



**First Quarter Report to Shareholders  
for the quarter ended March 31, 2017**

**The Westaim Corporation**  
**Management's Discussion and Analysis**  
**Three months ended March 31, 2017**  
(Currency amounts in United States dollars unless otherwise indicated)

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"Westaim" or the "Company" in this Management's Discussion and Analysis ("MD&A") refers to The Westaim Corporation on a consolidated basis. This MD&A, which has been approved by the Board of Directors of Westaim, should be read in conjunction with Westaim's unaudited consolidated financial statements including notes for the three months ended March 31, 2017 and 2016 as set out on pages 35 to 55 of this quarterly report. Financial data in this MD&A has been derived from the unaudited consolidated financial statements for the three months ended March 31, 2017 and 2016 and is intended to enable the reader to assess Westaim's results of operations for the three months ended March 31, 2017 and financial condition as at March 31, 2017. The Company reports its consolidated financial statements using accounting policies consistent with International Financial Reporting Standards ("IFRS"). All currency amounts are in United States dollars ("US\$") unless otherwise indicated. The following commentary is current as of May 11, 2017. Additional information relating to Westaim is available on SEDAR at [www.sedar.com](http://www.sedar.com). Certain comparative figures have been reclassified to conform to the presentation of the current year, and certain totals, subtotals and percentages may not reconcile due to rounding.

**IFRS for Investment Entities**

Westaim 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\$.

**Non-GAAP Measures**

Westaim 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 Westaim'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 included herein. Book value per share represents shareholders' equity at the end of the period, determined on an IFRS basis, adjusted upwards by the Company's liability with respect to restricted share units ("RSUs"), divided by the aggregate of the total number of common shares outstanding at that date and the number of common shares that would have been issued if all outstanding RSUs were exercised. The Company believes that this is a useful measurement as the relative increase or decrease from period to period in book value per share should approximate over the long term the relative increase or decrease in the intrinsic value of the business, in large part because book value reflects the fair value of the Company's primary investments which are accounted for at fair value through profit or loss under IFRS. However, book value is not necessarily equivalent to the net realizable value of the Company's assets per share.

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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 Houston International Insurance Group, Ltd.**

Select financial information concerning Houston International Insurance Group, Ltd. ("HIIG") (the "HIIG Financial Information") contained in this MD&A is unaudited and has been derived from the unaudited consolidated financial statements of HIIG for the three months ended March 31, 2017 and 2016 (the "HIIG Statements") which have been prepared in accordance with United States generally accepted accounting principles ("US GAAP"). Such statements are the responsibility of the management of HIIG. The HIIG Financial Information, including any HIIG non-GAAP measures contained therein, has not been reconciled to IFRS and so may not be comparable to the financial information of issuers that present their financial information in accordance with IFRS.

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

The HIIG Financial Information has been provided solely by HIIG. Although Westaim has no knowledge that would indicate that any of the HIIG Financial Information contained herein is untrue or otherwise misleading, neither Westaim nor any of its directors or officers assumes any responsibility for the accuracy or completeness of such information, or for any failure by HIIG 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 HIIG Financial Information, its accuracy, completeness or by reason of reliance by any person on any of it.

**Cautionary Statement Regarding Financial Information of the Arena Group**

Select financial information concerning the Arena Group (as hereinafter defined) (the "Arena Financial Information") contained in this MD&A is unaudited and has been derived from the unaudited financial statements of the Arena Group for the three months ended March 31, 2017 and 2016 which have been prepared in accordance with either IFRS or US GAAP. Such statements are the responsibility of the management of the Arena Group. The Arena Financial Information, including any Arena Group non-GAAP measures contained therein, may not be reconciled to IFRS and so may not be comparable to the financial information of issuers that present their financial information in accordance with IFRS.

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

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

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

**Future Oriented Financial Information**

This MD&A may contain forward-looking statements that involve risks and uncertainties. The Company's actual results could differ materially from these forward-looking statements as a result of various factors, including those discussed hereinafter, and in the Company's Annual Information Form dated March 30, 2017 for its fiscal year ended December 31, 2016 which is available on SEDAR at [www.sedar.com](http://www.sedar.com). Please refer to the cautionary note in Section 15 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 HIIG (through the Westaim HIIG Limited Partnership) and the Arena Group. See discussion in Section 3, *Investments* of this MD&A for additional information on these investments.

**2. OVERVIEW OF PERFORMANCE**

Highlights (millions except share and per share data)	Three months ended March 31	
	2017	2016
Revenue	\$ 0.7	\$ 0.7
Net results of investments	3.2	3.0
Expenses	<u>(1.9)</u>	<u>(2.3)</u>
Profit and comprehensive income	\$ 2.0	\$ 1.4
Earnings per share - basic and diluted	<u>\$ 0.01</u>	<u>\$ 0.01</u>
 At March 31:		
Shareholders' equity	\$ 320.7	\$ 327.5
Number of common shares outstanding	143,186,718	143,186,718
Book value per share - in US\$ <sup>1</sup>	\$ 2.23	\$ 2.28
Book value per share - in C\$ <sup>2</sup>	\$ 2.97	\$ 2.96

<sup>1</sup> Book value per share at the end of the period represents shareholders' equity at the end of the period determined on an IFRS basis and adjusted upwards by the Company's liability with respect to RSUs (March 31, 2017 - \$5.5 million; March 31, 2016 - \$4.2 million), divided by the aggregate of the total number of common shares outstanding at that date and the number of common shares that would have been issued if all outstanding RSUs (March 31, 2017 - 3,082,073 units, March 31, 2016 - 2,209,563 units) were exercised.

<sup>2</sup> Book value per share at March 31, 2017 and 2016 converted from US\$ to C\$ at period end rates of 1.3310 and 1.2971, respectively.

Three months ended March 31, 2017 and 2016

The Company reported a profit and comprehensive income of \$2.0 million for the three months ended March 31, 2017 (2016 - \$1.4 million).

Revenue for the three months ended March 31, 2017 of \$0.7 million (2016 - \$0.7 million) consisted of interest income of \$0.3 million (2016 - \$0.3 million) and advisory fees of \$0.4 million (2016 - \$0.4 million).

Net results of investments were a gain of \$3.2 million for the three months ended March 31, 2017 (2016 - \$3.0 million), consisting of an unrealized gain on the Company's investments in private entities of \$3.7 million (2016 - \$3.4 million), an unrealized gain on other investments of \$0.1 million (2016 - \$nil) and the Company's share of losses of its Associates (as hereinafter defined) of \$0.6 million (2016 - \$0.4 million). See discussion in Section 3, *Investments* of this MD&A.

Expenses for the three months ended March 31, 2017 of \$1.9 million (2016 - \$2.3 million) consisted of share-based compensation expense of \$0.3 million (2016 - \$0.2 million), professional fees of \$0.2 million (2016 - \$0.4 million), nominal site restoration provision expense (2016 - \$0.3 million), salaries and benefits of \$1.0 million (2016 - \$0.8 million), general and administrative costs of \$0.3 million (2016 - \$0.3 million), and a foreign exchange loss of \$0.1 million (2016 - \$0.3 million).

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### 3. INVESTMENTS

The Company's principal investments consist of its investments in HIIG (through Westaim HIIG Limited Partnership (the "HIIG Partnership")) and the Arena Group, as follows:

	Place of establishment	Principal place of business	Ownership interest as at March 31, 2017 and December 31, 2016
Investments in private entities:			
- HIIG Partnership	Ontario, Canada	Ontario, Canada	58.5% owned by Westaim
- Arena Finance	Ontario, Canada	Ontario, Canada	100% owned by Westaim <sup>1</sup>
- Arena Origination	Delaware, U.S.	New York, U.S.	100% owned by Westaim <sup>2</sup>
Investments in Associates:			
- WAHII	Delaware, U.S.	New York, U.S.	51% beneficially owned by Westaim, indirectly through WCA <sup>3</sup>
- ASOF-ON GP	Delaware, U.S.	New York, U.S.	51% beneficially owned by Westaim, indirectly through WCA <sup>3</sup>
- ASOF-OFF II GP	Delaware, U.S.	New York, U.S.	51% beneficially owned by Westaim <sup>1</sup>

<sup>1</sup> Ownership subject to the vesting and conversion of Class M Units held by BP LLC (as hereinafter defined) described under "Investment in the Arena Group - Arena Finance".

<sup>2</sup> Ownership subject to the vesting and conversion of Class M Units held by BP LLC described under "Investment in the Arena Group - Arena Origination".

<sup>3</sup> Legal equity ownership is 100%, and beneficial ownership denotes profit percentage subject to change over time pursuant to the earn-in rights granted to BP LLC described under "Investment in the Arena Group - Arena Investors".

For additional information on the Company's corporate structure, see the Company's Annual Information Form dated March 30, 2017 for its fiscal year ended December 31, 2016 which is available on SEDAR at [www.sedar.com](http://www.sedar.com).

#### Houston International Insurance Group, Ltd.

The Company indirectly owns a significant interest in HIIG, through the HIIG Partnership, an Ontario limited partnership managed by Westaim HIIG GP Inc. HIIG is a U.S. based diversified specialty insurance company providing coverage primarily in the United States but also globally for certain risks. The Company's investment in HIIG (through the HIIG Partnership) is recorded under investments in private entities in the Company's consolidated financial statements.

#### Arena Group

The Arena Group consists of the following three businesses:

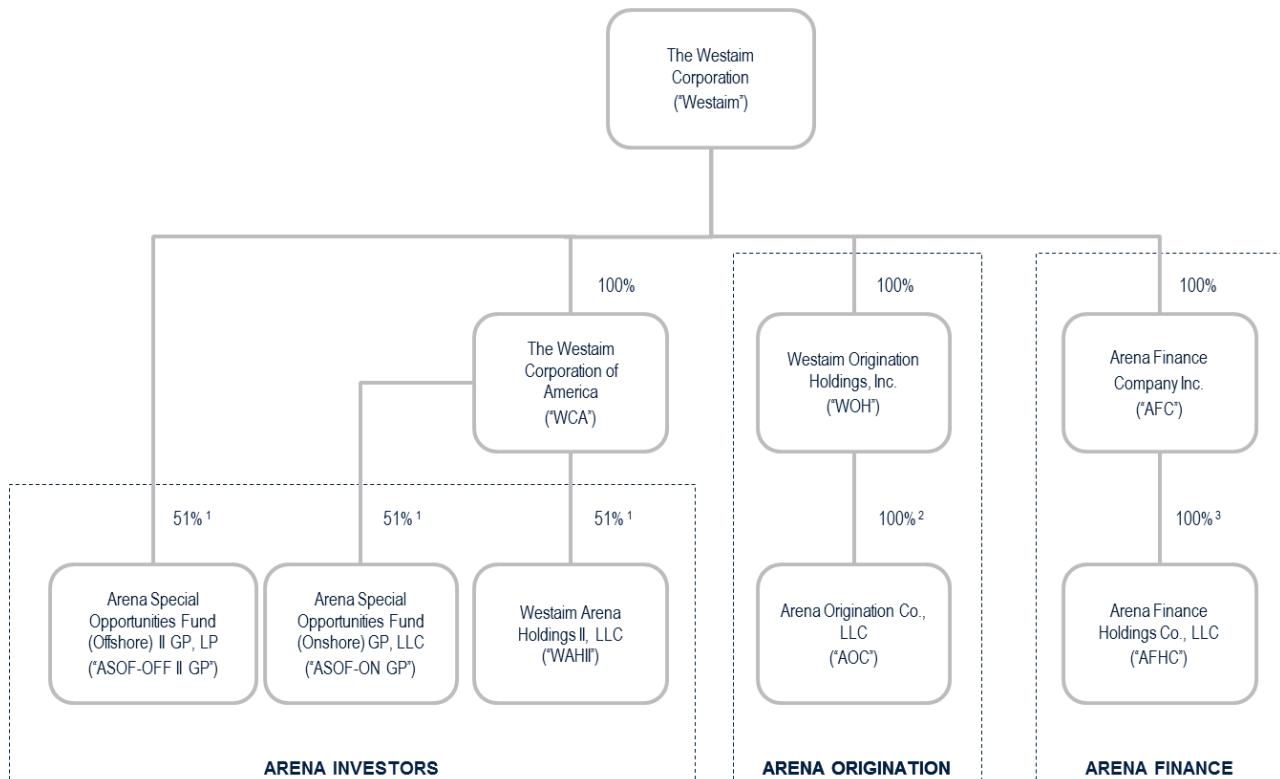
- **Arena Investors** – WAHII, ASOF-ON GP and ASOF-OFF II GP (collectively, "Arena Investors") jointly operate as an investment manager offering clients access to fundamentals-based, asset-oriented credit investments. The Company's investment in Arena Investors is recorded under investments in associates in the Company's consolidated financial statements.
- **Arena Finance** – Arena Finance, through Arena Finance Holdings Co., LLC ("AFHC"), a Delaware limited liability company wholly-owned by Arena Finance, and AFHC's subsidiaries, is a specialty finance company that primarily purchases fundamentals-based, asset-oriented credit investments for its own account. The Company's investment in Arena Finance is recorded under investments in private entities in the Company's consolidated financial statements.
- **Arena Origination** – Arena Origination, through Arena Origination Co., LLC ("AOC"), a Delaware limited liability company wholly-owned by Arena Origination, facilitates the origination of fundamentals-based, asset-oriented credit investments for its own account and/or possible future sale to Arena Finance, clients of Arena Investors and/or other third parties. The Company's investment in Arena Origination is recorded under investments in private entities in the Company's consolidated financial statements.

Arena Investors, Arena Finance and Arena Origination and related entities are collectively referred to as "Arena" or the "Arena Group".

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**3. INVESTMENTS (continued)**

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



<sup>1</sup> Legal equity ownership is 100%, and beneficial ownership denotes profit percentage subject to change over time pursuant to the earn-in rights granted to BP LLC described under "Investment in the Arena Group - Arena Investors".

<sup>2</sup> Ownership subject to the vesting and conversion of Class M Units held by BP LLC described under "Investment in the Arena Group - Arena Origination".

<sup>3</sup> Ownership subject to the vesting and conversion of Class M Units held by BP LLC described under "Investment in the Arena Group - Arena Finance".

For a detailed discussion of the business of the Arena Group, see the Company's Annual Information Form dated March 30, 2017 for its fiscal year ended December 31, 2016 which is available on SEDAR at [www.sedar.com](http://www.sedar.com).

Accounting for the Company's Investments

The Company's investments in private entities consist of its investments in HIIG (through the HIIG Partnership), Arena Finance and Arena Origination. Westaim 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 private entities are accounted for at fair value through profit or loss ("FVTPL").

In determining the valuation of investments in private entities at March 31, 2017 and December 31, 2016, the Company used net asset value as the primary valuation technique. For a detailed description of the valuation of the Company's investments in private entities, see note 5 to the Company's audited annual consolidated financial statements for the years ended December 31, 2016 and 2015.

The Company's investments in associates consist of its investment in Arena Investors, including the Company's indirect investment in WAHII (through WCA), ASOF-ON GP (through WCA), and its direct investment in ASOF-OFF II GP. WAHII, ASOF-ON GP and ASOF-OFF II GP are collectively referred to as the "Associates". The Company's investments in Associates are accounted for using the equity method and consist of investments in corporations or limited partnerships where the Company has significant influence.

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**3. INVESTMENTS (continued)**

Changes in the fair value of the Company's investments in private entities and the Company's share of profit (loss) and other comprehensive income (loss) of Associates are reported under "Net results of investments" in the consolidated statements of profit and comprehensive income.

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

	Three months ended March 31, 2017			Three months ended March 31, 2016		
	Opening balance	Unrealized gain	Ending balance	Opening balance	Unrealized gain (loss)	Ending balance
<b>Investments in private entities:</b>						
- HIIG Partnership	\$ 145.3	\$ 1.3	\$ 146.6	\$ 146.0	\$ 3.2	\$ 149.2
- Arena Finance <sup>1</sup>	142.8	2.4	145.2	143.1	0.3	143.4
- Arena Origination <sup>2</sup>	32.4	-	32.4	33.0	(0.1)	32.9
	<u>\$ 320.5</u>	<u>\$ 3.7</u>	<u>\$ 324.2</u>	<u>\$ 322.1</u>	<u>\$ 3.4</u>	<u>\$ 325.5</u>

<sup>1</sup> Ownership subject to the vesting and conversion of Class M Units held by BP LLC described under "Investment in the Arena Group - Arena Finance".

<sup>2</sup> Ownership subject to the vesting and conversion of Class M Units held by BP LLC described under "Investment in the Arena Group - Arena Origination".

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

	Three months ended March 31	
	2017	2016
<b>Investments in Associates</b>		
Opening balance	\$ 1.3	\$ 3.0
Repayment of advances	-	(0.2)
Share of loss	(0.6)	(0.4)
<b>Ending balance</b>	<b>\$ 0.7</b>	<b>\$ 2.4</b>

**A. INVESTMENT IN HIIG**

At March 31, 2017, the HIIG Partnership owned approximately 74.6% of the common shares of HIIG ("HIIG Shares") and the Company owned, directly and indirectly, approximately 58.5% of the HIIG Partnership, representing an approximate 43.7% indirect ownership interest in HIIG.

Units of the HIIG Partnership cannot be issued without the prior approval of the unitholders and, in connection with any such issuance, the holders of units have pre-emptive rights entitling them to purchase their pro rata share of any units that may be so issued.

**(i) Fair Value**

The investment in HIIG (through the HIIG Partnership) is accounted for at FVTPL. The fair value of the Company's investment in the HIIG Partnership was determined to be \$146.6 million at March 31, 2017 and \$145.3 million at December 31, 2016.

Management used net asset value as the primary valuation technique to arrive at the fair value of the Company's investment in the HIIG Partnership of \$146.6 million at March 31, 2017. The fair value of the HIIG Partnership at March 31, 2017 was derived from a valuation of the HIIG Shares owned by the HIIG Partnership and other net assets of the HIIG Partnership at March 31, 2017. The carrying values of the HIIG Partnership's other net assets, consisting of monetary assets including cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, approximate their fair values due to the short maturity of these financial instruments. In valuing the HIIG Shares, using net asset value as the primary valuation technique, fair value was determined to be 1.0x the adjusted book value of HIIG, or 100% of the adjusted HIIG stockholders' equity, as at March 31, 2017. Management determined that this valuation technique produced the best indicator of the fair value of the HIIG Shares as at March 31, 2017 as it was also used in a number of HIIG share transactions with arm's length third parties since August 1, 2014. This same basis of valuation was used to determine the fair value of the Company's investment in the HIIG Partnership of \$145.3 million at December 31, 2016.

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

The Company recorded unrealized gains of \$1.3 million and \$3.2 million in the three months ended March 31, 2017 and 2016, respectively, on its investment in the HIIG Partnership.

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**3. INVESTMENTS (continued)**

(ii) Select Financial Information of HIIG for the three months ended March 31, 2017 and 2016

The Company considers certain financial results of HIIG to be important measures for investors in assessing the Company's financial position and performance. In particular, premium volumes provide a measure of HIIG's growth; "net loss and LAE ratio" (calculated by dividing net loss and loss adjustment expenses by net premiums earned) and "combined ratio" (calculated by dividing the aggregate of net loss and loss adjustment expenses, net policy acquisition expenses and net operating expenses by net premiums earned) provide measures of HIIG's underwriting profitability; net income provides a measure of HIIG's overall profitability; and stockholders' equity is a measure that is generally used by investors to determine the value of insurance companies.

In the second quarter of 2016, the management of HIIG modified the reporting segments of HIIG to better align the business HIIG writes with the presentation of other specialty property and casualty insurers in the United States. Comparative figures have been reclassified to conform to the presentation of the current period. The new reporting segments are as follows:

- Commercial - premiums from standard property and casualty lines underwritten by HIIG generally on an admitted basis for which rate filings are generally required. This segment includes insurance related to Texas workers' compensation, construction, security firms and pest control operators.
- Specialty - premiums underwritten by HIIG generally on non-admitted or surplus lines basis for which rate filings are generally not required. This segment includes HIIG's energy division, professional lines (home health care providers, community banks, E&O and D&O for title companies and insurance brokers), transactional property, hospitality, and commercial auto business (small risks primarily in Louisiana).
- MGU Partners - premiums from contracted managing general underwriters predominantly in specialty insurance lines. This segment includes primarily managing general underwriters ("MGUs") serving artisan contractors, lawyers E&O insurance, and auto dealerships.
- Accident and Health - premiums underwritten for medical stop loss business.
- Non-continuing lines - represent lines of business no longer underwritten by HIIG.

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**3. INVESTMENTS (continued)**

Set out in the table below is certain select financial information relating to HIIG. The HIIG Financial Information is unaudited and has been derived from the supporting schedules to the unaudited consolidated financial statements of HIIG for the three months ended March 31, 2017 and 2016 which have been prepared in accordance with US GAAP. Such statements are the responsibility of the management of HIIG. Readers are cautioned that the HIIG 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.

(unaudited) (millions except for percentage)	Three months ended March 31	
	2017	2016
<b>Income Statement</b>		
Gross written premium	\$ 130.3	\$ 124.9
Net premiums written	\$ 68.6	\$ 71.9
Net premiums earned	\$ 68.4	\$ 81.4
Net income	\$ 3.6	\$ 1.0
Combined ratio	98%	96%
<b>Select Information</b>		
<b>Gross written premium:</b>		
Commercial	\$ 25.1	\$ 23.0
Specialty	57.5	49.7
MGU Partners	28.2	30.8
Accident and Health	19.5	21.4
Non-continuing lines	n.m. <sup>1</sup>	n.m. <sup>1</sup>
	<hr/> \$ 130.3	<hr/> \$ 124.9
<b>Net premiums written:</b>		
Commercial	\$ 14.5	\$ 13.8
Specialty	28.6	23.6
MGU Partners	19.1	22.9
Accident and Health	7.7	12.9
Non-continuing lines	(1.3)	(1.3)
	<hr/> \$ 68.6	<hr/> \$ 71.9
<b>Net premiums earned:</b>		
Commercial	\$ 12.0	\$ 12.9
Specialty	28.3	32.4
MGU Partners	21.7	24.5
Accident and Health	7.7	12.9
Non-continuing lines	(1.3)	(1.3)
	<hr/> \$ 68.4	<hr/> \$ 81.4
<b>Net Loss and LAE Ratio:</b>		
Commercial	72%	59%
Specialty	54%	58%
MGU Partners	65%	60%
Accident and Health	77%	71%
Non-continuing lines	n.m. <sup>1</sup>	n.m. <sup>1</sup>
	<hr/> 65%	<hr/> 63%
<b>Balance Sheet Information</b>		
	March 31, 2017	December 31, 2016
Investments, cash and cash equivalents	\$ 609.6	\$ 635.8 <sup>2</sup>
Stockholders' equity	\$ 328.1	\$ 324.7

<sup>1</sup> Not material or meaningful, but included in the aggregate numbers.

<sup>2</sup> Adjusted to conform to the presentation of the current year.

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**3. INVESTMENTS (continued)**

Gross written premium was \$130.3 million for the three months ended March 31, 2017 compared to \$124.9 million for the three months ended March 31, 2016, an increase of 4%. The increase in gross written premium in the three months ended March 31, 2017 compared to the same period in the prior year was driven primarily by additional premiums written in the Commercial and Specialty segments.

Net premiums written was \$68.6 million for the three months ended March 31, 2017 compared to \$71.9 million for the three months ended March 31, 2016, a decrease of 5%, resulting from an increased use of reinsurance in all segments.

Net premiums earned was \$68.4 million for the three months ended March 31, 2017 compared to \$81.4 million for the three months ended March 31, 2016, a decrease of 16%. The decrease in net premiums earned in the three months ended March 31, 2017 compared to the same period in the prior year was attributed to the increased use of reinsurance noted above.

The overall net loss and LAE ratio was 65% for the three months ended March 31, 2017 compared to 63% for the same period in the prior year. The overall net loss and LAE ratio increased due to general soft market conditions impacting all segments, with the effect partially offset by favourable results in the Specialty segment in the first quarter of 2017. HIIG recorded no loss reserve development from prior years in the three months ended March 31, 2017.

HIIG recorded net income of \$3.6 million for the three months ended March 31, 2017 compared to net income of \$1.0 million for the three months ended March 31, 2016. The increase for the three months ended March 31, 2017 over the prior period was attributed primarily to the after-tax realized gains on HIIG's investments.

HIIG stockholders' equity increased to \$328.1 million at March 31, 2017 from \$324.7 million at December 31, 2016. The increase of \$3.4 million resulted from net income for the period of \$3.6 million, net of a decrease in the unrealized gains on HIIG's investment portfolio for the period (net of income taxes) of \$0.2 million.

**B. INVESTMENT IN THE ARENA GROUP**

The Arena Group makes and manages fundamentals-based, asset-oriented credit investments. Fundamentals-based, asset-oriented credit investments refer to loans or credit arrangements which are generally secured by assets. These assets could include hard assets such as real estate, inventory, vehicles, aircraft, watercraft, oil and gas reserves, or a borrower's plant and equipment and other hard assets, or soft assets such as securities, receivables, contractual income streams, and certain intellectual property assets. Fundamentals-based, asset-oriented lenders and investors manage their risk and exposure by carefully assessing the value of the assets securing the loan or investment, receiving periodic and frequent reports on collateral value and the status of those assets, and tracking the financial performance of borrowers.

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

**Corporate Private Credit**

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

**Real Estate Private Credit and Real Estate Assets**

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

**Commercial & Industrial Assets**

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

**The Westaim Corporation**

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**3. INVESTMENTS (continued)**

**Structured Finance Investments**

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

**Consumer Assets**

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

**Other Securities**

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

**Arena Finance**

Arena Finance is a specialty finance company that, through its subsidiaries, primarily purchases fundamentals-based, asset-oriented credit investments for its own account. Arena Finance, through its subsidiaries, uses the funds invested by Westaim to primarily acquire loans and/or other credit investments from Arena Origination or other third parties at their fair market value. Arena Finance does not have a target range of investment; the size of the loans and/or other credit investments acquired from Arena Origination or other third parties depends on, among other things, any diversity requirements which may be imposed by any lender as well as the Investment Policy of Arena Finance. In the absence of such requirements, Arena Finance is not subject to concentration limitations but the management of Arena Finance will use its best judgment as to what is prudent in the circumstances. Arena Finance seeks to capitalize on opportunities in both private and public investments subject to its Investment Policy.

Before acquiring any such loans or other investments, Arena Finance reviews 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. Arena Finance acquires such loans or investments based on its assessment of the fair market value of the investment at the time of purchase.

The primary revenue of Arena Finance, through its subsidiaries, consists of interest income, dividend income and/or fees earned on the credit investments that it acquires. The operating results of Arena Finance also include gain (loss) on its investments.

**Rights Granted to BP LLC**

On August 31, 2015, Arena Finance and Bernard Partners, LLC ("BP LLC"), a limited liability company controlled by certain members of the Arena Group management team, entered into a limited liability company agreement in respect of AFHC (the "AFHC LLC Agreement") setting forth each of Arena Finance's and BP LLC's respective rights and obligations as members of AFHC. Under the AFHC LLC Agreement, BP LLC was issued Class M units which are convertible into Class A units, entitling BP LLC to acquire an equity interest of up to 20% (16.67% on a fully-diluted basis) in AFHC. The Class M units vest equally over 5 years from August 31, 2015 and carry pre-determined escalating conversion prices which are in excess of the price paid by the Company for its investment in AFHC (through Arena Finance). No Class M units were converted into Class A units in the three months ended March 31, 2017 and 2016.

**Accounting for Arena Finance**

The investment in Arena Finance is accounted for at FVTPL and is included in investments in private entities. The fair value of the Company's investment in Arena Finance was determined to be \$145.2 million and \$142.8 million at March 31, 2017 and December 31, 2016, respectively.

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**3. INVESTMENTS (continued)**

Management used net asset value as the primary valuation technique and arrived at the fair value of the Company's investment in Arena Finance of \$145.2 million at March 31, 2017. In valuing Arena Finance, using net asset value as the primary valuation technique, fair value was determined to be 1.0x the book value, or 100% of the shareholder's equity, of Arena Finance as at March 31, 2017. The Company determined that the shareholder's equity of Arena Finance at March 31, 2017 in the amount of \$145.2 million approximated its fair value, as the value of the Company's investment in Arena Finance was, through its subsidiaries, composed largely of cash and cash equivalents and investments carried at fair value at March 31, 2017. This same basis of valuation was used to determine the fair value of the Company's investment in Arena Finance of \$142.8 million at December 31, 2016.

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

The Company recorded unrealized gains on its investment in Arena Finance of \$2.4 million and \$0.3 million in the three months ended March 31, 2017 and 2016, respectively.

Select Financial Information of Arena Finance

The Company considers certain financial results of Arena Finance, its subsidiary AFHC, and AFHC's subsidiaries to be important measures in assessing the Company's financial position and performance, in particular, the net assets which can be invested to generate investment income, and operating expenses. Select financial information related to Arena Finance, AFHC and AFHC's subsidiaries set out below is unaudited and has been derived from the unaudited financial statements of Arena Finance and the consolidated financial statements of AFHC for the three months ended March 31, 2017 and 2016, which have been prepared in accordance with IFRS or US GAAP. Such statements are the responsibility of the management of Arena Finance and AFHC. Readers are cautioned that the financial information has not been reconciled to IFRS and so may not be comparable to the financial information of issuers that present their financial information in accordance with IFRS.

A summary of the net assets of AFHC and AFHC's subsidiaries is as follows:

(unaudited) (millions except for percentage)	March 31, 2017		December 31, 2016	
	Fair value	Percentage of net assets at fair value	Fair value	Percentage of net assets at fair value
Cash and cash equivalents	\$ 18.5	12.7%	\$ 30.5	21.3%
Due from brokers, net	4.0	2.7%	11.7	8.2%
Investments:				
Loans	103.8	71.4%	93.8	65.5%
Bonds	1.9	1.3%	1.4	1.0%
Equity securities	4.2	2.9%	1.4	1.0%
Bank debt	7.6	5.2%	7.3	5.1%
Private investments in public equity	3.9	2.7%	1.3	0.9%
Fund investment	1.5	1.0%	-	-
	122.9	84.5%	105.2	73.5%
Other net assets (liabilities)	0.1	0.1%	(4.4)	(3.0)%
Net assets of AFHC and AFHC's subsidiaries	\$ 145.5	100.0%	\$ 143.0	100.0%

Due from brokers consists of cash balances as well as net amounts due from brokers for unsettled securities transactions. Bonds and equity securities are net of short positions.

For additional information on the investments of AFHC and AFHC's subsidiaries, see Section 14, *Additional Arena Group Investment Schedules* of this MD&A.

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**3. INVESTMENTS (continued)**

A summary of the operating results of Arena Finance, AFHC and AFHC's subsidiaries is as follows:

(unaudited) (millions)	Three months ended March 31	
	2017	2016
Operating results of AFHC and AFHC's subsidiaries:		
Investment income, net	\$ 2.6	\$ 1.0
Gain on investments	1.6	0.8
Operating expenses:		
Administrative and service fees	(1.5)	(1.5)
Other operating expenses	(0.2)	(0.3)
	2.5	-
Operating results of Arena Finance:		
Operating expenses	(0.1)	(0.1)
Deferred income tax recovery	-	0.4
	(0.1)	0.3
Operating results of Arena Finance, AFHC and AFHC's subsidiaries	\$ 2.4	\$ 0.3

A continuity of the carrying value of the Company's investment in Arena Finance included in the Company's investments in private entities in the consolidated statements of financial position is as follows:

(unaudited) (millions)	Three months ended March 31	
	2017	2016
Carrying value of Arena Finance:		
Opening balance	\$ 142.8	\$ 143.1
Unrealized gain	2.4	0.3
Ending balance	\$ 145.2	\$ 143.4

***Arena Origination***

Arena Origination is a specialty finance company that, through its subsidiary AOC, originates fundamentals-based, asset-oriented credit investments for its own account and/or possible future sale to Arena Finance, clients of Arena Investors and/or third parties. Arena Origination is a taxable C-Corporation established in the state of Delaware and AOC is a U.S. based limited liability company established in the state of Delaware. Arena Origination invests in both debt and equity instruments, with an emphasis on debt instruments comprised of multiple investment strategies including, but not limited to, corporate private credit, real estate private credit and real estate assets, commercial & industrial assets, structured finance investments, consumer assets, and other securities. Arena Origination does not have a target range of investment; the size of the loans and/or other credit investments originated depends on, among other things, any diversity requirements which may be imposed by any lender as well as the Investment Policy of AOC. In the absence of such requirements, Arena Origination is not subject to concentration limitations but the management of Arena Origination will use its best judgment as to what is prudent in the circumstances. Arena Origination seeks to capitalize on opportunities in both private and public investments subject to its Investment Policy.

Before originating any such loans or other investments, Arena Origination reviews 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. Arena Origination originates such loans or investments based on its assessment of the fair market value of the investment at the time of purchase.

In connection with the capitalization of Arena Origination, the Company loaned \$17,000 to Arena Origination on August 31, 2015. The loan has a seven year term to August 31, 2022, is unsecured and carries interest at a rate of 7.25% per annum, with interest due on January 1 of each year during the term.

The primary revenue of Arena Origination, through AOC, consists of interest income, dividend income and/or investment-related fees earned on the credit investments that it originates. The operating results of Arena Origination also include gain (loss) on its investments.

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**3. INVESTMENTS (continued)**Rights Granted to BP LLC

On August 31, 2015, Arena Origination and BP LLC entered into a limited liability company agreement in respect of AOC (the "AOC LLC Agreement") setting forth each of Arena Origination's and BP LLC's respective rights and obligations as members of AOC. Under the AOC LLC Agreement, BP LLC was issued Class M units which are convertible into Class A units, entitling BP LLC to acquire an equity interest of up to 20% (16.67% on a fully-diluted basis) in AOC. The Class M units vest equally over 5 years from August 31, 2015 and carry pre-determined escalating conversion prices which are in excess of the price paid by the Company for its investment in AOC (through Arena Origination). No Class M units were converted into Class A units in the three months ended March 31, 2017 and 2016.

Accounting for Arena Origination

The investment in Arena Origination is accounted for at FVTPL and is included in investments in private entities. The fair value of the Company's investment in Arena Origination was determined to be \$32.4 million at March 31, 2017 and December 31, 2016.

Management used net asset value as the primary valuation technique and arrived at the fair value of the Company's investment in Arena Origination of \$32.4 million at March 31, 2017. In valuing Arena Origination, 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 Arena Origination of \$15.4 million at March 31, 2017, 2016 and the fair value of the term loan of \$17.0 million, totaling \$32.4 million, approximated the fair value of the Company's investment in Arena Origination. The Company's investment in Arena Origination, through AOC, composed largely of cash and cash equivalents and investments carried at fair value at March 31, 2017. This same basis of valuation was used to determine the fair value of the Company's investment in Arena Origination of \$32.4 million at December 31, 2016.

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

The Company recorded a nominal unrealized loss on its investment in Arena Origination in the three months ended March 31, 2017 and \$0.1 million in the three months ended March 31, 2016.

Select Financial Information of Arena Origination

The Company considers certain financial results of Arena Origination and its subsidiary, AOC, to be important measures in assessing the Company's financial position and performance, in particular, the net assets which can be invested to generate investment income, and operating expenses. Select financial information related to Arena Origination and AOC set out below is unaudited and has been derived from the unaudited financial statements of Arena Origination and AOC for the three months ended March 31, 2017 and 2016, which have been prepared in accordance with IFRS or US GAAP. Such statements are the responsibility of the management of Arena Origination and AOC. Readers are cautioned that the financial information has not been reconciled to IFRS and so may not be comparable to the financial information of issuers that present their financial information in accordance with IFRS.

A summary of the net assets of AOC is as follows:

(unaudited) (millions except for percentage)	March 31, 2017		December 31, 2016	
	Fair value	Percentage of net assets at fair value	Percentage of net assets at fair value	
			Fair value	Percentage of net assets at fair value
Cash and cash equivalents	\$ 4.3	12.4%	\$ 8.1	23.5%
Due from brokers, net	3.3	9.5%	7.5	21.8%
Investments:				
Loans	26.0	74.8%	18.2	52.8%
Bonds	0.2	0.5%	0.4	1.0%
Equity securities	0.8	2.4%	0.3	1.0%
	27.0	77.7%	18.9	54.8%
Other net assets (liabilities)	0.1	0.4%	(0.1)	(0.1)%
Net assets of AOC	\$ 34.7	100.0%	\$ 34.4	100.0%

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**3. INVESTMENTS (continued)**

Due from brokers consists of cash balances as well as net amounts due from brokers for unsettled securities transactions. Bonds and equity securities are net of short positions.

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

The following table shows a summary of the operating results of Arena Origination and AOC:

(unaudited) (millions)	Three months ended March 31	
	2017	2016
Operating results of AOC:		
Investment income, net	\$ 0.6	\$ 0.6
Gain on investments	0.2	0.1
Operating expenses:		
Administrative and service fees	0.1	(0.3)
Other operating expenses	(0.6)	(0.2)
	<u>0.3</u>	<u>0.2</u>
Operating results of Arena Origination:		
Operating expenses:		
Interest expense <sup>1</sup>	(0.3)	(0.3)
Other operating expenses	-	-
	<u>(0.3)</u>	<u>(0.3)</u>
<b>Operating results of Arena Origination and AOC</b>	<b>\$ -</b>	<b>\$ (0.1)</b>

<sup>1</sup> On \$17.0 million term loan owed to Westain which carries interest at a rate of 7.25% per annum.

The following table shows a continuity of the carrying value of the Company's investment in Arena Origination included in the Company's investments in private entities in the consolidated statements of financial position:

(unaudited) (millions)	Three months ended March 31	
	2017	2016
Carrying value of Arena Origination:		
Opening balance	\$ 32.4	\$ 33.0
Unrealized loss	-	(0.1)
Ending balance	<u>\$ 32.4</u>	<u>\$ 32.9</u>

**Arena Investors**

Arena Investors consists of the Associates including the Company's indirect investment in WAHII (through WCA), ASOF-ON GP (through WCA), and its direct investment in ASOF-OFF II GP. WAHII is the sole limited partner of Arena Investors, LP, a limited partnership established under the laws of Delaware to carry on the third-party investment management business of the Arena Group.

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

Arena Investors generates revenues primarily from Management Fees, Performance Fees and Asset Servicing Fees. "Management Fees" are the fees generally calculated on Arena Investors' various segregated client accounts and managed funds as a percentage of assets under management ("AUM"). "Performance Fees" are the fees or profit allocation earned by Arena Investors calculated annually as a percentage of the appreciation (net of Management Fees and other expenses) in each of the client accounts and funds managed by Arena Investors, subject to a "high water mark" in respect of such client or fund, as determined from time to time. "Asset Servicing Fees" are the fees generally calculated on Arena Investors' various segregated client accounts and managed funds as a percentage of the fair value of the illiquid portion of the loan portfolios managed by Arena Investors.

Arena Investors has established a U.S. onshore fund, Arena Special Opportunities Fund, LP ("ASOF LP") and an offshore fund, Arena Special Opportunities Fund (Cayman), LP, as investment funds for third party investors. Arena Investors continues to be in discussions with potential clients for additional capital to invest in its various pools of capital, in accordance with its business strategy.

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**3. INVESTMENTS (continued)**

As of March 31, 2017, Arena Investors had committed AUM of approximately \$265 million. This amount does not include the net assets of Arena Finance and Arena Origination managed by Arena Investors, or any future investments expected to be made by Fairfax Financial Holdings Limited (see discussion in Section 4, *Financing* of this MD&A for additional information).

Rights Granted to BP LLC

On August 31, 2015, agreements were entered into between the Company (through WCA) and BP LLC in respect of WAHII and ASOF-ON GP and between Westaim and BP LLC in respect of ASOF-OFF II GP (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 profits of the Associates. BP LLC's initial profit sharing percentage is 49%, and under the Associate Agreements, BP LLC has the right to earn-in up to 75% equity ownership percentage in the Associates and share up to 75% of the profits of the Associates based on achieving certain AUM and cashflow (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.

Accounting for Arena Investors

The Company's investments in the Associates (Arena Investors) are accounted for using the equity method. On June 30, 2016, the Company made an additional equity investment of \$0.3 million in Arena Investors. The carrying amount of the Company's investments in the Associates was \$0.7 and \$1.3 million at March 31, 2017 and December 31, 2016, respectively. The total of the Company's 51% share of losses of the Associates of \$0.6 million and \$0.4 million in the three months ended March 31, 2017 and 2016, respectively, was reported under "Net results of investments" in the consolidated statements of profit and comprehensive income.

Select Financial Information of Arena Investors

The Company considers certain financial results of Arena Investors to be important measures in assessing the Company's financial position and performance, in particular, the AUM used in the calculation of revenues from the provision of investment management services, and operating expenses. Select financial information related to Arena Investors set out below is unaudited and has been derived from the unaudited financial statements of WAHII, ASOF-ON GP and ASOF-OFF II GP for the three months ended March 31, 2017 and 2016, which have been prepared in accordance with US GAAP. Such statements are the responsibility of the management of Arena Investors. Management of the Company concluded that any reconciling items to IFRS are not material.

Select financial information of Arena Investors is as follows:

Statement of Financial Position<sup>1</sup>

(unaudited) (millions)	March 31, 2017	December 31, 2016
Cash and cash equivalents	\$ 1.6	\$ 0.6
Restricted cash	3.4	2.9
Advances from Westaim	(4.4)	(4.4)
Loan from AFHC	(4.5)	(2.0)
Other net liabilities	(3.7)	(3.5)
Net liabilities	\$ (7.6)	\$ (6.4)
Company's share	\$ (3.7)	\$ (3.1)
Advances to Arena Investors	4.4	4.4
Carrying amount of the Company's interest in Associates	\$ 0.7	\$ 1.3

<sup>1</sup> Includes the accounts of WAHII, ASOF-ON GP and ASOF-OFF II GP prepared in accordance with US GAAP with no material reconciling differences to IFRS.

The restricted cash consists of \$0.2 million used as a security deposit for Arena Investors' New York office lease and deposits received in advance.

Westaim and AFHC have provided funding of \$4.4 million and \$4.5 million, respectively, to Arena Investors for working capital purposes. These funding amounts are expected to be repaid in priority to any profit distribution or cash flow participation by the owners or profit participants of Arena Investors.

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**3. INVESTMENTS (continued)**

Select financial information of Arena Investors is as follows (continued):

Statement of Loss and Comprehensive Loss <sup>1</sup>			
(unaudited) (millions)	Three months ended March 31		
	2017	2016	
Management, asset servicing and performance fees	\$ 1.3	\$ 0.2	
Administrative and service fees <sup>2</sup>	1.4	1.8	
Operating expenses <sup>2</sup>	(3.8)	(2.8)	
Loss and comprehensive loss	\$ (1.1)	\$ (0.8)	
Company's share of losses of Associates (51%)	\$ (0.6)	\$ (0.4)	

<sup>1</sup> Includes the accounts of WAHII, ASOF-ON GP and ASOF-OFF II GP prepared in accordance with US GAAP with no material reconciling differences to IFRS.

<sup>2</sup> Excludes fees from ASOF-ON GP and ASOF-OFF II GP to WAHII of \$0.2 million in the three months ended March 31, 2017 (2016 - \$nil).

The management, asset servicing and performance fees were generated from the various segregated client accounts and managed funds of Arena Investors. The administrative and service fees were charged to AFHC and AOC.

Operating expenses of \$3.8 million for the three months ended March 31, 2017 included \$2.7 million in salaries and benefits, \$0.4 million in professional fees, and \$0.7 million in general administrative, depreciation and other expenses. Operating expenses of \$2.8 million for the three months ended March 31, 2016 included \$2.1 million in salaries and benefits, \$0.3 million in professional fees, and \$0.4 million in general administrative, depreciation and other expenses.

**C. OTHER INVESTMENTS**

The Company's investment in ASOF LP, a fund managed by Arena Investors, LP, with a fair value of \$2.0 million at March 31, 2017 and \$1.9 million at December 31, 2016, was included in other assets in the consolidated statements of financial position. The Company's unrealized gain on its investment in ASOF LP in the three months ended March 31, 2017 was \$0.1 million (2016 - \$nil).

**4. FINANCING**

Subsequent to March 31, 2017, on April 3, 2017, the Company announced that it had entered into a letter agreement pursuant to which Fairfax Financial Holdings Limited, through certain of its subsidiaries (collectively, "Fairfax"), has 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 ("Warrants").

Fairfax has agreed to subscribe, on a private placement basis and subject to certain conditions, for Preferred Securities in an aggregate amount of up to C\$100 million. Westaim intends to close an initial subscription of C\$50 million, and has discretion with respect to additional subscriptions by Fairfax for the remaining C\$50 million in minimum tranche sizes of C\$25 million by no later than December 31, 2017. The Preferred Securities will be subordinate and secured, and may be redeemed by Westaim at any time after 5 years from closing, or after 3 years if its common shares are trading at a price of at least C\$5.60 per share.

Westaim has also agreed to issue 28,571,430 Warrants, exercisable at C\$3.50 per share. The Warrants will vest proportionately based on the aggregate amount of Preferred Securities drawn by Westaim under the private placement, with 14,285,715 vesting upon the initial subscription of C\$50 million. Each vested Warrant will be exercisable within 5 years, but may be extended to 7 years if the closing price of the Westaim common shares is less than C\$5.60 on the fifth anniversary of the initial closing. Westaim can also elect to require early exercise of the Warrants if the closing price of its common shares reaches C\$5.60 at any time after the third anniversary of the initial closing.

Fairfax has also agreed to invest up to \$500 million in investments sourced by Arena Investors, LP. Fairfax's commitment to invest an initial \$125 million with Arena Investors, LP will be triggered by the drawdown by Westaim of the first tranche of C\$50 million of Preferred Securities. Subject to the satisfaction of certain conditions (including Westaim's compliance with the indenture governing the Preferred Securities), Fairfax will invest an additional \$125 million with Arena Investors, LP upon the next C\$25 million drawdown of Preferred Securities by Westaim, and an additional \$250 million upon the final C\$25 million drawdown of Preferred Securities by Westaim.

The proceeds raised from the Fairfax financing will be used by Westaim for potential acquisitions and for general corporate purposes.

Closing of the transaction is subject to the settlement of mutually agreeable definitive documentation, and other customary closing conditions, including the approval of the TSXV and receipt of all other requisite third party approvals and is expected to occur in the second quarter of 2017.

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**5. ANALYSIS OF FINANCIAL RESULTS**

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

(millions)	Three months ended March 31	
	2017	2016
Revenue	\$ 0.7	\$ 0.7
Net results of investments	3.2	3.0
Expenses		
Salaries and benefits	1.0	0.8
General, administrative and other	0.3	0.3
Professional fees	0.2	0.4
Site restoration provision expense	-	0.3
Share-based compensation	0.3	0.2
Foreign exchange loss	0.1	0.3
	\$ 1.9	\$ 2.3
Profit and comprehensive income	\$ 2.0	\$ 1.4

**5.1 Revenue**

Revenue for the three months ended March 31, 2017 of \$0.7 million (2016 - \$0.7 million) consisted of interest income of \$0.3 million (2016 - \$0.3 million) and advisory fees of \$0.4 million (2016 - \$0.4 million). In the three months ended March 31, 2017, the Company earned interest on the loan made by the Company to Arena Origination of \$0.3 million (2016 - \$0.3 million). In the same period, the Company earned advisory fees from HIIG of \$0.3 million (2016 - \$0.3 million) and from the Arena Group of \$0.1 million (2016 - \$0.1 million).

**5.2 Net Results of Investments**

Net results of investments were a gain of \$3.2 million for the three months ended March 31, 2017 (2016 - \$3.0 million), consisting of an unrealized gain on the Company's investments in private entities of \$3.7 million (2016 - \$3.4 million), an unrealized gain on other investments of \$0.1 million (2016 - \$nil) and the Company's share of losses of its Associates of \$0.6 million (2016 - \$0.4 million).

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

*Investments in Private Entities*

The Company's investments in private entities are accounted for at FVTPL. In the three months ended March 31, 2017, the Company recorded unrealized gains of \$1.3 million on its investment in the HIIG Partnership (2016 - \$3.2 million) and \$2.4 million on its investment in Arena Finance (2016 - \$0.3 million), and a nominal unrealized loss on its investment in Arena Origination (2016 - \$0.1 million).

*Investments in Associates*

The Company's investments in the Associates are accounted for using the equity method. In the three months ended March 31, 2017, the Associates earned management and performance fees of \$1.3 million and administrative and service fees of \$1.4 million and incurred operating expenses of \$3.8 million, resulting in a loss of \$1.1 million. In the three months ended March 31, 2016, the Associates earned management fees of \$0.2 million and administrative and service fees of \$1.8 million and incurred operating expenses of \$2.8 million, resulting in a loss of \$0.8 million. The total of the Company's 51% share of losses of the Associates amounted to \$0.6 million and \$0.4 million in the three months ended March 31, 2017 and 2016, respectively.

**5.3 Expenses**

Salaries and benefits were \$0.2 million higher in the first quarter of 2017 than the first quarter of 2016. Salaries and benefits of \$1.0 million in the three months ended March 31, 2017 included accrued director fees of \$0.1 million. In the three months ended March 31, 2016, DSUs were issued to non-executive directors in lieu of director fees. Salaries and benefits were also higher in the first quarter of 2017 compared to the same period in the prior year due to an additional employee in the first quarter of 2017 compared to the first quarter of 2016.

Professional fees were \$0.2 million lower in the first quarter of 2017 than the first quarter of 2016 primarily due to reduced legal and consulting fees.

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

The Company has provided indemnifications to third parties with respect to future site restoration costs to be incurred on industrial sites formerly owned by the Company. Variations in the Company's site restoration provision expense from period to period are generally attributed to changes in the discount and inflation rates used to arrive at the site restoration provision. Recoveries of site restoration costs are recorded when received.

Changes in share-based compensation expense from period to period result primarily from vesting of RSUs as well as movement in the Company's share price which affects the per unit valuation of outstanding RSUs and DSUs. Share-based compensation expense in the three months ended March 31, 2017 also included compensation expense for stock options of \$0.2 million (2016 - \$nil). See Section 8, *Liquidity and Capital Resources* of this MD&A for additional information on the Company's share-based compensation plans.

**6. ANALYSIS OF FINANCIAL POSITION**

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

(millions)	March 31, 2017	December 31, 2016
<b>Assets</b>		
Cash and cash equivalents	\$ 2.2	\$ 3.0
Other assets	4.8	4.4
Investments in private entities	324.2	320.5
Investments in associates	0.7	1.3
	<b>\$ 331.9</b>	<b>\$ 329.2</b>
<b>Liabilities</b>		
Accounts payable and accrued liabilities	\$ 7.7	\$ 7.3
Site restoration provision	3.5	3.4
	<b>11.2</b>	<b>10.7</b>
Shareholders' equity	320.7	318.5
<b>Total liabilities and shareholders' equity</b>	<b>\$ 331.9</b>	<b>\$ 329.2</b>

**6.1 Cash and Cash Equivalents**

At March 31, 2017, the Company had cash and cash equivalents of \$2.2 million compared to \$3.0 million at December 31, 2016.

**6.2 Other Assets**

Other assets at March 31, 2017 included the Company's portfolio investment in ASOP LP with a fair value of \$2.0 million (December 31, 2016 - \$1.9 million). Other assets at March 31, 2017 also included \$0.1 million of capital assets (December 31, 2016 - \$0.1 million). Depreciation expense for the capital assets was nominal for the three months ended March 31, 2017 and 2016.

**6.3 Investments in Private Entities**

The Company's investments in private entities consist of its investments in HIIG (through the HIIG Partnership), Arena Finance and Arena Origination, which are accounted for at FVTPL. The fair values of the HIIG Partnership, Arena Finance and Arena Origination at March 31, 2017 were determined to be \$146.6 million, \$145.2 million and \$32.4 million, respectively (December 31, 2016 - \$145.3 million, \$142.8 million and \$32.4 million, respectively). See discussion in Section 3, *Investments* of this MD&A.

**6.4 Investments in Associates**

The Company's investments in associates consist of the Company's indirect investment in Arena Investors. These investments are accounted for using the equity method. The carrying value of the Company's investments in the Associates at March 31, 2017 was \$0.7 million (December 31, 2016 - \$1.3 million). See discussion in Section 3, *Investments* of this MD&A.

**6.5 Accounts Payable and Accrued Liabilities**

Accounts payable and accrued liabilities were \$7.7 million at March 31, 2017 and \$7.3 million at December 31, 2016. Accounts payable and accrued liabilities at March 31, 2017 included liabilities related to accrued employee bonuses of \$1.0 million (December 31, 2016 - \$0.8 million), RSUs of \$5.5 million (December 31, 2016 - \$5.4 million) and DSUs of \$0.8 million (December 31, 2016 - \$0.8 million). See Section 8, *Liquidity and Capital Resources* of this MD&A for additional information on the Company's share-based compensation plans.

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**6. ANALYSIS OF FINANCIAL POSITION (continued)****6.6 Site Restoration Provision**

The site restoration provision of \$3.5 million at March 31, 2017 and \$3.4 million at December 31, 2016 relates to costs associated with soil and groundwater reclamation and remediation costs.

The Company conducts periodic reviews of the underlying assumptions supporting the provision, including remediation costs and regulatory requirements. Future reimbursements of costs resulting from indemnifications provided to the Company by previous owners of the industrial sites have not been recognized in the Company's consolidated financial statements. Reimbursements are recorded when received.

**6.7 Shareholders' Equity**

The details of shareholders' equity are as follows:

(millions)	March 31, 2017	December 31, 2016
Common shares	\$ 382.2	\$ 382.2
Contributed surplus	12.4	12.2
Accumulated other comprehensive loss	(2.2)	(2.2)
Deficit	(71.7)	(73.7)
Shareholders' equity	\$ 320.7	\$ 318.5

*Common Shares*

The Company had 143,186,718 common shares outstanding at March 31, 2017 and December 31, 2016.

*Contributed Surplus*

The increase in contributed surplus of \$0.2 million resulted from compensation expense relating to stock options in the three months ended March 31, 2017.

*Accumulated Other Comprehensive Loss*

Accumulated other comprehensive loss of \$2.2 million at March 31, 2017 and December 31, 2016 comprised cumulative exchange differences from currency restatement as a result of a change in presentation currency from the C\$ to the US\$ on August 31, 2015.

*Deficit*

The decrease in deficit of \$2.0 million from December 31, 2016 to March 31, 2017 is due to the profit for the three months ended March 31, 2017.

**7. OUTLOOK**

The focus of Arena's management team in 2017 is to expand Arena's diversified portfolio of quality senior ranking credit investments, increase its pipeline of investment opportunities, and grow AUM, including attracting new investors. Arena's investments are performing at or above expectations and Arena had 37 employees as at March 31, 2017.

With the operational enhancement initiatives undertaken by HIIG in 2016, and an improved economy and rising interest rates in the United States, HIIG's financial performance is expected to improve throughout 2017, despite continuing soft market conditions in the insurance industry.

The arrangement with Fairfax announced by the Company on April 3, 2017 (see discussion in Section 4, *Financing* of this MD&A for additional information) is expected to augment Arena's AUM and also provide funding to the Company so it can 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 over the long term.

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**8. LIQUIDITY AND CAPITAL RESOURCES**

Capital Management Objectives

The Company's capital currently consists of common shareholders' equity. It may have different components in the future.

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.

The Company has not entered into any hedging with respect to currencies.

Share Capital

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

At March 31, 2017 and December 31, 2016, the Company had 143,186,718 common shares outstanding, with a stated capital of \$382.2 million.

There were no Class A or Class B preferred shares outstanding at March 31, 2017 and December 31, 2016.

Dividends

No dividends were paid in the three months ended March 31, 2017 and 2016.

Share-based Compensation Plans

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

On March 31, 2016, the Company's Board of Directors approved amendments to the Incentive Plan which, among other things, increased the maximum number of common shares which may be issued under the Incentive Plan from 7,042,150 to 14,318,671. Such amendments were approved by the shareholders of the Company at the annual and special meeting of shareholders held on May 12, 2016. The Option Plan is a "rolling plan" which provides that the aggregate number of common shares which may be reserved for issuance under the Option Plan is limited to not more than 10% of the aggregate number of common shares outstanding. However, each of the Incentive Plan and the Option Plan provide that under no circumstances shall there be common shares issuable under such plan, together with all other security-based compensation arrangements of the Company, which exceed 10% of the aggregate number of common shares outstanding.

At March 31, 2017, the Company had 2,752,940 stock options outstanding (December 31, 2016 - 2,754,940 stock options outstanding). On April 1, 2016, 2,752,940 options were granted to certain officers and employees of the Company. These options have a term of seven years, vest in three equal instalments on April 1, 2017, April 1, 2018 and April 1, 2019, and have an exercise price of C\$3.25. None of the options had vested at March 31, 2017. In the three months ended March 31, 2017, compensation expense relating to options was \$0.2 million (2016 - \$nil), with an offsetting increase to contributed surplus.

On April 3, 2017, 3,860,397 additional options were granted to certain officers and employees of the Company. The options have a term of seven years, vest in three equal instalments on December 31, 2017, December 31, 2018 and December 31, 2019, and have an exercise price of C\$3.00.

At March 31, 2017, the Company had 398,731 DSUs outstanding (December 31, 2016 - 398,731 DSUs outstanding). DSUs are issued to certain directors in lieu of director fees, at their election, at the market value of the Company's common shares at the date of grant and, with respect to the DSUs that are outstanding, are paid out in cash no later than the end of the calendar year following the year the participant ceases to be a director.

The Company also had 3,082,073 RSUs outstanding at March 31, 2017 (December 31, 2016 - 3,082,073 RSUs outstanding). An aggregate of 2,375,000 RSUs were granted to certain officers, employees and consultants on November 14, 2014, and at March 31, 2017, 2,285,937 of these RSUs had vested, of which 218,125 units had been exercised and 2,067,812 units were outstanding. The remaining 89,063 RSUs vest evenly over 2 months after March 31, 2017.

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

On April 1, 2016, 925,198 RSUs were granted to certain officers and employees of the Company. These RSUs vest in three equal instalments on April 1, 2017, April 1, 2018 and December 31, 2018 and, once vested, may be settled, at the election of the holder, in common shares of the Company or cash based on the prevailing market price of the common shares on the settlement date.

At March 31, 2017, accounts payable and accrued liabilities included amounts related to outstanding DSUs of \$0.8 million (December 31, 2016 - \$0.8 million) and outstanding RSUs of \$5.5 million (December 31, 2016 - \$5.4 million).

**Market for Securities**

Westaim's common shares trade 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. 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:

March 31, 2017 (millions)	One year or less	No specific date	Total
Financial assets:			
Cash and cash equivalents	\$ 2.2	\$ -	\$ 2.2
Other assets *	2.7	2.0	4.7
Investments in private entities	-	324.2	324.2
Investments in associates	-	0.7	0.7
Total financial assets	4.9	326.9	331.8
Financial obligations:			
Accounts payable and accrued liabilities	1.4	6.3	7.7
Site restoration provision	-	3.5	3.5
Total financial obligations	1.4	9.8	11.2
Financial assets net of financial obligations	\$ 3.5	\$ 317.1	\$ 320.6

\* excluding capital assets

December 31, 2016 (millions)	One year or less	No specific date	Total
Financial assets:			
Cash and cash equivalents	\$ 3.0	\$ -	\$ 3.0
Other assets *	2.4	1.9	4.3
Investments in private entities	-	320.5	320.5
Investments in associates	-	1.3	1.3
Total financial assets	5.4	323.7	329.1
Financial obligations:			
Accounts payable and accrued liabilities	1.1	6.2	7.3
Site restoration provision	-	3.4	3.4
Total financial obligations	1.1	9.6	10.7
Financial assets net of financial obligations	\$ 4.3	\$ 314.1	\$ 318.4

\* excluding capital assets

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 to ensure that all obligations will be met.

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**9. RELATED PARTY TRANSACTIONS**

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

Compensation expenses related to the Company's key management personnel are as follows:

(millions)	Three months ended March 31	
	2017	2016
Salaries and benefits	\$ 0.9	\$ 0.7
Share-based compensation	0.3	0.2
	\$ 1.2	\$ 0.9

Fees paid to Hartford Consulting, Inc. (the "Consultant"), a company owned by William R. Andrus, a director of HIIG, for insurance industry related consulting services and compensation expense relating to RSUs issued to the Consultant were both nominal in the three months ended March 31, 2017 and 2016. At March 31, 2017, a liability of \$0.1 million (December 31, 2016 - \$0.1 million) had been accrued in the consolidated statements of financial position with respect to outstanding RSUs held by the Consultant.

On September 28, 2016, AFHC granted a \$10.0 million revolving loan facility to the Associates to fund the working capital needs of Arena Investors. The loan facility has a term of 36 months and bears interest at a rate of 5.25% per annum. At March 31, 2017, WAHII had drawn down the loan facility by \$4.5 million. The Company has provided a limited recourse guaranty to AFHC pledging as security for the loan facility its ownership interests in the Associates.

On August 31, 2015, the Company provided \$17.0 million in funding to Arena Origination in the form of an unsecured term loan. The Company earned interest on the loan of \$0.3 million and \$0.3 million in the three months ended March 31, 2017 and 2016, respectively.

The Company earned advisory fees from HIIG of \$0.3 million and \$0.3 million in the three months ended March 31, 2017 and 2016, respectively.

**10. CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS**

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

Management used net asset value as the primary valuation technique in determining the fair value of the Company's investments in private entities at March 31, 2017. Management determined that this valuation technique produced the best indicator of the fair value of the HIIG Partnership, Arena Finance and Arena Origination at March 31, 2017. The significant unobservable inputs used in the valuation of the HIIG Partnership, Arena Finance and Arena Origination at March 31, 2017 were the equity of each of the entities at March 31, 2017 and the multiple applied. Management applied a multiple of 1.0x as the equity (adjusted where applicable) of each of the HIIG Partnership, Arena Finance and Arena Origination approximated the net assets of the respective entity which were carried at fair value at March 31, 2017. For a detailed description of the valuation of the Company's investments in private entities, see note 5 to the Company's audited annual consolidated financial statements for the years ended December 31, 2016 and 2015. Due to the inherent uncertainty of valuation, management's estimated values may differ significantly from the values that would have been used had a ready market for the investment existed, and the differences could be material.

Other key estimates include the Company's provision for site restoration, fair value of share-based compensation, and unrecognized deferred tax assets. Details of these items are disclosed in note 7, note 10 and note 12, respectively, to the Company's audited annual consolidated financial statements for the years ended December 31, 2016 and 2015.

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

A description of the Company's accounting policies and other recently adopted and pending accounting pronouncements are disclosed in note 2 and note 3, respectively, to the audited annual consolidated financial statements for the years ended December 31, 2016 and 2015.

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**12. QUARTERLY FINANCIAL INFORMATION**

	Q1 2017	Q4 2016	Q3 2016	Q2 2016	Q1 2016	Q4 2015	Q3 2015	Q2 2015
(millions)								(restated <sup>1</sup> )
Revenue	\$ 0.7	\$ 0.7	\$ 0.6	\$ 0.7	\$ 0.7	\$ 0.5	\$ 0.4	\$ 0.3
Net results of investments - gain (loss)	3.2	(1.9)	(2.3)	(2.8)	3.0	(3.2)	6.1	(2.1)
(Expenses) recovery of expenses	(1.9)	0.3	(2.0)	(3.0)	(2.3)	(3.0)	0.5	(1.7)
Profit (loss)	2.0	(0.9)	(3.7)	(5.1)	1.4	(5.7)	7.0	(3.5)
Other comprehensive (loss) income	-	-	-	-	-	-	(9.0)	2.9
Comprehensive income (loss)	\$ 2.0	\$ (0.9)	\$ (3.7)	\$ (5.1)	\$ 1.4	\$ (5.7)	\$ (2.0)	\$ (0.6)

<sup>1</sup>Amounts have been restated due to a change in presentation currency from the Canadian dollar to the United States dollar

Revenue consisted of investment income and advisory fee income.

Net results of investments in Q1, 2017 included an unrealized gain on investments in private entities of \$3.7 million, an unrealized gain on other investments of \$0.1 million and share of losses of Associates of \$0.6 million. Net results of investments in Q4, 2016 included an unrealized loss on investments in private entities of \$1.3 million and share of losses of Associates of \$0.6 million. Net results of investments in Q3, 2016 included an unrealized loss on investments in private entities of \$1.5 million and share of losses of Associates of \$0.8 million. Net results of investments in Q2, 2016 included an unrealized loss on investments in private entities of \$2.2 million and share of losses of Associates of \$0.6 million. Net results of investments in Q1, 2016 included an unrealized gain on investments in private entities of \$3.4 million and share of losses of Associates of \$0.4 million. Net results of investments in Q4, 2015 included an unrealized loss on investments in private entities of \$2.7 million and share of losses of Associates of \$0.5 million. Net results of investments in Q3, 2015 consisted of an unrealized gain on investments in private entities of \$6.6 million, share of losses of Associates of \$0.6 million and an unrealized gain on other investments of \$0.1 million. Net results of investments prior to Q3, 2015 represented unrealized gains (losses) on the Company's investment in the HIIG Partnership.

Expenses in Q1, 2017 comprised salaries and general and administrative costs of \$1.3 million, share-based compensation expense of \$0.3 million, professional fees of \$0.2 million and a foreign exchange loss of \$0.1 million. Expenses in Q4, 2016 comprised salaries and general and administrative costs of \$0.4 million, site restoration provision recovery of \$1.5 million, share-based compensation expense of \$0.9 million, professional fees of \$0.1 million and a foreign exchange gain of \$0.2 million. Expenses in Q3, 2016 comprised salaries and general and administrative costs of \$1.1 million, site restoration provision recovery of \$0.2 million which was net of a reimbursement of \$0.4 million, share-based compensation expense of \$1.0 million and professional fees of \$0.1 million. Expenses in Q2, 2016 comprised salaries and general and administrative costs of \$1.2 million, site restoration provision expense of \$0.9 million, share-based compensation expense of \$0.5 million, professional fees of \$0.3 million and a foreign exchange loss of \$0.1 million. Expenses in Q1, 2016 comprised salaries and general and administrative costs of \$1.1 million, site restoration provision expense of \$0.3 million, professional fees of \$0.4 million, share-based compensation expense of \$0.2 million, and a foreign exchange loss of \$0.3 million.

Expenses in Q4, 2015 comprised salaries and general and administrative costs of \$1.7 million, site restoration provision expense of \$0.7 million, professional fees of \$0.5 million and share-based compensation expense of \$0.2 million, net of a foreign exchange gain of \$0.1 million. Recovery of expenses in Q3, 2015 included a recovery of professional fees of \$0.4 million, a recovery of site restoration provision of \$0.3 million and a foreign exchange gain of \$0.4 million. Expenses in Q2, 2015 included \$0.8 million in share-based compensation with respect to outstanding RSUs, \$1.0 million in professional fees incurred mainly in connection with the Arena Transactions and a recovery of site restoration provision of \$0.7 million.

Other comprehensive income (loss) arose from exchange differences from currency restatement as a result of a change in presentation currency from the C\$ to the US\$ on August 31, 2015.

**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 HIIG 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, 2017 for its fiscal year ended December 31, 2016 which is available on SEDAR at [www.sedar.com](http://www.sedar.com).

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**14. ADDITIONAL ARENA GROUP INVESTMENT SCHEDULES**

**ARENA FINANCE**

The investments of AFHC and AFHC's subsidiaries shown by investment strategy are as follows:

<b>Investment by Strategy (unaudited)</b>						<b>March 31, 2017</b>	
(millions except for number of positions and percentage)	Number of positions	Cost	Fair value	Percentage of investments at fair value	% Debt investments	% Equity investments	
Corporate Private Credit	16	\$ 41.7	\$ 41.6	33.9%	33.9%	-	
Real Estate Private Credit and Real Estate Assets	17	15.5	15.3	12.4%	12.4%	-	
Structured Finance <sup>1</sup>	18	46.6	46.9	38.2%	38.2%	-	
Other Securities	48	16.9	19.1	15.5%	7.7%	7.8%	
	99	\$ 120.7	\$ 122.9	100.0%	92.2%	7.8%	

<b>Investment by Strategy (unaudited)</b>						<b>December 31, 2016</b>	
(millions except for number of positions and percentage)	Number of positions	Cost	Fair value	Percentage of investments at fair value	% Debt investments	% Equity investments	
Corporate Private Credit	17	\$ 41.3	\$ 41.0	39.0%	39.0%	-	
Real Estate Private Credit and Real Estate Assets	16	14.3	14.0	13.2%	13.2%	-	
Structured Finance <sup>1</sup>	17	38.8	38.8	36.9%	36.9%	-	
Other Securities	41	11.1	11.4	10.9%	8.3%	2.6%	
	91	\$ 105.5	\$ 105.2	100.0%	97.4%	2.6%	

<sup>1</sup> The investments in Structured Finance are inclusive of investments in the following investment strategies of the Arena Group: Commercial & Industrial Assets, Structured Finance Investments and Consumer Assets.

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

The investments of AFHC and AFHC's subsidiaries shown by geographic breakdown are as follows:

<b>Investments by Geographic Breakdown (unaudited)</b>		<b>March 31, 2017</b>			<b>December 31, 2016</b>		
(millions except for percentage)		Cost	Fair value	Percentage of investments at fair value	Cost	Fair value	Percentage of investments at fair value
Loans							
United States		\$ 97.4	\$ 97.8	79.6%	\$ 87.9	\$ 87.9	83.5%
Canada		0.2	-	-	0.3	-	-
Europe		6.2	6.0	4.9%	6.2	5.9	5.6%
		103.8	103.8	84.5%	94.4	93.8	89.1%
Other Securities <sup>(1)</sup>							
United States		11.5	11.5	9.4%	8.2	7.6	7.3%
Canada		0.4	0.4	0.3%	-	-	-
Europe		4.6	6.8	5.5%	1.5	2.5	2.4%
Other		0.4	0.4	0.3%	1.4	1.3	1.2%
		16.9	19.1	15.5%	11.1	11.4	10.9%
		\$ 120.7	\$ 122.9	100.0%	\$ 105.5	\$ 105.2	100.0%

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

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**14. ADDITIONAL ARENA GROUP INVESTMENT SCHEDULES (continued)**

**ARENA FINANCE**

The investments of AFHC and AFHC's subsidiaries shown by industry are as follows:

Investments by Industry (unaudited)		March 31, 2017			December 31, 2016		
(millions except for percentage)		Cost	Fair value	Percentage of investments at fair value	Cost	Fair value	Percentage of investments at fair value
<b>Loans</b>							
Corporate Private Credit							
Business Services	\$ 11.8	\$ 11.8	9.6%		\$ 11.8	\$ 11.8	11.3%
Consumer Products	1.2	1.2	1.0%		3.6	3.6	3.4%
Financial Services	7.0	7.0	5.7%		4.5	4.5	4.2%
Healthcare Services	9.9	9.9	8.1%		9.5	9.5	9.1%
Industrial	2.3	2.4	1.9%		2.3	2.3	2.2%
Manufacturing	2.9	2.9	2.4%		2.9	2.9	2.7%
Oil and Gas	3.0	3.0	2.4%		3.0	3.0	2.8%
Retail	3.6	3.4	2.8%		3.7	3.4	3.3%
	<b>41.7</b>	<b>41.6</b>	<b>33.9%</b>		<b>41.3</b>	<b>41.0</b>	<b>39.0%</b>
Real Estate Private Credit and Real Estate Assets							
Hospitality	2.0	1.9	1.5%		1.9	1.8	1.7%
Industrial	0.4	0.4	0.3%		0.4	0.4	0.4%
Land							
- Commercial Development	0.4	0.4	0.3%		0.4	0.3	0.3%
Land							
- Multi-Family Development	2.4	2.4	1.9%		2.4	2.4	2.2%
Land							
- Single-Family Luxury Development	2.8	2.8	2.3%		2.8	2.8	2.7%
Mixed Use	0.3	0.3	0.3%		0.3	0.3	0.3%
Multi Family	0.3	0.3	0.3%		0.4	0.4	0.3%
Residential	6.6	6.6	5.4%		3.4	3.4	3.2%
Retail	0.3	0.2	0.1%		0.3	0.2	0.2%
Commercial	-	-	-		2.0	2.0	1.9%
	<b>15.5</b>	<b>15.3</b>	<b>12.4%</b>		<b>14.3</b>	<b>14.0</b>	<b>13.2%</b>
Structured Finance							
Commercial & Industrial	2.0	2.0	1.7%		2.0	2.0	1.9%
Consumer	17.0	17.3	14.1%		16.2	16.4	15.6%
Lease/Equipment	6.8	6.9	5.6%		4.6	4.6	4.4%
Real Estate-related	3.0	3.0	2.4%		4.0	4.0	3.8%
Other assets	17.8	17.7	14.4%		12.0	11.8	11.2%
	<b>46.6</b>	<b>46.9</b>	<b>38.2%</b>		<b>38.8</b>	<b>38.8</b>	<b>36.9%</b>
Total Loans	103.8	103.8	84.5%		94.4	93.8	89.1%
Other Securities <sup>(1)</sup>							
Consumer Products	1.4	1.9	1.5%		1.4	1.4	1.4%
Financial Services	2.4	2.5	2.1%		0.5	0.5	0.5%
Healthcare Services	-	0.8	0.6%		0.3	0.4	0.3%
Industrial	0.2	0.1	0.1%		(0.1)	(0.3)	(0.3)%
Oil and Gas	10.5	11.3	9.2%		9.0	9.4	9.0%
Telecommunications	2.7	2.8	2.3%		-	-	-
Information Technology	(0.3)	(0.3)	(0.3)%		-	-	-
	<b>16.9</b>	<b>19.1</b>	<b>15.5%</b>		<b>11.1</b>	<b>11.4</b>	<b>10.9%</b>
	<b>\$ 120.7</b>	<b>\$ 122.9</b>	<b>100.0%</b>		<b>\$ 105.5</b>	<b>\$ 105.2</b>	<b>100.0%</b>

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

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**14. ADDITIONAL ARENA GROUP INVESTMENT SCHEDULES (continued)**

**ARENA FINANCE**

Details of the loan positions of AFHC and AFHC's subsidiaries are as follows:

<b>Details of Loan Positions</b> (unaudited) (millions except for percentage)							<b>March 31, 2017</b>	
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 Credit</b>								
CPC-ARENARC1	Financial Services	\$ 10.0 <sup>(4)</sup>	\$ 4.5	\$ 4.5	United States	First Lien	5.25%	n/a <sup>(4)</sup>
CPC-1361TL	Healthcare Services	4.2	4.2	4.2	United States	First Lien	12.00%	53.0%
CPC-1571	Business Services	3.3	4.3	4.1	Europe	First Lien	30.00%	48.0%
CPC-1266TL	Business Services	3.2	3.2	3.2	United States	First Lien	8.00%	23.5%
CPC-1267TL	Business Services	3.2	3.2	3.2	United States	First Lien	8.40%	37.0%
CPC-1101	Manufacturing	2.9	2.9	2.9	United States	Second Lien	15.15%	66.0%
CPC-1450	Oil and Gas	2.9	2.8	2.8	United States	First Lien	10.80%	38.0%
CPC-1297TL	Financial Services	2.5	2.5	2.5	United States	First Lien	9.65%	49.0%
CPC-1665	Industrial	2.3	2.3	2.4	United States	Second Lien	13.65%	61.0%
CPC-1268TL	Healthcare Services	1.7	1.7	1.7	United States	First Lien	8.65%	50.0%
CPC-1199TL	Retail	1.6	1.6	1.6	United States	First Lien	10.15%	64.0%
CPC-1630	Healthcare Services	1.4	1.4	1.4	United States	First Lien <sup>(5)</sup>	11.54%	54.4%
CPC-1199TL2	Retail	1.2	1.2	1.2	United States	First Lien	10.15%	64.0%
CPC-1781	Business Services	1.1	1.1	1.2	United States	Second Lien	11.00%	11.0%
CPC-1265TL	Consumer Products	1.0	1.0	1.0	United States	First Lien	8.15%	35.0%
CPC-1268TL2	Healthcare Services	0.9	0.9	0.9	United States	First Lien	9.15%	50.0%
CPC-1268TL3	Healthcare Services	0.8	0.8	0.8	United States	First Lien	9.15%	50.0%
CPC-1199	Retail	0.6	0.6	0.6	United States	First Lien	10.15%	64.0%
CPC-1268TL4	Healthcare Services	0.5	0.5	0.5	United States	First Lien	9.15%	50.0%
CPC-1268TL5	Healthcare Services	0.3	0.3	0.3	United States	First Lien	9.15%	50.0%
CPC-1265RC	Consumer Products	0.5	0.2	0.2	United States	First Lien	8.15%	35.0%
CPC-1010	Oil and Gas	0.2	0.2	0.2	United States	First Lien	14.00%	43.0%
CPC-1268RC	Healthcare Services	0.2	0.2	0.2	United States	First Lien	9.15%	50.0%
CPC-1266RC	Business Services	0.5	-	-	United States	First Lien	8.00%	23.5%
CPC-1267RC	Business Services	0.2	-	-	United States	First Lien	8.40%	37.0%
CPC-1009RC	Retail	0.1	0.1	-	Canada	First Lien	6.20%	100.0%
CPC-1009A	Retail	-	-	-	Canada	First Lien	10.45%	100.0%
CPC-1009B	Retail	-	-	-	Canada	First Lien	12.45%	100.0%
Subtotal / Weighted average %		47.3	41.7	41.6			11.95%	47.3%
<b>Real Estate Private Credit and Real Estate Assets</b>								
REPC-1068S4	Residential	3.1	3.1	3.1	United States	First Mortgage	10.48%	47.0%
REPC-1082	Land - Single-Family							
REPC-1766	Luxury Development	2.8	2.8	2.8	United States	First Mortgage	12.00%	57.0%
REPC-1207	Residential	2.1	2.2	2.3	United States	First Mortgage	15.48%	61.8%
REPC-1068S3	Hospitality	2.1	2.0	1.9	Europe	First Mortgage	7.00%	44.8%
REPC-1068	Land							
REPC-1068	- Multi-Family Development	1.5	1.5	1.5	United States	First Mortgage <sup>(5)</sup>	10.48%	70.0%
REPC-1437	Residential	1.0	1.0	1.0	United States	First Mortgage	5.12% <sup>(6)</sup>	48.0%
REPC-1437	Land							
REPC-1029	- Multi-Family Development	0.9	0.9	0.9	United States	First Mortgage	11.48%	66.0%
REPC-1036	Multi-Family	0.3	0.3	0.3	United States	First Mortgage	9.00%	35.0%
REPC-1033	Retail	0.3	0.3	0.2	United States	First Mortgage	2.75%	38.0%
REPC-1017	Mixed Use	0.2	0.2	0.2	United States	First Mortgage	9.75%	58.0%
REPC-1025	Land							
REPC-1017	- Commercial Development	0.2	0.2	0.2	United States	First Mortgage	15.00%	66.0%
REPC-1046	Industrial	0.2	0.2	0.2	United States	Real Property	n/a <sup>(7)</sup>	n/a <sup>(7)</sup>
REPC-1015	Industrial	0.2	0.2	0.2	United States	First Mortgage	15.00%	55.0%
REPC-1013	Land							
REPC-1013	- Commercial Development	0.2	0.1	-	United States	Real Property	n/a <sup>(7)</sup>	n/a <sup>(7)</sup>
REPC-1047	Residential	0.1	0.1	0.1	United States	First Mortgage	16.50%	10.0%
REPC-1047	Land							
REPC-1041	- Commercial Development	0.1	0.1	0.1	United States	First Mortgage	15.00%	50.0%
REPC-1042	Mixed Use	0.1	0.1	0.1	United States	First Mortgage	13.00%	27.0%
REPC-1031	Residential	0.1	0.1	0.1	United States	First Mortgage	15.00%	32.0%
REPC-1031	Multi-Family	0.1	0.1	0.1	United States	First Mortgage	6.75%	53.0%
Subtotal / Weighted average %		15.6	15.5	15.3			10.88%	54.0%

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**14. ADDITIONAL ARENA GROUP INVESTMENT SCHEDULES (continued)**

**ARENA FINANCE**

Details of the loan positions of AFHC and AFHC's subsidiaries are as follows (continued):

<b>Details of Loan Positions (continued)</b> (unaudited) (millions except for percentage)							<b>March 31, 2017</b>	
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</b>								
SF-1416	Other assets	9.7	9.3	9.3	United States	First Lien	18.00%	70.0%
SF-1793	Lease/Equipment	6.8	6.8	6.8	United States	Hard Asset	n/a <sup>(8)</sup>	n/a <sup>(8)</sup>
SF-1467	Consumer	6.7	6.7	6.7	United States	First Lien	15.00%	75.0%
SF-1052F	Consumer	3.5	3.5	3.5	United States	First Lien	12.00%	61.0%
SF-1788/1933	Consumer	3.0	3.0	3.3	United States	First Lien	n/a <sup>(9)</sup>	51.0%
SF-1051	Real Estate-related	4.4	3.0	3.0	United States	First Lien	12.00%	54.0%
SF-1282S5	Other assets	2.4	2.4	2.4	United States	First Lien	12.00%	85.0%
SF-1520	Commercial & Industrial	2.0	2.0	2.0	United States	First Lien	n/a <sup>(10)</sup>	41.0%
SF-1282S2	Other assets	2.4	1.4	1.5	United States	First Lien	12.00%	85.0%
SF-1052S	Consumer	1.5	1.5	1.5	United States	First Lien	25.00%	61.0%
SF-1282S4	Other assets	2.3	1.3	1.4	United States	First Lien	12.00%	85.0%
SF-1282S3	Other assets	2.4	1.2	1.3	United States	First Lien	12.00%	85.0%
SF-2139	Consumer	0.8	0.8	0.8	United States	First Lien	n/a <sup>(9)</sup>	60.0%
SF-1934	Consumer	0.6	0.6	0.6	United States	First Lien	n/a <sup>(9)</sup>	51.0%
SF-1007	Other assets	0.8	0.5	0.5	United States	First Lien	13.00%	100.0%
SF-1933REO	Consumer	0.5	0.5	0.5	United States	First Lien	n/a <sup>(9)</sup>	51.0%
SF-1035	Other assets	0.4	0.4	0.4	United States	First Lien	10.73%	100.0%
SF-1788REO	Consumer	0.4	0.4	0.4	United States	First Lien	n/a <sup>(9)</sup>	51.0%
SF-1282	Other assets	2.4	0.3	0.3	United States	First Lien	12.00%	85.0%
SF-1282S6	Other assets	2.2	0.2	0.2	United States	First Lien	12.00%	85.0%
SF-1018	Other assets	0.2	0.2	0.2	United States	First Lien	8.48%	100.0%
SF-1038	Other assets	0.2	0.2	0.2	United States	First Lien	n/a <sup>(11)</sup>	16.0%
SF-1002	Other assets	0.4	0.3	0.1	United States	First Lien	11.00%	100.0%
SF-1037	Other assets	0.1	0.1	-	United States	First Lien	12.00%	100.0%
SF-1020	Consumer	-	-	-	United States	Unsecured	n/a <sup>(12)</sup>	100.0%
<b>Subtotal / Weighted average %</b>		<b>56.1</b>	<b>46.6</b>	<b>46.9</b>			<b>14.91%</b>	<b>67.9%</b>
<b>Total / Weighted average %</b>		<b>\$ 119.0</b>	<b>\$ 103.8</b>	<b>\$ 103.8</b>			<b>12.84%</b>	<b>58.1%</b>

<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 accrued 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 London Interbank Offered Rate ("LIBOR") or Prime which reset daily, monthly, quarterly, or semi-annually and may be subject to a floor. For each, the Company has provided the current contractual interest rate in effect at March 31, 2017. 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 March 31, 2017.

<sup>4</sup> Instrument relates to a revolving loan facility granted to Arena Investors (see Section 9, *Related Party Transactions* of this MD&A for additional information on the loan facility).

<sup>5</sup> Denotes subordinate position within the structure.

<sup>6</sup> Coupon represents a weighted average rate for three non-performing loans acquired from a regional commercial bank.

<sup>7</sup> Loan foreclosed and underlying real property collateral possessed.

<sup>8</sup> Investment represents an aircraft purchased for repositioning. Coupon and LTV not applicable to hard assets.

<sup>9</sup> Interest not accrued on loans purchased as non-performing.

<sup>10</sup> Interest not accrued on investment in litigation claim proceeds.

<sup>11</sup> Investment in litigation claim proceeds with no stated coupon rate.

<sup>12</sup> Investment with no stated coupon rate.

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**14. ADDITIONAL ARENA GROUP INVESTMENT SCHEDULES (continued)**

ARENA FINANCE

Details of the loan positions of AFHC and AFHC's subsidiaries are as follows:

<b>Details of Loan Positions</b> (unaudited) (millions except for percentage)							<b>December 31, 2016</b>	
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 Credit</b>								
CPC-1361TL	Healthcare Services	\$ 4.2	\$ 4.2	\$ 4.2	United States	First Lien	12.00%	51.0%
CPC-1571	Business Services	3.3	4.2	4.1	Europe	First Lien	30.00%	34.0%
CPC-1266TL	Business Services	3.3	3.3	3.3	United States	First Lien	8.00%	23.5%
CPC-1267TL	Business Services	3.2	3.2	3.2	United States	First Lien	8.25%	38.0%
CPC-1101	Manufacturing	2.9	2.9	2.9	United States	Second Lien	15.00%	71.0%
CPC-1450	Oil and Gas	2.9	2.8	2.8	United States	First Lien	10.69%	52.0%
CPC-1270	Consumer Products	2.5	2.5	2.5	United States	First Lien	8.75%	35.0%
CPC-1297TL	Financial Services	2.5	2.5	2.5	United States	First Lien	9.25%	49.0%
CPC-1665	Industrial	2.3	2.3	2.3	United States	Second Lien	13.50%	63.0%
CPC-ARENARC1	Financial Services	10.0 <sup>(4)</sup>	2.0	2.0	United States	First Lien	5.25%	n/a <sup>(4)</sup>
CPC-1268TL	Healthcare Services	1.7	1.7	1.7	United States	First Lien	8.50%	48.3%
CPC-1199TL	Retail	1.7	1.7	1.6	United States	First Lien	10.00%	60.0%
CPC-1630	Healthcare Services	1.4	1.4	1.4	United States	First Lien <sup>(5)</sup>	11.54%	53.0%
CPC-1199TL2	Retail	1.2	1.2	1.2	United States	First Lien	10.00%	60.0%
CPC-1781	Business Services	1.1	1.1	1.2	United States	Second Lien	11.00%	14.0%
CPC-1265TL	Consumer Products	1.0	1.0	1.0	United States	First Lien	8.00%	28.0%
CPC-1268TL2	Healthcare Services	0.9	0.9	0.9	United States	First Lien	9.00%	48.3%
CPC-1268TL3	Healthcare Services	0.8	0.8	0.8	United States	First Lien	9.00%	48.3%
CPC-1199	Retail	0.6	0.6	0.6	United States	First Lien	10.00%	60.0%
CPC-1268TL4	Healthcare Services	0.5	0.5	0.5	United States	First Lien	9.00%	48.3%
CPC-1010	Oil and Gas	0.2	0.2	0.2	United States	First Lien	14.00%	43.0%
CPC-1268RC	Healthcare Services	0.2	0.1	0.1	United States	First Lien	9.00%	48.3%
CPC-1009RC	Retail	0.5	0.2	-	Canada	First Lien	6.20%	100.0%
CPC-1267RC	Business Services	0.2	-	-	United States	First Lien	8.25%	38.0%
CPC-1266RC	Business Services	0.5	-	-	United States	First Lien	8.00%	23.5%
CPC-1265RC	Consumer Products	0.4	-	-	United States	First Lien	8.00%	28.0%
CPC-1009A	Retail	-	-	-	Canada	First Lien	10.45%	100.0%
CPC-1009B	Retail	-	-	-	Canada	First Lien	12.45%	100.0%
Subtotal / Weighted average %		50.0	41.3	41.0			12.07%	45.7%
<b>Real Estate Private Credit and Real Estate Assets</b>								
REPC-1068S4	Residential	3.1	3.1	3.1	United States	First Mortgage	10.27%	47.0%
REPC-1082	Land - Single-Family							
REPC-1068	Luxury Development	2.8	2.8	2.8	United States	First Mortgage	12.00%	57.0%
REPC-1068	Commercial	2.1	2.1	2.0	United States	First Mortgage	5.12% <sup>(6)</sup>	48.0%
REPC-1207	Hospitality	2.1	2.0	1.8	Europe	First Mortgage	7.00%	44.8%
REPC-1068S3	Land							
REPC-1437	- Multi-Family Development	1.5	1.5	1.5	United States	First Mortgage <sup>(5)</sup>	10.27%	70.0%
REPC-1437	Land							
REPC-1029	- Multi-Family Development	0.9	0.9	0.9	United States	First Mortgage	11.27%	66.0%
REPC-1033	Multi-Family	0.3	0.3	0.3	United States	First Mortgage	9.00%	37.0%
REPC-1033	Mixed Use	0.2	0.2	0.2	United States	First Mortgage	9.75%	58.0%
REPC-1017	Land							
REPC-1025	- Commercial Development	0.2	0.2	0.2	United States	First Mortgage	15.00%	66.0%
REPC-1046	Industrial	0.2	0.2	0.2	United States	Real Property	n/a <sup>(7)</sup>	n/a <sup>(7)</sup>
REPC-1036	Industrial	0.2	0.2	0.2	United States	First Mortgage	15.00%	55.0%
REPC-1013	Retail	0.2	0.2	0.2	United States	First Mortgage	2.75%	38.0%
REPC-1047	Residential	0.1	0.1	0.1	United States	First Mortgage	16.50%	10.0%
REPC-1047	Land							
REPC-1031	- Commercial Development	0.1	0.1	0.1	United States	First Mortgage	15.00%	50.0%
REPC-1041	Multi-Family	0.1	0.1	0.1	United States	First Mortgage	6.75%	65.0%
REPC-1042	Mixed Use	0.1	0.1	0.1	United States	First Mortgage	13.00%	27.0%
REPC-1042	Residential	0.1	0.1	0.1	United States	First Mortgage	15.00%	32.0%
REPC-1015	Land							
REPC-1015	- Commercial Development	0.2	0.1	0.1	United States	Real Property	n/a <sup>(7)</sup>	n/a <sup>(7)</sup>
Subtotal / Weighted average %		14.5	14.3	14.00			9.61%	52.4%

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**14. ADDITIONAL ARENA GROUP INVESTMENT SCHEDULES (continued)**

ARENA FINANCE

Details of the loan positions of AFHC and AFHC's subsidiaries are as follows (continued):

<b>Details of Loan Positions (continued)</b> (unaudited) (millions except for percentage)						<b>December 31, 2016</b>		
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</b>								
SF-1467	Consumer	6.7	6.7	6.7	United States	First Lien	15.00%	75.0%
SF-1416	Other assets	9.6	4.8	4.8	United States	First Lien	18.00%	70.0%
SF-1793	Lease/Equipment	4.6	4.6	4.6	United States	Hard Asset	n/a <sup>(8)</sup>	n/a <sup>(8)</sup>
SF-1051	Real Estate-related	4.4	4.0	4.0	United States	First Lien	12.00%	54.0%
SF-1052F	Consumer	3.7	3.7	3.7	United States	First Lien	12.00%	60.0%
SF-1788/1933	Consumer	3.1	3.1	3.2	United States	First Lien	n/a <sup>(9)</sup>	53.0%
SF-1282S2	Other assets	2.4	2.0	2.0	United States	First Lien	12.00%	85.0%
SF-1520	Commercial & Industrial	2.0	2.0	2.0	United States	First Lien	n/a <sup>(10)</sup>	41.0%
SF-1282S3	Other assets	2.4	1.8	1.8	United States	First Lien	12.00%	85.0%
SF-1052S	Consumer	1.5	1.5	1.5	United States	First Lien	25.00%	60.0%
SF-1282	Other assets	2.4	1.4	1.4	United States	First Lien	12.00%	85.0%
SF-1934	Consumer	0.9	0.9	1.0	United States	First Lien	n/a <sup>(9)</sup>	53.0%
SF-1007	Other assets	0.8	0.5	0.5	United States	First Lien	13.00%	100.0%
SF-1035	Other assets	0.4	0.4	0.4	United States	First Lien	10.52%	100.0%
SF-1788REO	Consumer	0.3	0.3	0.3	United States	First Lien	n/a <sup>(9)</sup>	53.0%
SF-1018	Other assets	0.2	0.2	0.2	United States	First Lien	8.27%	100.0%
SF-1038	Other assets	0.2	0.2	0.2	United States	First Lien	n/a <sup>(11)</sup>	5.0%
SF-1002	Other assets	0.4	0.3	0.2	United States	First Lien	11.00%	100.0%
SF-1027	Other assets	0.1	0.1	0.1	United States	First Lien	n/a <sup>(11)</sup>	28.1%
SF-1020	Consumer	0.1	0.1	0.1	United States	Unsecured	n/a <sup>(12)</sup>	100.0%
SF-1026	Other assets	0.1	0.1	0.1	United States	First Lien	n/a <sup>(11)</sup>	26.2%
SF-1037	Other assets	0.1	0.1	-	United States	First Lien	12.00%	100.0%
<b>Subtotal / Weighted average %</b>		<b>46.4</b>	<b>38.8</b>	<b>38.8</b>			<b>14.45%</b>	<b>66.7%</b>
<b>Total / Weighted average %</b>		<b>\$ 110.9</b>	<b>\$ 94.4</b>	<b>\$ 93.8</b>			<b>12.46%</b>	<b>55.0%</b>

<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 accrued 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 London Interbank Offered Rate ("LIBOR") or Prime which reset daily, monthly, quarterly, or semi-annually and may be subject to a floor. For each, the Company has provided the current contractual interest rate in effect at December 31, 2016. 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, 2016.

<sup>4</sup> Instrument relates to a revolving loan facility granted to Arena Investors (see Section 9, *Related Party Transactions* of this MD&A for additional information on the loan facility).

<sup>5</sup> Denotes subordinate position within the structure.

<sup>6</sup> Coupon represents a weighted average rate for three non-performing loans acquired from a regional commercial bank.

<sup>7</sup> Coupon and LTV not applicable to real property.

<sup>8</sup> Investment represents an aircraft purchased for repositioning. Coupon and LTV not applicable to hard assets.

<sup>9</sup> Interest not accrued on loans purchased as non-performing.

<sup>10</sup> Interest not accrued on investment in litigation claim proceeds.

<sup>11</sup> Investment in litigation claim proceeds with no stated coupon rate.

<sup>12</sup> Investment with no stated coupon rate.

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**14. ADDITIONAL ARENA GROUP INVESTMENT SCHEDULES (continued)**

**ARENA ORIGINATION**

The investments of AOC shown by investment strategy are as follows:

<b>Investment by Strategy</b> (unaudited)							<b>March 31, 2017</b>
(millions except for number of positions and percentage)	Number of positions	Cost	Fair value	Percentage of investments at fair value	% Debt investments	% Equity investments	
Investments by strategy:							
Corporate Private Credit	5	\$ 10.6	\$ 10.6	39.2%	39.2%	-	
Real Estate Private Credit and Real Estate Assets	2	5.5	5.6	20.5%	20.5%	-	
Structured Finance <sup>1</sup>	7	9.8	9.8	36.5%	36.5%	-	
Other Securities	15	0.8	1.0	3.8%	0.7%	3.1%	
	29	\$ 26.7	\$ 27.0	100.0%	96.9%	3.1%	

<sup>1</sup> The investments in Structured Finance are inclusive of investments in the following investment strategies of the Arena Group: Commercial & Industrial Assets, Structured Finance Investments and Consumer Assets.

<b>Investment by Strategy</b> (unaudited)							<b>December 31, 2016</b>
(millions except for number of positions and percentage)	Number of positions	Cost	Fair value	Percentage of investments at fair value	% Debt investments	% Equity investments	
Investments by strategy:							
Corporate Private Credit	2	\$ 3.5	\$ 3.5	18.5%	18.5%	-	
Real Estate Private Credit and Real Estate Assets	2	6.6	6.7	35.5%	35.5%	-	
Structured Finance <sup>1</sup>	5	8.0	8.0	42.4%	42.4%	-	
Other Securities	16	0.7	0.7	3.6%	1.8%	1.8%	
	25	\$ 18.8	\$ 18.9	100.0%	98.2%	1.8%	

<sup>1</sup> The investments in Structured Finance are inclusive of investments in the following investment strategies of the Arena Group: Commercial & Industrial Assets, Structured Finance Investments and Consumer Assets.

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

The investments of AOC shown by geographic breakdown are as follows:

<b>Investments by Geographic Breakdown</b> (unaudited)				<b>March 31, 2017</b>	<b>December 31, 2016</b>			
(millions except for percentage)	Cost	Fair value	Percentage of investments at fair value		Cost	Fair value	Percentage of investments at fair value	
Loans								
United States	\$ 25.9	\$ 26.0	96.2%		\$ 18.1	\$ 18.2	96.4%	
Other Securities <sup>(1)</sup>								
United States	0.4	0.2	0.8%		0.3	0.1	0.5%	
Europe	0.3	0.7	2.6%		0.1	0.3	1.5%	
Other	0.1	0.1	0.4%		0.3	0.3	1.6%	
	0.8	1.0	3.8%		0.7	0.7	3.6%	
	\$ 26.7	\$ 27.0	100.0%		\$ 18.8	\$ 18.9	100.0%	

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

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**14. ADDITIONAL ARENA GROUP INVESTMENT SCHEDULES (continued)**

**ARENA ORIGINATION**

The investments of AOC shown by industry are as follows:

Investments by Industry (unaudited) (millions except for percentage)	March 31, 2017			Percentage of investments at fair value	December 31, 2016			Percentage of investments at fair value
	Cost	Fair value	Cost		Cost	Fair value	Cost	
<b>Loans</b>								
Corporate Private Credit								
Financial services	\$ 2.9	\$ 2.9		10.9%	\$ -	\$ -		-
Oil and Gas	7.7	7.7		28.3%	3.5	3.5		18.5%
	<b>10.6</b>	<b>10.6</b>		<b>39.2%</b>	<b>3.5</b>	<b>3.5</b>		<b>18.5%</b>
<b>Real Estate Private Credit and Real Estate Assets</b>								
Land								
- Commercial Development	4.4	4.5		16.6%	4.4	4.5		23.6%
- Multi-Family Development	1.1	1.1		3.9%	2.2	2.2		11.9%
	<b>5.5</b>	<b>5.6</b>		<b>20.5%</b>	<b>6.6</b>	<b>6.7</b>		<b>35.5%</b>
<b>Structured Finance</b>								
Consumer	5.5	5.5		20.2%	6.2	6.2		32.8%
Other assets	4.3	4.3		16.3%	1.8	1.8		9.6%
	<b>9.8</b>	<b>9.8</b>		<b>36.5%</b>	<b>8.0</b>	<b>8.0</b>		<b>42.4%</b>
Total Loans	<b>25.9</b>	<b>26.0</b>		<b>96.2%</b>	<b>18.1</b>	<b>18.2</b>		<b>96.4%</b>
<b>Other Securities <sup>(1)</sup></b>								
Consumer Products	0.1	0.1		0.4%	-	-		-
Financial Services	0.2	0.2		0.9%	0.1	0.1		0.5%
Healthcare Services	-	0.2		0.7%	0.1	0.1		0.5%
Industrial	0.1	-		0.1%	-	-		-
Information Technology	(0.1)	(0.1)		(0.3)%	-	-		-
Oil and Gas	0.5	0.6		2.0%	0.5	0.5		2.6%
	<b>0.8</b>	<b>1.0</b>		<b>3.8%</b>	<b>0.7</b>	<b>0.7</b>		<b>3.6%</b>
	<b>\$ 26.7</b>	<b>\$ 27.0</b>		<b>100.0%</b>	<b>\$ 18.8</b>	<b>\$ 18.9</b>		<b>100.0%</b>

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

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**14. ADDITIONAL ARENA GROUP INVESTMENT SCHEDULES (continued)**

**ARENA ORIGINATION**

Details of the loan positions of AOC are as follows:

<b>Details of Loan Positions</b> (unaudited) (millions except for percentage)								<b>March 31, 2017</b>
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 Credit</b>								
CPC-1803	Oil and Gas	\$ 5.9	\$ 2.9	\$ 2.9	United States	First Lien	13.00%	31.0%
CPC-2051	Oil and Gas	2.5	2.5	2.5	United States	Second Lien	12.50%	57.0%
CPC-1982	Financial Services	2.3	2.3	2.3	United States	First Lien	9.60%	50.0%
CPC-1783	Oil and Gas	2.4	2.2	2.2	United States	First Lien	12.68%	66.0%
CPC-1297TL2	Financial Services	0.7	0.7	0.7	United States	First Lien	9.65%	49.0%
Subtotal / Weighted average %		13.8	10.6	10.6			11.88%	49.6%
<b>Real Estate Private Credit and Real Estate Assets</b>								
REPC-1942	Land						n/a <sup>(4)</sup>	n/a <sup>(4)</sup>
	- Commercial Development	4.4	4.4	4.5	United States	Real Property		
REPC-2071	Land							
	- Multi-Family Development	1.1	1.1	1.1	United States	First Mortgage	12.00%	45.0%
Subtotal / Weighted average %		5.5	5.5	5.6			12.00%	45.0%
<b>Structured Finance</b>								
SF-1245	Consumer	4.4	4.4	4.4	United States	Second Lien	13.00%	26.0%
SF-1800	Other assets	1.5	1.5	1.5	United States	First Lien	14.00%	80.0%
SF-1811	Other assets	3.7	1.5	1.5	United States	Second Lien	15.00%	98.0%
SF-1519	Other assets	1.5	1.1	1.1	United States	Second Lien	15.00%	31.0%
SF-1839	Consumer	1.1	1.1	1.1	United States	First Lien	18.00%	71.0%
SF-2147	Other assets	0.2	0.1	0.1	United States	First Lien	13.00%	50.0%
SF-1294	Other assets	0.1	0.1	0.1	United States	First Lien	n/a <sup>(5)</sup>	11.0%
SF-1381	Other assets	-	-	-	United States	First Lien	n/a <sup>(5)</sup>	11.0%
Subtotal / Weighted average %		12.5	9.8	9.8			14.25%	50.8%
Total / Weighted average %		\$ 31.8	\$ 25.9	\$ 26.0			12.96%	49.9%

<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 accrued 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 London Interbank Offered Rate ("LIBOR") or Prime which reset daily, monthly, quarterly, or semi-annually and may be subject to a floor. For each, the Company has provided the current contractual interest rate in effect at March 31, 2017. 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 March 31, 2017.

<sup>4</sup> Coupon and LTV not applicable to real property.

<sup>5</sup> Investment in litigation claim proceeds with no stated coupon rate.

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**14. ADDITIONAL ARENA GROUP INVESTMENT SCHEDULES (continued)**

**ARENA ORIGINATION**

Details of the loan positions of AOC are as follows (continued):

<b>Details of Loan Positions</b> (unaudited) (millions except for percentage)							<b>December 31, 2016</b>	
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 Credit</b>								
CPC-2051	Oil and Gas	\$ 2.5	\$ 2.5	\$ 2.5	United States	Second Lien	14.25%	57.0%
CPC-1803	Oil and Gas	5.9	1.0	1.0	United States	First Lien	11.00%	31.0%
Subtotal / Weighted average %		8.4	3.5	3.5			13.31%	49.5%
<b>Real Estate Private Credit and Real Estate Assets</b>								
REPC-1942	Land - Commercial Development	4.4	4.4	4.5	United States	Real Property	n/a <sup>(4)</sup>	n/a <sup>(4)</sup>
REPC-1766	Land - Multi-Family Development	2.2	2.2	2.2	United States	First Mortgage	15.27%	61.8%
Subtotal / Weighted average %		6.6	6.6	6.7			15.27%	61.8%
<b>Structured Finance</b>								
SF-1245	Consumer	5.2	5.1	5.1	United States	Second Lien	13.00%	29.0%
SF-1839	Consumer	1.1	1.1	1.1	United States	First Lien	18.00%	76.0%
SF-1800	Other assets	1.0	1.0	1.0	United States	First Lien	14.00%	80.0%
SF-1519	Other assets	1.5	0.7	0.7	United States	Second Lien	15.00%	23.0%
SF-1294	Other assets	0.1	0.1	0.1	United States	First Lien	n/a <sup>(5)</sup>	12.0%
SF-1669	Other assets	-	-	-	United States	First Lien	n/a <sup>(5)</sup>	12.0%
SF-1381	Other assets	-	-	-	United States	First Lien	n/a <sup>(5)</sup>	12.0%
Subtotal / Weighted average %		8.9	8.0	8.0			14.02%	40.9%
Total / Weighted average %		\$ 23.9	\$ 18.1	\$ 18.2			14.05%	47.0%

<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 accredited 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 London Interbank Offered Rate ("LIBOR") or Prime which reset daily, monthly, quarterly, or semi-annually and may be subject to a floor. For each, the Company has provided the current contractual interest rate in effect at December 31, 2016. 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, 2016.

<sup>4</sup> Coupon and LTV not applicable to real property.

<sup>5</sup> Investment in litigation claim proceeds with no stated coupon rate.

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**15. CAUTIONARY NOTE REGARDING FUTURE ORIENTED FINANCIAL INFORMATION**

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

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

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

	March 31 2017	December 31 2016
(thousands of United States dollars)		
<b>ASSETS</b>		
Cash and cash equivalents	\$ 2,176	\$ 3,027
Other assets (note 4)	4,822	4,423
Investments in private entities (note 5)	324,157	320,464
Investments in associates (note 5)	721	1,254
	<b>\$ 331,876</b>	<b>\$ 329,168</b>
<b>LIABILITIES</b>		
Accounts payable and accrued liabilities (note 6)	\$ 7,715	\$ 7,224
Site restoration provision (note 7)	3,484	3,439
	<b>11,199</b>	<b>10,663</b>
Commitments and contingent liabilities (note 8)		
Subsequent event (note 16)		
<b>SHAREHOLDERS' EQUITY</b>		
Share capital (note 9)	382,182	382,182
Contributed surplus (note 10)	12,443	12,210
Accumulated other comprehensive loss (note 2m)	(2,227)	(2,227)
Deficit	(71,721)	(73,660)
	<b>320,677</b>	<b>318,505</b>
	<b>\$ 331,876</b>	<b>\$ 329,168</b>

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

**The Westaim Corporation**  
 Consolidated Statements of Profit and Comprehensive Income  
 (unaudited)

	<b>Three Months Ended March 31</b>	
	<b>2017</b>	<b>2016</b>
(thousands of United States dollars except share and per share data)		
<b>Revenue</b>		
Investment income (note 11)	\$ 309	\$ 313
Fee income (note 11)	360	360
	669	673
<b>Net results of investments</b>		
Unrealized gain on investments in private entities (note 5)	3,693	3,373
Share of loss of associates (note 5)	(533)	(375)
Unrealized gain on other investments	35	9
	3,195	3,007
<b>Expenses</b>		
Salaries and benefits	979	828
General, administrative and other	358	227
Professional fees	211	367
Site restoration provision expense (note 7)	15	335
Share-based compensation (note 10)	288	212
Foreign exchange loss	74	342
	1,925	2,311
<b>Profit and comprehensive income</b>	<b>\$ 1,939</b>	<b>\$ 1,369</b>
<b>Earnings per share - basic and diluted (note 13)</b>	<b>\$ 0.01</b>	<b>\$ 0.01</b>
<b>Weighted average number of common shares outstanding (in thousands)</b>		
Basic and diluted	143,187	143,187

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

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

<b>Three Months ended March 31, 2017</b>				Accumulated Other		
(thousands of United States dollars)	Share Capital	Contributed Surplus	Comprehensive Loss	Deficit	Total Equity	
Balance at January 1, 2017	\$ 382,182	\$ 12,210	\$ (2,227)	\$ (73,660)	\$ 318,505	
Stock option plan expense (note 10)	-	233	-	-	233	
Profit	-	-	-	1,939	1,939	
<b>Balance at March 31, 2017</b>	<b>\$ 382,182</b>	<b>\$ 12,443</b>	<b>\$ (2,227)</b>	<b>\$ (71,721)</b>	<b>\$ 320,677</b>	

<b>Three Months ended March 31, 2016</b>				Accumulated Other		
(thousands of United States dollars)	Share Capital	Contributed Surplus	Comprehensive Loss	Deficit	Total Equity	
Balance at January 1, 2016	\$ 382,182	\$ 11,498	\$ (2,227)	\$ (65,365)	\$ 326,088	
Profit	-	-	-	1,369	1,369	
<b>Balance at March 31, 2016</b>	<b>\$ 382,182</b>	<b>\$ 11,498</b>	<b>\$ (2,227)</b>	<b>\$ (63,996)</b>	<b>\$ 327,457</b>	

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

**The Westaim Corporation**  
 Consolidated Cash Flow Statements  
 (unaudited)

	Three Months Ended March 31		
			2016
(thousands of United States dollars)	2017	2016	
<b>Operating activities</b>			
Profit	\$ 1,939	\$ 1,369	
Unrealized gain on investments in private entities	(3,693)	(3,373)	
Share of loss of associates	533	375	
Unrealized gain on other investments	(35)	(9)	
Share-based compensation expense	288	212	
Site restoration provision expense	15	335	
Lease expense	(3)	(26)	
Depreciation and amortization	13	10	
Unrealized foreign exchange loss	84	558	
Net change in other non-cash balances			
Other assets	(377)	(441)	
Accounts payable and accrued liabilities	385	494	
Cash used in operating activities	(851)	(496)	
<b>Investing activities</b>			
Purchase of capital assets	-	(13)	
Change in investments in associates	-	182	
Cash used in investing activities	-	169	
Net decrease in cash and cash equivalents	(851)	(327)	
Cash and cash equivalents, beginning of period	3,027	7,798	
Cash and cash equivalents, end of period	\$ 2,176	\$ 7,471	
Cash and cash equivalents is composed of:			
Cash	\$ 2,176	\$ 7,471	

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

## **The Westaim Corporation**

### **Notes to Consolidated Financial Statements (unaudited)**

#### **For the three months ended March 31, 2017 and 2016**

(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" or the "Company") was incorporated on May 7, 1996 by articles of incorporation under the Business Corporations Act (Alberta). The Company's head office is located at Suite 1700, 70 York Street, Toronto, Ontario, Canada. These consolidated financial statements were authorized for issue by the Board of Directors of the Company on May 11, 2017.

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 Houston International Insurance Group, Ltd. (through Westaim HIIG Limited Partnership) and the Arena Group (as described in note 5). The Company's common shares are traded on the TSX Venture Exchange (the "TSXV") under the symbol WED.

These consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, Westaim Management Limited Partnership ("Management LP"), Westaim Management GP Inc. ("Management GP"), Westaim HIIG GP Inc. ("HIIG GP") and The Westaim Corporation of America ("WCA").

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

## **2 Summary of Significant Accounting Policies**

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

### *(a) Basis of preparation*

These consolidated financial statements are prepared in compliance with International Financial Reporting Standards ("IFRS"), including International Accounting Standard ("IAS") 34 "*Interim Financial Reporting*".

The Company meets the definition of an investment entity under IFRS 10 "*Consolidated Financial Statements*" ("IFRS 10") and measures its investments in particular subsidiaries at fair value through profit or loss ("FVTPL"), instead of consolidating those subsidiaries in its consolidated financial statements. Entities accounted for at FVTPL consist of Westaim HIIG Limited Partnership (the "HIIG Partnership"), Arena Finance Company Inc. ("Arena Finance") and Westaim Origination Holdings, Inc. ("Arena Origination").

The financial statements of entities controlled by the Company which provide investment-related services are consolidated. These entities consist of its wholly-owned subsidiaries, Management LP, Management GP, HIIG GP and WCA. The financial results of these entities are included in the 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 and convertible. Intercompany balances and transactions are eliminated upon consolidation.

Investments in associates are accounted for using the equity method in accordance with International Accounting Standard ("IAS") 28 "*Investments in Associates and Joint Ventures*" ("IAS 28") and consist 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 investments in associates consist of its investments in Westaim Arena Holdings II, LLC ("WAHII") (through WCA), Arena Special Opportunities Fund (Onshore) GP, LLC ("ASOF-ON GP") (through WCA), and Arena Special Opportunities Fund (Offshore) II GP, LP ("ASOF-OFF II GP") (the "Associates"). These investments are reported in investments in associates in the consolidated statements of financial position, with the Company's share of profit (loss) and comprehensive income (loss) of the Associates reported under "Net results of investments" in the consolidated statements of profit and comprehensive income.

### *(b) Functional and presentation currency*

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

**The Westaim Corporation**

**Notes to Consolidated Financial Statements (unaudited)**

**For the three months ended March 31, 2017 and 2016**

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**2 Summary of Significant Accounting Policies (continued)**

*(c) Use of estimates*

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

*(d) Judgments made by management*

Key areas where management has made difficult, complex or subjective judgments in the process of applying the Company's accounting policies, often as a result of matters that are inherently uncertain, include determining that the Company meets the definition of an investment entity under IFRS 10, valuation techniques for fair value determination of investments in private entities, applying the equity method of accounting for associates, determining that the Company's functional currency is the US\$, site restoration provision and income taxes. For additional information on these judgments, see note 5 for investments in private entities and associates, note 2(b) for functional currency, note 7 for site restoration provision and note 12 for income taxes.

*(e) Foreign currency translation*

Transactions in foreign currencies are translated into US\$ at rates of exchange prevailing at the time of such transactions. Monetary assets and liabilities in foreign currencies are translated into US\$ at rates of exchange at the end of the reporting period. Any resulting foreign exchange gain or loss is included in the consolidated statements of profit and comprehensive income.

*(f) Revenue recognition*

Investment income includes interest income and dividend income. 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 on an accrual basis when earned.

*(g) Cash and cash equivalents*

Cash and cash equivalents consist of cash on deposit and highly liquid short-term investments with original maturities of 90 days or less.

*(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 lives 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 indications 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) Investments*

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

**The Westaim Corporation**

**Notes to Consolidated Financial Statements (unaudited)**

**For the three months ended March 31, 2017 and 2016**

(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)**

Investments in associates are initially recorded at cost and subsequently adjusted to recognize the Company's share of profit (loss) and other comprehensive income (loss) of the Associates and any dividends from the Associates. Transaction costs on the investments are expensed as incurred.

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 a ready 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 consolidated financial statements for each quarter. The Company prepares a detailed valuation for each reporting period describing the valuation processes and procedures undertaken by management. The applicable valuation memoranda are provided to members of the Company's audit committee and all Level 3 valuation results are reviewed with the audit committee as part of its review of the Company's consolidated financial statements.

*(j) Income taxes*

Income tax expense is recognized in the consolidated statements of profit and comprehensive income. Current tax is based on taxable income which differs 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 asset is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

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

*(k) Site restoration provision*

Future site restoration costs relate to industrial sites previously owned by the Company and are estimated taking into consideration the anticipated method and extent of the remediation consistent with regulatory requirements, industry practices, current technology and possible uses of the site. The estimated amount of future restoration costs is reviewed periodically based on available information. The amount of the provision is the present value of the estimated future restoration costs discounted using interest rates of a high quality government bond in relation to the estimated cash outflows.

Future recoveries of costs resulting from indemnifications provided to the Company by previous owners of the industrial sites have not been recognized in these consolidated financial statements. Recoveries of site restoration costs are recorded when received.

**The Westaim Corporation**

**Notes to Consolidated Financial Statements (unaudited)**

**For the three months ended March 31, 2017 and 2016**

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**2 Summary of Significant Accounting Policies (continued)**

*(l) Contributed surplus*

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

*(m) Accumulated other comprehensive loss*

Comprehensive income (loss) consists of profit (loss) and other comprehensive income (loss). Accumulated other comprehensive loss of \$2,227 at March 31, 2017 and December 31, 2016 consisted of cumulative exchange differences from currency restatement as a result of a change in presentation currency from the C\$ to the US\$ on August 31, 2015.

*(n) Share-based compensation*

The Company maintains share-based compensation plans, which are described in note 10. The cost of stock options is 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. The corresponding share-based compensation expense or recovery is recognized over the vesting period. When a change in value occurs, it is recognized in share-based compensation and foreign exchange gain or loss in the applicable financial period.

*(o) Earnings per share*

Basic earnings per share is calculated by dividing profit or loss by the weighted average number of common shares outstanding during the reporting period.

Diluted earnings per share is calculated by dividing profit or loss 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 and RSUs. Anti-dilutive potential common shares are not included in the calculation of diluted earnings per share.

**3 Accounting Pronouncements Issued but not yet Adopted**

In November 2009, the International Accounting Standards Board ("IASB") issued IFRS 9 "Financial Instruments" ("IFRS 9") as part of its plan to replace IAS 39 "Financial Instruments: Recognition and Measurement". IFRS 9 requires financial assets, including hybrid contracts, to be measured at either fair value or amortized cost. In October 2010, the IASB amended the requirements for classification and measurement of financial assets and liabilities. In November 2013, the IASB introduced a new hedge accounting model and allowed early adoption of the own credit provisions of IFRS 9. In July 2014, the IASB issued the final version of IFRS 9 incorporating a new expected loss impairment model and introducing limited amendments to the classification and measurement requirements for financial assets. This version supersedes all previous versions and is mandatorily effective for periods beginning on or after January 1, 2018 with early adoption permitted. The Company is currently assessing the impact of this new standard on its consolidated financial statements.

On May 28, 2014, the IASB and the Financial Accounting Standards Board (FASB) jointly issued a converged standard on the recognition of revenue from contracts with customers, which will replace all existing revenue standards and interpretations, once mandatorily effective. The core principle of the new standard is for companies to recognize revenue to depict the transfer of goods or services to customers in amounts that reflect the consideration to which the company expects to be entitled in exchange for those goods or services. The new standard will also result in enhanced disclosures about revenue and provide guidance for transactions that were not previously addressed comprehensively. Application of the standard is mandatory and it applies to nearly all contracts with customers. The main exceptions are leases, financial instruments, insurance contracts and certain non-monetary exchange transactions. IFRS 15 "Revenue from Contracts with Customers" ("IFRS 15") is available for early application with mandatory adoption required for fiscal years commencing on or after January 1, 2018 and is to be applied using the retrospective or the modified retrospective approach. While the standards are largely converged, the U.S. standard does not permit early adoption. The Company is currently assessing the impact of this new standard on its consolidated financial statements.

**The Westaim Corporation****Notes to Consolidated Financial Statements (unaudited)****For the three months ended March 31, 2017 and 2016**

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

**3 Accounting Pronouncements Issued but not yet Adopted (continued)**

On January 13, 2016, the IASB issued IFRS 16 “Leases” (“IFRS 16”) which will replace IAS 17 “Leases”. IFRS 16 will bring most leases on-balance sheet for lessees under a single model, eliminating the distinction between operating and financing leases. Lessor accounting however remains largely unchanged and the distinction between operating and finance leases is retained. The new standard is effective for periods beginning on or after January 1, 2019 with early adoption permitted if IFRS 15 has also been applied. The Company is currently assessing the impact of this new standard on its consolidated financial statements.

On June 20, 2016, the IASB issued amendments to IFRS 2 “Share-based Payment” (“IFRS 2”), clarifying the accounting for cash-settled share-based payment transactions that include a performance condition, the classification of share-based payment transactions with net settlement features for withholding tax obligations, and the accounting for modifications of share-based payment transactions from cash-settled to equity-settled. The amendments are effective for annual periods beginning on or after January 1, 2018. The Company is currently assessing the impact of these amendments on its consolidated financial statements.

**4 Other Assets**

Other assets consist of the following:

	March 31, 2017	December 31, 2016
Capital assets	\$ 123	\$ 136
Investment in Arena Special Opportunities Fund, LP (a)	1,957	1,922
Receivables from related parties (b)	2,610	2,200
Accounts receivable and other	132	165
	<b>\$ 4,822</b>	<b>\$ 4,423</b>

- (a) The Company's investment in Arena Special Opportunities Fund, LP ("ASOF LP"), a fund managed by Arena Investors, LP (see note 5), is classified at Level 3 of the fair value hierarchy and measured at FVTPL. At March 31, 2017 and December 31, 2016, the fair value of the Company's interest in ASOF LP was determined by Arena Investors to be \$1,957 and \$1,922, respectively. In the three months ended March 31, 2017 and 2016, the Company reported unrealized gains of \$35 and \$9, respectively, with respect to the investment in the consolidated statements of profit and comprehensive income.
- (b) Receivables from related parties totaled \$2,610 at March 31, 2017 and \$2,200 at December 31, 2016 and included interest accrued on a term loan advanced by the Company to Arena Origination (see note 5) of \$304 at March 31, 2017 (December 31, 2016 - \$nil), as well as certain expenses paid by the Company on behalf of the Arena Group from time to time which are subject to reimbursement.

**5 Investments in Private Entities and Associates**

The Company's principal investments consist of its investments in HIIG (through the HIIG Partnership) and the Arena Group. Investments in private entities are measured at FVTPL and investments in associates are accounted for using the equity method.

	Place of establishment	Principal place of business	Ownership interest as at March 31, 2017 and December 31, 2016
Investments in private entities:			
- HIIG Partnership	Ontario, Canada	Ontario, Canada	58.5% owned by Westaim <sup>1</sup>
- Arena Finance	Ontario, Canada	Ontario, Canada	100% owned by Westaim
- Arena Origination	Delaware, U.S.	New York, U.S.	100% owned by Westaim
Investments in Associates:			
- WAHII	Delaware, U.S.	New York, U.S.	51% beneficially owned by Westaim, indirectly through WCA <sup>2</sup>
- ASOF-ON GP	Delaware, U.S.	New York, U.S.	51% beneficially owned by Westaim, indirectly through WCA <sup>2</sup>
- ASOF-OFF II GP	Delaware, U.S.	New York, U.S.	51% beneficially owned by Westaim <sup>2</sup>

<sup>1</sup> On December 31, 2016, the Company transferred part of its ownership interest in the HIIG Partnership to Westaim HIIG Holdings Inc. ("HIIG Holdings"), a newly incorporated wholly-owned subsidiary, at fair value. No gain or loss was recorded upon the transfer. Following the transfer, the Company continues to own, directly and indirectly through HIIG Holdings, 58.5% of the HIIG Partnership.

<sup>2</sup> Legal equity ownership is 100%, and beneficial ownership denotes profit percentage subject to change over time pursuant to the earn-in rights granted to BP LLC described below under "Investments in Associates".

**The Westaim Corporation**

**Notes to Consolidated Financial Statements (unaudited)**

**For the three months ended March 31, 2017 and 2016**

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**5 Investments in Private Entities and Associates (continued)**

The HIIG Partnership, Arena Finance and Arena Origination are investment entities, as defined in IFRS 10, and account for their investments in subsidiaries at FVTPL instead of consolidating them. The subsidiaries of the HIIG Partnership, Arena Finance and Arena Origination are as follows:

	Place of establishment	Principal place of business	Ownership interest as at March 31, 2017 and December 31, 2016
HIIG Partnership:			
- Houston International Insurance Group, Ltd. ("HIIG")	Delaware, U.S.	Texas, U.S.	74.6% owned by HIIG Partnership
Arena Finance:			
- Arena Finance Holdings Co., LLC ("AFHC")	Delaware, U.S.	New York, U.S.	100% owned by Arena Finance
- Arena Finance National, LLC	Delaware, U.S.	New York, U.S.	100% owned by AFHC
- Arena Finance Global, LLC	Delaware, U.S.	New York, U.S.	100% owned by AFHC
- Arena Finance Markets GP, LLC	Delaware, U.S.	New York, U.S.	100% owned by AFHC
- Arena Finance Markets, LP	Delaware, U.S.	New York, U.S.	100% owned by AFHC
Arena Origination:			
- Arena Origination Co., LLC ("AOC")	Delaware, U.S.	New York, U.S.	100% owned by Arena Origination

Houston International Insurance Group, Ltd.

The Company's investment in HIIG (through the HIIG Partnership) is recorded as an investment in private entities and is measured at FVTPL in the Company's financial statements. See "Investments in Private Entities" below for a further description of the Company's investment in the HIIG Partnership.

Arena Group

The Arena Group consists of the following three businesses:

- Arena Investors – WAHII, ASOF-ON GP and ASOF-OFF II GP (collectively, "Arena Investors") jointly operate as an investment manager offering clients access to fundamentals-based, asset-oriented credit investments. The Company's investment in Arena Investors is accounted for using the equity method in the Company's consolidated financial statements. See "Investments in Associates" below.
- Arena Finance – Arena Finance, through AFHC and AFHC's subsidiaries, is a specialty finance company that primarily purchases fundamentals-based, asset-oriented credit investments for its own account. The Company's investment in Arena Finance is measured at FVTPL in the Company's consolidated financial statements. See "Investments in Private Entities" below.
- Arena Origination – Arena Origination, through AOC, facilitates the origination of fundamentals-based, asset-oriented credit investments for its own account and/or possible future sale to Arena Finance, clients of Arena Investors and/or other third parties. The Company's investment in Arena Origination is measured at FVTPL in the Company's consolidated financial statements. See "Investments in Private Entities" below.

Arena Investors, Arena Finance and Arena Origination and related entities are collectively referred to as the "Arena Group".

**The Westaim Corporation****Notes to Consolidated Financial Statements (unaudited)****For the three months ended March 31, 2017 and 2016**

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

**5 Investments in Private Entities and Associates (continued)****INVESTMENTS IN PRIVATE ENTITIES**

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

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

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

As at March 31, 2017	Fair value	Level 1	Level 2	Level 3
Investments in private entities:				
- HIIG Partnership	\$ 146,549	-	-	\$ 146,549
- Arena Finance	145,197	-	-	145,197
- Arena Origination	32,411	-	-	32,411
	<u>\$ 324,157</u>	<u>\$</u>	<u>-</u>	<u>\$ 324,157</u>

As at December 31, 2016	Fair value	Level 1	Level 2	Level 3
Investments in private entities:				
- HIIG Partnership	\$ 145,227	-	-	\$ 145,227
- Arena Finance	142,800	-	-	142,800
- Arena Origination	32,437	-	-	32,437
	<u>\$ 320,464</u>	<u>\$</u>	<u>-</u>	<u>\$ 320,464</u>

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

Three months ended March 31, 2017	Opening balance	Unrealized gain (loss)	Ending balance
Investments in private entities:			
- HIIG Partnership	\$ 145,227	\$ 1,322	\$ 146,549
- Arena Finance	142,800	2,397	145,197
- Arena Origination	32,437	(26)	32,411
	<u>\$ 320,464</u>	<u>\$ 3,693</u>	<u>\$ 324,157</u>
Three months ended March 31, 2016	Opening balance	Unrealized gain (loss)	Ending balance
Investments in private entities:			
- HIIG Partnership	\$ 146,066	\$ 3,142	\$ 149,208
- Arena Finance	143,082	276	143,358
- Arena Origination	32,985	(45)	32,940
	<u>\$ 322,133</u>	<u>\$ 3,373</u>	<u>\$ 325,506</u>

There were no transfers among Levels 1, 2 and 3 during the three months ended March 31, 2017 and 2016.

The Company recorded unrealized gains of \$3,693 and \$3,373 on its investments in private entities in the three months ended March 31, 2017 and 2016, respectively.

**The Westaim Corporation**

**Notes to Consolidated Financial Statements (unaudited)**

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**5 Investments in Private Entities and Associates (continued)**

*Investment in Houston International Insurance Group, Ltd.*

The Company indirectly owns a significant interest in HIIG, through the HIIG Partnership, an Ontario limited partnership managed by HIIG GP, a wholly-owned subsidiary of Westaim. HIIG is a U.S. based diversified specialty insurance company providing coverage primarily in the United States but also globally for certain risks.

At March 31, 2017, the Company owned, directly and indirectly, approximately 58.5% of the HIIG Partnership Units, representing an approximate 43.7% indirect ownership interest in HIIG.

Westaim controls the HIIG Partnership through its ownership of approximately 58.5% of the Class A Units of the HIIG Partnership and through its control of HIIG GP, the general partner of the HIIG Partnership; and the HIIG Partnership exercises control over HIIG and its insurance subsidiaries through its ownership of approximately 74.6% of the issued and outstanding common shares of HIIG ("HIIG Shares") at March 31, 2017. The amount of dividends paid by the insurance subsidiaries of HIIG to HIIG may be subject to restrictions imposed by the insurance regulators in the United States, thereby limiting the amount of dividends HIIG can pay to its shareholders, including the HIIG Partnership. Payment of dividends from HIIG to the HIIG Partnership may also be restricted as a result of covenants in credit facilities entered into by HIIG from time to time.

FVTPL

The investment in HIIG (through the HIIG Partnership) is accounted for at FVTPL. The fair value of the Company's investment in the HIIG Partnership was determined to be \$146,549 at March 31, 2017 and \$145,227 at December 31, 2016.

Management used net asset value as the primary valuation technique to arrive at the fair value of the Company's investment in the HIIG Partnership of \$146,549 at March 31, 2017. The fair value of the HIIG Partnership at March 31, 2017 was derived from a valuation of the HIIG Shares owned by the HIIG Partnership and other net assets of the HIIG Partnership at March 31, 2017. The carrying values of the HIIG Partnership's other net assets, consisting of monetary assets including cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, approximate their fair values due to the short maturity of these financial instruments. In valuing the HIIG Shares, using net asset value as the primary valuation technique, fair value was determined to be 1.0x the adjusted book value of HIIG, or 100% of the adjusted HIIG stockholders' equity, as at March 31, 2017. Management determined that this valuation technique produced the best indicator of the fair value of the HIIG Shares as at March 31, 2017 as it was also used in a number of HIIG share transactions with arm's length third parties since August 1, 2014. This same basis of valuation was used to determine the fair value of the Company's investment in the HIIG Partnership of \$145,227 at December 31, 2016.

The significant unobservable inputs used in the valuation were the multiple applied and the adjusted stockholders' equity of HIIG as at March 31, 2017. Management applied a multiple of 1.0x as this was also the multiple used to price significant prior HIIG treasury transactions since the Company made its investment in HIIG (through the HIIG Partnership). The adjusted book value of HIIG as at March 31, 2017 reflected 100% of HIIG stockholders' equity obtained from the unaudited financial statements of HIIG for the three months ended March 31, 2017 prepared in accordance with United States generally accepted accounting principles ("US GAAP"), adjusted for a reclassification of a receivable from employees relating to their purchase of HIIG Shares. The adjusted book value contained certain significant judgments and estimates made by management of HIIG including the provision for loss and loss adjustment expenses (LAE), the valuation of goodwill and intangible assets, and the valuation allowance recorded against deferred income tax assets.

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

The Company recorded unrealized gains of \$1,322 and \$3,142 on its investment in the HIIG Partnership in the three months ended March 31, 2017 and 2016, respectively.

For purposes of assessing the sensitivity of HIIG stockholders' equity on the valuation of the Company's investment in the HIIG Partnership, if HIIG stockholders' equity at March 31, 2017 was higher by \$1,000, the fair value of the Company's investment in the HIIG Partnership at March 31, 2017 would have increased by approximately \$437 (December 31, 2016 - \$437) and the unrealized gain on investments in private entities for the three months ended March 31, 2017 would have increased by approximately \$437 (2016 - \$437). If HIIG stockholders' equity at March 31, 2017 was lower by \$1,000, an opposite effect would have resulted.

**The Westaim Corporation**

**Notes to Consolidated Financial Statements (unaudited)**

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**5 Investments in Private Entities and Associates (continued)**

***Investment in Arena Finance and Arena Origination***

The Company owns a 100% interest in Arena Finance, a specialty finance company, and Arena Origination, a specialty finance origination company, that form part of the Arena Group. Through its ownership of all of the common shares of Arena Finance and Arena Origination, Westaim exercises control over each of these businesses.

In connection with the capitalization of Arena Origination, the Company loaned \$17,000 to Arena Origination on August 31, 2015. The loan has a seven year term to August 31, 2022, is unsecured and carries interest at a rate of 7.25% per annum, with interest due on January 1 of each year during the term.

On August 31, 2015, Arena Finance and Bernard Partners, LLC ("BP LLC"), a limited liability company controlled by certain members of the Arena Group management team, entered into a limited liability company agreement in respect of AFHC under which BP LLC was issued Class M units of AFHC which are convertible into Class A units, entitling BP LLC to acquire an equity interest of up to 20% (16.67% on a fully-diluted basis) in AFHC. The Class M units vest equally over 5 years from August 31, 2015 and carry pre-determined escalating conversion prices which are in excess of the price paid by the Company for its investment in AFHC (through Arena Finance). A similar agreement was entered into between Arena Origination and BP LLC with respect to AOC. No Class M units were converted into Class A units in the three months ended March 31, 2017 and 2016.

**FVTPL**

The investments in Arena Finance and Arena Origination are accounted for at FVTPL and are included in investments in private entities in the consolidated statements of financial position. The fair values of the Company's investments in Arena Finance and Arena Origination were determined to be \$145,197 and \$32,411, respectively, at March 31, 2017 and \$142,800 and \$32,437, respectively, at December 31, 2016.

Management used net asset value as the primary valuation technique and determined that 100% (or 1.0x) of the shareholder's equity of Arena Finance at March 31, 2017 in the amount of \$145,197 approximated the fair value of the Company's investment in Arena Finance; and 100% (or 1.0x) of the shareholder's equity of Arena Origination at March 31, 2017 in the amount of \$15,411 and the fair value of the term loan of \$17,000, totaling \$32,411, approximated the fair value of the Company's investment in Arena Origination. Management determined that this valuation technique produced the best indicator of the fair value of Arena Finance and Arena Origination at March 31, 2017. This same basis of valuation was used to determine the fair value of the Company's investments in Arena Finance and Arena Origination of \$142,800 and \$32,437, respectively, at December 31, 2016.

The significant unobservable inputs used in the valuation of Arena Finance and Arena Origination at March 31, 2017 were the shareholder's equity of each of the entities at March 31, 2017 and the multiple applied. Management applied a multiple of 1.0x as the shareholder's equity of Arena Finance and Arena Origination reflected the net assets of the respective entity which were carried at fair value at March 31, 2017, as described below. The shareholder's equity contained certain significant judgments and estimates made by management of Arena Finance and Arena Origination, 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, accounts payable and accrued liabilities of Arena Finance and Arena Origination and their subsidiaries approximate their fair values due to the short maturity of these financial instruments. The subsidiaries of Arena Finance and Arena Origination 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 subsidiaries of Arena Finance and Arena Origination 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, and include broker quotes or evaluated price quotes received from pricing services. If the inputs are not observable or timely, 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 described below.

**The Westaim Corporation**

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**5 Investments in Private Entities and Associates (continued)**

- 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 described below.
- Listed derivative instruments, such as listed options, that are actively traded on a national securities exchange are valued based on quoted prices from the applicable exchange. Derivative instruments that are not listed on an exchange are valued using pricing inputs observed from actively quoted markets. If the pricing inputs used are not observable and/or the market for the applicable derivative instruments is inactive, the values of the derivative instruments are determined using valuation methodologies for Level 3 investments described below.

Where pricing inputs are unobservable and there is little, if any, market activity for Level 3 investments, fair values are determined by management of the subsidiaries of Arena Finance and Arena Origination 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 subsidiaries of Arena Finance and Arena Origination. Due to the inherent uncertainty of these estimates, these values may differ materially from the values that would have been used had a ready market for these investments existed.

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

The Company recorded unrealized gains of \$2,397 and \$276 on its investment in Arena Finance in the three months ended March 31, 2017 and 2016, respectively, and unrealized losses of \$26 and \$45 on its investment in Arena Origination in the three months ended March 31, 2017 and 2016, respectively. The operating results of Arena Origination included interest expense on the term loan of \$304 and \$306 in the three months ended March 31, 2017 and 2016, respectively.

For purposes of assessing the sensitivity of the shareholder's equity of Arena Finance and Arena Origination on the valuation of the Company's investment in these entities which are wholly-owned by the Company, if the shareholder's equity of either Arena Finance or Arena Origination at March 31, 2017 was higher by \$1,000, the fair value of the Company's investment in the respective entity at March 31, 2017 would have increased by \$1,000 and the unrealized gain on investments in private entities for the three months ended March 31, 2017 would have increased by approximately \$1,000. If the shareholder's equity of either Arena Finance or Arena Origination at March 31, 2017 was lower by \$1,000, an opposite effect would have resulted.

**INVESTMENTS IN ASSOCIATES**

The Company's investments in associates consist of its investment in Arena Investors, including the Company's indirect investment in WAHII (through WCA), ASOF-ON GP (through WCA), and its direct investment in ASOF-OFF II GP. WAHII is the sole limited partner of Arena Investors, LP, a limited partnership established under the laws of Delaware to carry on the third-party investment management business of the Arena Group.

On August 31, 2015, agreements were entered into between the Company (through WCA) and BP LLC in respect of WAHII and ASOF-ON GP and between Westaim and BP LLC in respect of ASOF-OFF II GP (the "Associate Agreements"). BP LLC's initial profit sharing percentage is 49%, and under the Associate Agreements, BP LLC has the right to earn-in up to 75% equity ownership percentage in the Associates and share up to 75% of the profits of the Associates based on achieving certain assets under management (AUM) and cashflow (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.

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**5 Investments in Private Entities and Associates (continued)**

The Company concluded that based on the contractual rights and obligations under the Associate Agreements, the Company exercises significant influence over the Associates. The Company's investments in the Associates are therefore accounted for using the equity method in accordance with IAS 28.

The following summarized financial information, which is in compliance with IFRS, represents amounts shown in the financial statements of the Associates:

As at March 31, 2017	WAHII	Other associates	Total
Financial information of Associates:			
Assets	\$ 7,436	\$ 122	\$ 7,558
Liabilities	(14,985)	(67)	(15,052)
Net liabilities	\$ (7,549)	\$ 55	\$ (7,494)

Company's share	\$ (3,722)	\$ 28	\$ (3,694)
Advances to Associates	4,415	-	4,415
Carrying amount of the Company's interest in Associates	\$ 693	\$ 28	\$ 721

As at December 31, 2016	WAHII	Other associates	Total
Financial information of Associates:			
Assets	\$ 7,209	\$ 165	\$ 7,374
Liabilities	(13,652)	(171)	(13,823)
Net liabilities	\$ (6,443)	\$ (6)	\$ (6,449)

Company's share	\$ (3,158)	\$ (3)	\$ (3,161)
Advances to Associates	4,415	-	4,415
Carrying amount of the Company's interest in Associates	\$ 1,257	\$ (3)	\$ 1,254

	Three months ended March 31, 2017			Three months ended March 31, 2016		
	WAHII	Other associates	Total	WAHII	Other associates	Total
Financial information of Associates:						
Fee income	\$ 2,815	\$ 121	\$ 2,936	\$ 2,015	\$ 27	\$ 2,042
Operating expenses <sup>1</sup>	(3,921)	(60)	(3,981)	(2,770)	(8)	(2,778)
(Loss) income and comprehensive (loss) income	\$ (1,106)	\$ 61	\$ (1,045)	\$ (755)	\$ 19	\$ (736)
Company's share of (loss) profit of Associates (51%)	\$ (564)	\$ 31	\$ (533)	\$ (385)	\$ 10	\$ (375)

<sup>1</sup> Includes interest expense on the loan granted by AFHC to the Associates of \$38 in the three months ended March 31, 2017 (2016 - \$nil) (see note 11).

On June 30, 2016, the Company made an additional equity investment of \$260 in Arena Investors. The carrying amount of the Company's investments in the Associates was \$721 at March 31, 2017 and \$1,254 at December 31, 2016. The total of the Company's 51% share of losses of the Associates was \$533 and \$375 in the three months ended March 31, 2017 and 2016, respectively, and was reported under "Net results of investments" in the consolidated statements of profit and comprehensive income.

**6 Accounts Payable and Accrued Liabilities**

Accounts payable and accrued liabilities consist of the following:

	March 31, 2017	December 31, 2016
Liabilities related to:		
RSUs	\$ 5,491	\$ 5,353
DSUs	803	832
Other accounts payable and accrued liabilities	1,421	1,039
Ending balance	\$ 7,715	\$ 7,224

**The Westaim Corporation****Notes to Consolidated Financial Statements (unaudited)****For the three months ended March 31, 2017 and 2016**

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

**7 Site Restoration Provision**

The Company has provided indemnifications to third parties with respect to future site restoration costs to be incurred on industrial sites formerly owned by the Company. The site restoration provision is based on periodic independent estimates of costs associated with soil and groundwater reclamation and remediation of these industrial sites. The ultimate environmental costs are uncertain as they are dependent on the future use of the land and future laws and regulations. Changes to the site restoration provision are as follows:

	Three months ended March 31, 2017	Year ended December 31, 2016
Opening balance	\$ 3,439	\$ 3,899
Changes due to:		
Expenditures	-	(401)
Estimates of future expenditures	-	18
Inflation	-	89
Passage of time and discount rates	15	(268)
Exchange adjustment	30	102
Ending balance	\$ 3,484	\$ 3,439

In the year ended December 31, 2016, the Company made a payment of \$401 for site restoration expenditures relating to the indemnifications. Of these expenditures, the Company was reimbursed \$385 pursuant to indemnifications provided to the Company by previous owners of the industrial sites. The payment was recorded as a reduction of the site restoration provision and the reimbursement was included as a recovery in the consolidated statements of profit and comprehensive income in the year ended December 31, 2016.

Estimates of future expenditures could change as a result of periodic reviews of the underlying assumptions supporting the provision, including remediation costs and regulatory requirements.

Cash flows are estimated to take place over the next 150 years, with the majority to take place later than 50 years after March 31, 2017. To calculate the site restoration provision, the estimated cash outflows were adjusted for inflation and discounted to March 31, 2017. For inflation and discounting calculations, all cash flows later than 50 years are treated as if the cash flow would occur at 100 years. Inflation is estimated at 1.76% (December 31, 2016 - 1.76%) per annum over the next 100 years. Discount rates are based on risk free rates which range from 0.6% to 2.3% (December 31, 2016 - 0.6% to 2.3%) over the next 30 years. The 30-year risk free rate is used for discounting cash flows that are estimated to occur later than 30 years after March 31, 2017.

**8 Commitments and Contingent Liabilities**

- (a) In connection with a \$10 million revolving loan facility granted by AFHC to the Associates on September 28, 2016 to fund the working capital needs of Arena Investors, the Company has provided a limited recourse guaranty to AFHC pledging as security for the loan facility its ownership interests in the Associates.
- (b) The Company has operating leases in Toronto with remaining lease terms of up to 3 years. At March 31, 2017, the Company had a total commitment of \$834 for future occupancy cost payments including payments due not later than one year of \$313 and payments due later than one year but not later than three years of \$521.
- (c) The Company may be involved in legal matters that arise from time to time in the ordinary course of the Company's business. At this time, the Company is not aware of any legal matters of this type that are believed to be material to the Company's results of operations, liquidity or financial condition.

**9 Share Capital**

The Company'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 March 31, 2017 and December 31, 2016, the Company had a total of 143,186,718 common shares issued and outstanding, with a stated capital of \$382,182. There were no changes in share capital in the three months ended March 31, 2017 and year ended December 31, 2016.

No shares of the Company are held by the Company, and there were no Class A preferred shares or Class B preferred shares outstanding at March 31, 2017 and December 31, 2016.

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**10 Share-based Compensation**

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

At the annual and special meeting of shareholders of the Company held on May 12, 2016, the shareholders approved amendments to the Incentive Plan which, among other things, increased the maximum number of common shares which may be issued under the Incentive Plan from 7,042,150 to 14,318,671. The Option Plan is a "rolling plan" which provides that the aggregate number of common shares which may be reserved for issuance under the Option Plan is limited to not more than 10% of the aggregate number of common shares outstanding. However, each of the Incentive Plan and the Option Plan provide that under no circumstances shall there be common shares issuable under such plan, together with all other security-based compensation arrangements of the Company, which exceed 10% of the aggregate number of common shares outstanding.

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

	Three months ended March 31, 2017		Three months ended March 31, 2016	
	Number	Weighted Average Exercise Price	Number	Weighted Average Exercise Price
Common share stock options				
Opening balance	2,754,940	C\$ 3.29	3,000	C\$ 144.00
Expired	(2,000)	C\$ 61.50	(1,000)	C\$ 309.00
Ending balance	2,752,940	C\$ 3.25	2,000	C\$ 61.50
Options exercisable at end of period	-	-	2,000	C\$ 61.50

On April 1, 2016, 2,752,940 options were granted to certain officers and employees of the Company. The options have a term of seven years, vest in three equal instalments on April 1, 2017, April 1, 2018 and April 1, 2019, and have an exercise price of C\$3.25. None of the options had vested at March 31, 2017. At March 31, 2017, these options had a weighted average remaining contractual life of 6.0 years.

The fair value of the options granted by the Company on April 1, 2016 is estimated using the Black-Scholes option pricing model assuming no dividends are paid on common shares, a risk-free interest rate of 0.61%, an average life of 4.0 years and a volatility of 46.49%. The amounts computed according to the Black-Scholes pricing model may not be indicative of the actual values realized upon the exercise of these options by the holders.

In the three months ended March 31, 2017, compensation expense relating to options was \$233 (2016 - \$nil), with an offsetting increase to contributed surplus.

On April 3, 2017, 3,860,397 options were granted to certain officers and employees of the Company. The options have a term of seven years, vest in three equal instalments on December 31, 2017, December 31, 2018 and December 31, 2019, and have an exercise price of C\$3.00.

**Restricted Share Units** - RSUs vest on specific dates and are payable when vested with either cash or common shares of the Company, at the option of the holder. In certain circumstances such as a change of control of the Company or the sale of substantially all of the assets of the Company, RSUs vest immediately.

Changes to the number of RSUs are as follows:

	Three months ended March 31	
	2017	2016
Opening balance	3,082,073	2,209,563
Granted	-	-
Ending balance	3,082,073	2,209,563

On November 14, 2014, an aggregate of 2,375,000 RSUs were granted to certain officers, employees and consultants. At March 31, 2017, 2,285,937 of these RSUs (96.3%) had vested, of which 218,125 units (9.2%) had been exercised and 2,067,812 units (87.1%) were outstanding. The remaining 89,063 RSUs (3.7%) vest evenly over 2 months after March 31, 2017.

On April 1, 2016, an additional 925,198 RSUs were granted to certain officers and employees of the Company. These RSUs vest in three equal instalments on April 1, 2017, April 1, 2018 and December 31, 2018. At March 31, 2017, none of these RSUs had vested.

There were 3,082,073 RSUs outstanding at March 31, 2017 and December 31, 2016. No RSUs were granted or exercised in the three months ended March 31, 2017 and 2016.

**The Westaim Corporation****Notes to Consolidated Financial Statements (unaudited)****For the three months ended March 31, 2017 and 2016**

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

Compensation expense relating to RSUs was \$91 and \$157 in the three months ended March 31, 2017 and 2016, respectively. At March 31, 2017, a liability of \$5,491 (December 31, 2016 - \$5,353) had been accrued with respect to outstanding RSUs in the consolidated statements of financial position.

**Deferred Share Units** - DSUs are issued to certain directors of the Company in lieu of director fees, at their election, at the market value of the Company's common shares at the date of grant and are paid out 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 March 31	
	2017	2016
Opening balance	398,731	319,465
Granted	-	29,863
Ending balance	398,731	349,328

In the three months ended March 31, 2017, no DSUs were issued. In the three months ended March 31, 2016, 29,863 DSUs were issued in lieu of director fees of \$62.

Compensation relating to DSUs was a recovery of \$36 and an expense \$55 in the three months ended March 31, 2017 and 2016, respectively. At March 31, 2017, a liability of \$803 (December 31, 2016 - \$832) had been accrued with respect to outstanding DSUs in the consolidated statements of financial position.

**11 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 expenses related to the Company's key management personnel are as follows:

	Three months ended March 31	
	2017	2016
Salaries and benefits	\$ 868	\$ 709
Share-based compensation	288	197
	\$ 1,156	\$ 906

Fees paid to Hartford Consulting, Inc. (the "Consultant"), a company owned by William R. Andrus, a director of HIIG, for insurance industry related consulting services were \$34 and \$33 in the three months ended March 31, 2017 and 2016, respectively. Compensation relating to RSUs issued to the Consultant was a recovery of \$2 and an expense of \$14 in the three months ended March 31, 2017 and 2016, respectively, and the amounts were included in the consolidated statements of profit and comprehensive income under share-based compensation expense. At March 31, 2017, a liability of \$118 (December 31, 2016 - \$120) had been accrued in the consolidated statements of financial position with respect to outstanding RSUs held by the Consultant.

On September 28, 2016, AFHC granted a \$10 million revolving loan facility to the Associates to fund the working capital needs of Arena Investors. The loan facility has a term of 36 months and bears interest at a rate of 5.25% per annum. At March 31, 2017, WAHII had drawn down the loan facility by \$4,500. The Company has provided a limited recourse guaranty to AFHC pledging as security for the loan facility its ownership interests in the Associates.

On August 31, 2015, the Company provided \$17,000 in funding to Arena Origination in the form of an unsecured term loan (see note 5). The Company earned interest on the loan of \$304 and \$306 in the three months ended March 31, 2017 and 2016, respectively. Interest on the loan is included in investment income in the consolidated statements of profit and comprehensive income.

The Company earned advisory fees from HIIG of \$250 in each of the three months ended March 31, 2017 and 2016. Advisory fees are included in fee income in the consolidated statements of profit and comprehensive income.

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**12 Income Taxes**

Income taxes are recognized for deferred income taxes attributed to estimated differences between the financial statement carrying values of assets and liabilities and their respective income tax bases.

Deferred tax assets/(liabilities) recognized in profit or loss are as follows:

	Three months ended March 31	
	2017	2016
Unrealized gain on investments in private entities	\$ (489)	\$ (451)
Non-capital loss carry-forwards	489	451
	\$ -	\$ -

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

	March 31, 2017	December 31, 2016
Non-capital loss carry-forwards	\$ 42,650	\$ 40,734
Capital loss carry-forwards	5,250	5,204
Deductible temporary differences	16,414	16,747
Corporate minimum tax credits	340	337
Investment tax credits	6,303	6,248

The unrecognized non-capital losses and investment tax credits will expire at various times to the end of 2037, as follows:

Non-capital losses by year of expiry:	Investment tax credits by year of expiry:	
2027	\$ 2,609	2017 \$ 2,223
2028	6,798	2018 667
2029	77	2019 722
2030	189	2020 618
2031	15,754	2021 483
2033	2,877	Beyond 2021 1,590
2034	3,666	
2035	3,206	
2036	5,879	
2037	1,595	
	\$ 42,650	\$ 6,303

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

	Three months ended March 31	
	2017	2016
Profit before income tax	\$ 1,939	\$ 1,369
Statutory income tax rate	26.5%	26.5%
Income taxes at statutory income tax rate	514	363
Variations due to:		
Non-taxable portion of unrealized gain on investments in private entities	(489)	(451)
Tax losses allocated from the HIG Partnership	(7)	(3)
Non-deductible (non-taxable) items	61	(268)
Difference between statutory and foreign tax rates	(142)	(98)
Unrecognized temporary differences	(112)	(13)
Unrecognized tax losses	175	470
Income tax expense	\$ -	\$ -

**The Westaim Corporation**

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**13 Earnings per Share**

The Company had 2,752,940 stock options and 3,082,073 RSUs outstanding at March 31, 2017 and 2,754,940 stock options and 3,082,073 RSUs outstanding at December 31, 2016. The stock options and RSUs were excluded in the calculation of diluted earnings per share for the three months ended March 31, 2017 and 2016 as they were not dilutive.

**14 Capital Management**

The Company's capital currently consists of common shareholders' equity. It may have different components in the future.

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

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

**15 Financial Risk Management**

The Company is exposed to a number of risks due to its business operations. The Company's consolidated statement of financial position at March 31, 2017 consists of short-term financial assets and financial liabilities with maturities of less than one year, investments in private entities and associates and the site restoration provision. 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 a 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 private entities and associates which do not typically have an active market. Private investment transactions can be highly structured and the Company takes measures, where possible, to create defined liquidity events and as part of its strategy, the Company has sought to create or accelerate such liquidity events. However, such liquidity events are rarely expected in the first two or three years of making an investment and may not be realized as expected.

At March 31, 2017, the Company had no debt and its financial assets, excluding investments in private entities and associates, were higher than its financial liabilities, resulting in minimal liquidity risk. At March 31, 2017, the Company's short-term financial liabilities amounted to \$1,421 (December 31, 2016 - \$1,039).

**Currency risk**

The Company maintains certain cash balances in C\$ and has other C\$ denominated monetary assets and liabilities. A 10% strengthening of the C\$ against the US\$ would have increased the foreign exchange loss for the three months ended March 31, 2017 by approximately \$777. A similar weakening of the C\$ would have resulted in an opposite effect.

The Company has not entered into any hedging with respect to currencies.

**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. The Company is subject to interest rate risks indirectly as a result of its investments in HIIG (through the HIIG Partnership), Arena Finance and Arena Origination as certain underlying investments made by these entities are sensitive to interest rate movements.

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**15 Financial Risk Management (continued)**

Equity risk

There is no active market for the Company's investments in HIIG (through the HIIG Partnership) and the Arena Group. The Company holds these investments for strategic and not trading purposes. As such, the Company's exposure to equity risk is nominal.

**16 Subsequent Event**

On April 3, 2017, the Company announced that it had entered into a letter agreement pursuant to which Fairfax Financial Holdings Limited, through certain of its subsidiaries (collectively, "Fairfax"), has 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 ("Warrants").

Fairfax has agreed to subscribe, on a private placement basis and subject to certain conditions, for Preferred Securities in an aggregate amount of up to C\$100 million. Upon closing, Fairfax will subscribe for C\$50 million of Preferred Securities. Westaim has discretion with respect to additional subscriptions by Fairfax for the remaining C\$50 million in minimum tranche sizes of C\$25 million by no later than December 31, 2017. The Preferred Securities will be subordinate and secured, and may be redeemed by Westaim at any time after 5 years from closing, or after 3 years if its common shares are trading at a price of at least C\$5.60 per share.

Westaim has also agreed to issue 28,571,430 Warrants, exercisable at C\$3.50 per share. The Warrants will vest proportionately based on the aggregate amount of Preferred Securities drawn by Westaim under the private placement, with 14,285,715 vesting upon the initial subscription of C\$50 million. Each vested Warrant will be exercisable within 5 years, but may be extended to 7 years if the closing price of the Westaim common shares is less than C\$5.60 on the fifth anniversary of the initial closing. Westaim can also elect to require early exercise of the Warrants if the closing price of its common shares reaches C\$5.60 at any time after the third anniversary of the initial closing.

The proceeds raised from the Fairfax financing will be used by Westaim for potential acquisitions and for general corporate purposes.

Closing of the transaction is subject to the settlement of mutually agreeable definitive documentation, and other customary closing conditions, including the approval of the TSXV and receipt of all other requisite third party approvals.



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