CI-6785	Other Assets	3.6	3.6	3.6	North America	1st Lien	13.50%	97.0%
CI-3045	Other Assets	1.3	1.3	2.8	North America	Asset Pool	n/a <sup>(7)</sup>	29.4%
CI-2651	Other Assets	4.0	4.3	2.6	North America	Hard Asset	n/a <sup>(14)</sup>	n/a <sup>(14)</sup>
CA-6834	Consumer	2.3	2.3	2.4	North America	Asset Pool	n/a <sup>(10)</sup>	n/a <sup>(10)</sup>
CA-5596C	Consumer	2.3	2.3	2.3	North America	Asset Pool	n/a <sup>(10)</sup>	n/a <sup>(10)</sup>
CA-5898	Consumer	2.5	2.5	2.1	North America	Asset Pool	n/a <sup>(10)</sup>	n/a <sup>(10)</sup>
CA-4946	Consumer	1.8	1.8	1.8	North America	1st Lien	16.39%	89.0%
CI-1999EQ	Other Assets	3.0	3.0	1.8	North America	Equity	n/a <sup>(14)</sup>	n/a <sup>(14)</sup>
CI-2201	Lease/Equipment	0.9	0.9	1.6	North America	Hard Asset	n/a <sup>(4)</sup>	n/a <sup>(4)</sup>
SF-8578	Other Assets	1.6	1.6	1.6	North America	1st Lien	9.50%	23.8%
CA-7491	Consumer	1.7	1.7	1.6	North America	Asset Pool	n/a <sup>(10)</sup>	n/a <sup>(10)</sup>
CI-2000	Other Assets	0.9	0.9	1.4	North America	Equity	n/a <sup>(14)</sup>	n/a <sup>(14)</sup>
CI-3978	Other Assets	1.7	1.8	1.4	North America	Hard Asset	n/a <sup>(4)</sup>	n/a <sup>(4)</sup>
CI-5554	Other Assets	1.4	1.4	1.4	North America	1st Lien	10.00%	77.0%
CA-6444	Consumer	1.1	1.1	1.3	Latin America	Asset Pool	n/a <sup>(10)</sup>	n/a <sup>(10)</sup>
SF-7254	Other Assets	1.2	1.2	1.2	North America	1st Lien	20.00%	69.3%
CA-7474	Consumer	1.2	1.2	1.2	North America	Asset Pool	n/a <sup>(10)</sup>	n/a <sup>(10)</sup>
CI-6253	Other Assets	1.2	1.1	1.1	North America	1st Lien	13.88%	44.0%
CI-5177	Other Assets	0.9	0.9	1.0	North America	Hard Asset	n/a <sup>(14)</sup>	n/a <sup>(14)</sup>
CA-6154	Consumer	0.7	0.9	0.9	Europe	1st Lien	18.50%	62.0%
CI-6006	Lease/Equipment	0.8	0.8	0.9	North America	1st Lien	13.79%	100.0%
CI-6750	Other Assets	0.9	0.9	0.9	Europe	Asset Pool	24.00%	86.0%
CI-6648TL	Other Assets	0.8	0.8	0.8	North America	1st Lien	16.20%	86.0%
CA-7092	Consumer	0.5	0.6	0.6	North America	1st Lien	9.00%	29.0%
CI-6016	Other Assets	0.6	0.5	0.5	North America	1st Lien	15.00%	88.7%
CA-8720	Consumer	0.5	0.5	0.5	North America	Asset Pool	n/a <sup>(10)</sup>	n/a <sup>(10)</sup>
CI-8104	Other Assets	0.5	0.5	0.5	North America	Hard Asset	n/a <sup>(14)</sup>	n/a <sup>(14)</sup>
CI-6004	Other Assets	0.5	0.5	0.5	Latin America	Hard Asset	n/a <sup>(14)</sup>	n/a <sup>(14)</sup>
CI-6565	Other Assets	0.5	0.5	0.5	North America	1st Lien	18.00%	86.0%
CI-7166	Other Assets	0.4	0.4	0.5	North America	Hard Asset	n/a <sup>(14)</sup>	n/a <sup>(14)</sup>
CI-7492	Other Assets	0.3	0.3	0.4	North America	Hard Asset	n/a <sup>(14)</sup>	n/a <sup>(14)</sup>
CA-4718	Consumer	0.4	0.4	0.4	North America	Asset Pool	n/a <sup>(10)</sup>	n/a <sup>(10)</sup>
CI-1520	Other Assets	0.2	0.2	0.3	North America	1st Lien	n/a <sup>(11)</sup>	48.0%
CA-6288	Consumer	0.2	0.2	0.3	North America	1st Lien	10.00%	60.8%
CI-1035	Other Assets	0.5	0.5	0.3	North America	1st Lien	9.90%	100.0%
CA-4727	Consumer	0.1	0.1	0.3	North America	1st Lien	29.00%	66.0%
CI-4967	Other Assets	0.2	0.2	0.3	North America	Hard Asset	n/a <sup>(14)</sup>	n/a <sup>(14)</sup>
CI-2064	Other Assets	0.0	0.0	0.2	North America	2nd Lien	15.00%	67.0%
SF-5396	Other Assets	0.2	0.2	0.2	North America	1st Lien	15.00%	100%+
CI-7985	Other Assets	0.2	0.2	0.2	North America	1st Lien	15.00%	86.0%
CA-8621	Consumer	0.2	0.2	0.2	North America	Asset Pool	n/a <sup>(10)</sup>	n/a <sup>(10)</sup>
CA-1052F	Consumer	2.6	2.6	0.1	North America	1st Lien	15.66%	100.0%
CA-2729	Consumer	0.0	0.0	0.0	North America	1st Lien	n/a <sup>(10)</sup>	100.0%
CI-8048	Other Assets	0.0	0.0	0.0	North America	Hard Asset	n/a <sup>(14)</sup>	n/a <sup>(14)</sup>
CI-2686	Other Assets	0.2	0.2	0.0	North America	Equity	n/a <sup>(14)</sup>	n/a <sup>(14)</sup>
CA-7573	Consumer	0.0	0.0	0.0	Asia Pacific	Asset Pool	n/a <sup>(10)</sup>	n/a <sup>(10)</sup>
CA-6328	Other Assets	0.0	0.0	0.0	North America	1st Lien	12.00%	99.0%
CI-7721	Other Assets	0.0	0.0	0.0	North America	1st Lien	10.88%	44.0%
CA-1052S	Consumer	1.5	1.5	0.0	North America	1st Lien	15.66%	100.0%
CI-7140	Other Assets	1.0	0.6	0.0	North America	1st Lien	n/a <sup>(14)</sup>	n/a <sup>(14)</sup>
CI-1018	Other Assets	0.2	0.2	0.0	North America	1st Lien	9.26%	100.0%
CI-1999	Other Assets	0.0	0.0	0.0	North America	1st Lien	n/a <sup>(16)</sup>	n/a <sup>(16)</sup>
Subtotal / Weighted average %		58.3	59.1	55.2			15.16%	57.5%
Total / Weighted average %		\$ 152.4	\$ 156.2	\$ 161.2			13.70%	66.0%

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**14. ADDITIONAL ARENA FINCOs' INVESTMENT SCHEDULES (continued)**

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

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<b>Details of Loan and Private Asset Positions (continued)</b>	<b>December 31, 2022</b>
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- <sup>1</sup> Principal represents the total funding commitment of a loan which, if applicable, is inclusive of any unfunded portion of the commitment at the end of the reporting period. Where a loan is issued at a discount, the cost amount includes the accreted discount as of the end of the reporting period. A loan may also be acquired at a cost lower than the par value of the principal outstanding.
- <sup>2</sup> Some investments bear interest at a rate that may be determined by reference to LIBOR or Prime which reset daily, monthly, quarterly, or semi-annually and may be subject to a floor. For each, the Company has provided the current contractual interest rate in effect at December 31, 2022. Interest rates listed are inclusive of PIK, where applicable. PIK is interest paid in kind through an increase in the principal amount of the loan. The internal rate of return for many investments is generally greater than or equal to the total coupon (additional yield resulting from original issue discounts and/or some form of profit sharing, e.g. warrants). In the event that the internal rate of return on the investment is less than the stated rate, the lower rate is noted.
- <sup>3</sup> Loan to value ("LTV") represents the value of the outstanding loan as a percentage of the estimated fair value of the underlying collateral as of December 31, 2022.
- <sup>4</sup> Investment is not a loan. Metric is not applicable.
- <sup>5</sup> Denotes subordinate position within the structure.
- <sup>6</sup> Interest not accrued on loans purchased as non-performing.
- <sup>7</sup> Investment represents a credit pool purchase with no stated interest rate.
- <sup>8</sup> Investment is a maturity default past its maturity date and has an uncertain holding period as of December 31, 2022.
- <sup>9</sup> Investment represents owned real estate. Metric is not available.
- <sup>10</sup> Investment represents an unsecured credit pool purchase with no stated interest rate.
- <sup>11</sup> This investment represents a claim against proceeds subject to a litigation result whereby the FINCOs are not accruing interest.
- <sup>12</sup> Investment with no stated coupon rate.
- <sup>13</sup> Investment is a preferred equity investment.
- <sup>14</sup> Investment is an equity interest in an operating company. Stated coupon and LTV are not applicable.
- <sup>15</sup> Investment is a warrant to purchase an equity interest in an operating company. Stated coupon and LTV are not applicable.
- <sup>16</sup> Investment is in maturity default where the Company and its partners acquired the borrower in bankruptcy. LTV is not applicable.



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**15. NON-GAAP MEASURES**

(a) Book value per share

Book value per share is computed as book value divided by the adjusted number of Common Shares. The table below provides the reconciliation of the Company's shareholders' equity at the end of the period, determined on an IFRS basis, to book value, and the number of Common Shares outstanding at the end of the period to the adjusted number of Common Shares:

	September 30, 2023	December 31, 2022	September 30, 2022
Book value:			
Shareholders' equity per IFRS	\$ 495.7	\$ 363.2	\$ 330.3
Adjustments:			
RSU liability <sup>1</sup>	8.3	5.8	5.6
Derivative warrant liability <sup>2</sup>	-	0.1	0.1
Assumed proceeds of exercised in-the-money options <sup>3</sup>	17.2	-	-
	<u>\$ 521.2</u>	<u>\$ 369.1</u>	<u>\$ 336.0</u>
Number of Common Shares:			
Number of Common Shares outstanding	135,491,943	141,386,718	141,386,718
Adjustments for assumed exercise of:			
Outstanding RSUs <sup>1</sup>	3,455,198	2,975,198	2,975,198
In-the-money options <sup>3</sup>	7,623,955	-	-
Adjusted number of Common Shares	<u>146,571,096</u>	<u>144,361,916</u>	<u>144,361,916</u>
Book value per share - in US\$	\$ 3.56	\$ 2.56	\$ 2.33
Book value per share - in C\$ <sup>4</sup>	\$ 4.82	\$ 3.46	\$ 3.22
Westaim TSXV closing share price - in C\$	\$ 3.54	\$ 2.63	\$ 2.61

<sup>1</sup> See Note 11, *Share-based Compensation* in the Notes to the Financial Statements. Liability related to RSUs converted from C\$ to US\$ at period end exchange rates. RSUs are exercisable for Common Shares or cash at no cost to the holders. Adjustment made to reflect a reclassification of the RSU liability to shareholders' equity assuming all outstanding RSUs were exercised for Common Shares.

<sup>2</sup> See Note 8, *Derivative Warrant Liability* in the Notes to the Financial Statements. Derivative warrant liability converted from C\$ to US\$ at period end exchange rates. Adjustment made as the non-cash fair value change in the derivative warrant liability from period to period is not indicative of the change in the intrinsic value of the Company. There were no outstanding Vested Warrants at September 30, 2023. Vested Warrants were not included in the adjusted number of Common Shares at December 31, 2022 and September 30, 2022 as none of them were in-the-money.

<sup>3</sup> See Note 11, *Share-based Compensation* in the Notes to the Financial Statements. Adjustments were made for all of the options outstanding at September 30, 2023, since they were in-the-money. No adjustments were made for options at December 31, 2022 and September 30, 2022, since they were not in-the-money. The exercise of in-the-money options would have resulted in an infusion of capital to the Company.

<sup>4</sup> Book value per share converted from US\$ to C\$ at period end exchange rates. Period end exchange rates: 1.35535 at September 30, 2023, 1.35360 at December 31, 2022 and 1.38135 at September 30, 2022.

(b) Net returns on the Arena FINCOs investment portfolios

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

## 16. CAUTIONARY NOTE REGARDING FORWARD-LOOKING INFORMATION

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

These statements are based on current expectations that are subject to risks, uncertainties and assumptions and the Company can give no assurance that these expectations are correct.

The Company's actual results or financial position could differ materially from those anticipated by these forward-looking statements for various reasons generally beyond the Company's control, including, without limitation, the following factors: risks inherent in acquisitions generally; fluctuations in the United States dollar to Canadian dollar exchange rate; the Company's cash flow; future sales of a substantial number of the Common Shares; the Company's ability to raise additional capital; regulatory requirements may delay or deter a change in control of the Company; the potential treatment of the Company as a passive foreign investment company for U.S. federal income tax purposes; market turmoil, risk of volatile markets and market disruption risk; exposure to epidemics; Company employee error or misconduct; the Company's cybersecurity; Skyward Specialty's ability to accurately assess underwriting risk; the effect of intense competition and/or industry consolidation on Skyward Specialty's business; Skyward Specialty's reliance on brokers and third parties to sell its products to clients; Skyward Specialty's ability to alleviate risk through reinsurance; Skyward Specialty's reserves may prove to be inadequate; Skyward Specialty's ability to maintain its financial strength and issuer credit ratings; the occurrence of catastrophic events including terrorist attacks and weather related natural disasters on Skyward Specialty's business; the cyclical nature of the property and casualty insurance industry on Skyward Specialty's business; the effects of emerging claim and coverage issues on Skyward Specialty's business; the effect of government regulations designed to protect policyholders and creditors rather than investors; the effect of climate change on the risks that Skyward Specialty insures; the effect of retentions in various lines of business; dependence by Skyward Specialty on key employees; the effect of litigation and regulatory actions; Skyward Specialty's ability to successfully manage credit risk (including credit risk related to the financial health of reinsurers); unfavourable capital market developments or other factors which may affect the investments of Skyward Specialty (including meeting liquidity requirements); Skyward Specialty's ability to manage growth effectively; Skyward Specialty's ability to obtain additional capital; Skyward Specialty's ability to receive dividends from its subsidiaries; Skyward Specialty employee error or misconduct; Skyward Specialty's reliance on information technology and telecommunications systems; dependence by Skyward Specialty on certain third party service providers and program administrators; Skyward Specialty's policies will be enforceable in the manner it intends; Skyward Specialty receiving reimbursement for claims by reinsurers on a timely basis; Skyward Specialty's ability to pay claims accurately and timely; Skyward Specialty's reliance on renewal of existing insurance contracts; the effect of environmental, social and governance matters on Skyward Specialty's business; the effect of any changes in accounting practices and future pronouncements on Skyward Specialty's business; the effect of additional legislation or market regulation enacted by the U.S. federal government on Skyward Specialty's business; Skyward Specialty's ability to utilize net operating loss carryforwards and certain other tax attributes; the effect of change of control requirements under Texas insurance laws and regulations on Skyward Specialty's ability to successfully pursue its acquisition strategy; the effect of Skyward Specialty's debt obligations and other financial obligations on its business; Skyward Specialty's reliance on its intellectual property rights; Skyward Specialty not infringing the intellectual property rights of others; increased costs of Skyward Specialty being a public company; material weaknesses identified in Skyward Specialty's internal control over financial reporting; Skyward Specialty's reduced reporting and disclosure obligations as an emerging growth company; the volatility or decline in Skyward Specialty's stock price and operating results; substantial future sales of shares of Skyward Specialty's common stock or the perception thereof; changes in Skyward Specialty's underwriting guidelines or strategy without stockholder approval; anti-takeover provisions in Skyward Specialty's organizational documents; the Court of Chancery of the State of Delaware has the exclusive forum for substantially all Skyward Specialty disputes; the condition of the global financial markets and economic and geopolitical conditions affecting Arena's business; the variable nature of Arena's revenues, results of operations and cash flows; the effect of rapid changes and growth in AUM on Arena Investors; Arena's ability to mitigate operational and due diligence risks; the subjective nature of the valuation of the Arena FINCOs' investments; Arena's ability to mitigate regulatory and other legal risks; Arena's ability to find appropriate investment opportunities; Arena's ability to successfully navigate and secure compliance with regulations applicable to it and its business; Arena's ability to mitigate private litigation risks; Arena's ability to manage conflicts of interest; the effects of a decrease in revenues as a result of significant redemptions in AUM on Arena's business; the investment performance of Arena; Arena's investment in illiquid investments; Arena's ability to retain qualified management staff; Arena's ability to mitigate the risk of employee misconduct and employee error; the effect of the COVID-19 pandemic on each of Arena's and the Arena FINCOs' business; effect of market conditions on the Arena FINCOs; Arena's ability to implement effective risk management systems; the performance of the investments of the Arena FINCOs; the Arena FINCOs' investment in illiquid investments; Arena's ability to manage risks related to its risk management procedures; Arena's ability to compete against current and potential future competitors; Arena and the Arena FINCOs' ability to finance borrowers in a variety of industries;

**16. CAUTIONARY NOTE REGARDING FORWARD-LOOKING INFORMATION (continued)**

dependence by the Arena FINCOs on the creditworthiness of borrowers; the ability of the Arena FINCOs to mitigate the risk of default by and bankruptcy of a borrower; the ability of the Arena FINCOs to adequately obtain, perfect and secure loans; the ability of the Arena FINCOs to limit the need for enforcement or liquidation procedures; the ability of the Arena FINCOs to protect against fraud; the Arena FINCOs' ability to realize profits; changes to the regulation of the asset-based lending industry; United States tax law implications relating to the conduct of a U.S. trade or business; Arena's cybersecurity and other risk factors set forth herein or in the Company's annual report or other public filings.

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

**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
Balance at September 30, 2023	\$ 363,871	\$ 16,188	\$ (2,227)	\$ 117,919	495,751

<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)
Balance at September 30, 2022	\$ 378,563	\$ 17,735	\$ (2,227)	\$ (63,783)	330,288

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.



**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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**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.

**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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**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.

**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)

**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>

**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)

**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 Remaining 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 Remaining 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.



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