



THE WESTAIM CORPORATION

ANNUAL INFORMATION FORM

in respect of the year ended December 31, 2021

APRIL 13, 2022

TABLE OF CONTENTS

INTERPRETATION	1
FORWARD-LOOKING STATEMENTS	1
CORPORATE STRUCTURE	2
Name and Incorporation	2
Intercorporate Relationships	4
BUSINESS OF THE COMPANY	5
General Development of the Business	5
Summary Description of the Business	6
CURRENT INVESTMENTS	9
Skyward Specialty	9
Arena	11
RISK FACTORS	17
Risks Relating to Westaim	17
Risks Relating to Skyward Specialty’s Business	20
Risks Relating to Arena	34
Risks Relating to the Arena FINCOs	41
DESCRIPTION OF CAPITAL STRUCTURE	44
Common Shares	44
Class A Preferred Shares	45
Class B Preferred Shares	46
Fairfax Private Placement	46
MARKET FOR SECURITIES	47
Trading Price and Volume	47
DIVIDENDS AND DISTRIBUTIONS	47
DIRECTORS AND EXECUTIVE OFFICERS	48
Name, Residency and Principal Occupation	48
Shareholdings of Directors and Executive Officers	48
Cease Trade Orders, Bankruptcies, Penalties or Sanctions	49
Conflicts of Interest	50
AUDIT COMMITTEE	50
The Audit Committee’s Charter	50
Composition of the Audit Committee	50
Relevant Education and Experience	50
Pre-Approval of Audit and Non-Audit Services by Independent Auditors	51
Audit Committee Oversight	51
Audit Fees	51
Exemption	52
PROMOTERS	52
LEGAL PROCEEDINGS AND REGULATORY ACTIONS	52
Legal Proceedings	52
Regulatory Actions	52
INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS	52
TRANSFER AGENT AND REGISTRAR	52
MATERIAL CONTRACTS	53
INTERESTS OF EXPERTS	53
ADDITIONAL INFORMATION	53
APPENDIX “A” - AUDIT COMMITTEE CHARTER	A -1

INTERPRETATION

As used in this Annual Information Form (the “AIF”), unless the context indicates or requires otherwise, the term(s): (a) “**Company**” or “**Westaim**” refer to The Westaim Corporation (including, where applicable, its predecessor entities) and its subsidiaries; (b) “**Skyward Specialty**” refers to Skyward Specialty Insurance Group, Inc. and its subsidiaries; (c) “**Arena Investors**” refers to Arena Investors Group Holdings, LLC (“**AIGH**”) and its subsidiaries (including, but not limited to Arena Investors, LP (“**AI**”)); (d) “**Arena FINCOs**” refers collectively to Westaim Origination Holdings, Inc. (“**WOH**”) and Arena Finance Holdings Co., LLC, (“**AFHC**”) and each of their respective subsidiaries; and (e) “**Arena**” refers collectively to Arena Investors and the Arena FINCOs. Unless otherwise stated, the information contained in this AIF is as of April 13, 2022.

All dollar amounts herein are expressed in United States dollars unless otherwise indicated. Unless otherwise indicated, financial information in this AIF regarding the Company has been prepared in accordance with International Financial Reporting Standards (“**IFRS**”), as issued by the International Accounting Standards Board. Skyward Specialty and Arena maintain their accounts in United States dollars. The annual consolidated financial statements of Skyward Specialty are prepared in accordance with United States generally accepted accounting principles (“**U.S. GAAP**”) and the annual financial statements of Arena are prepared in accordance with either IFRS or U.S. GAAP.

FORWARD-LOOKING STATEMENTS

This AIF contains certain “forward-looking statements” and “forward-looking information” which reflect the current expectations of management regarding the Company’s future growth, results of operations, performance and business prospects and opportunities. In particular, the words “strategy”, “may”, “will”, “continue”, “developed”, “objective”, “potential”, “exploring”, “could”, “expect”, “expected”, “expects”, “tends”, “indicates”, and words and expressions of similar import, are intended to identify forward-looking statements. Such forward-looking statements include but are not limited to statements concerning: strategies; alternatives and objectives to maximize value for shareholders; expectations and assumptions relating to the Company’s business plan; expectations and assumptions relating to the business and operations of Skyward Specialty and Arena; 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 Westaim can give no assurance that these expectations are correct.

The Company’s actual results or financial position could differ materially from those anticipated by these forward-looking statements for various reasons generally beyond the Company’s control, including, without limitation, the following factors: risks inherent in acquisitions generally; fluctuations in the United States dollar to Canadian dollar exchange rate; the Company’s cash flow; future sales of a substantial number of the Company’s common shares (the “**Common Shares**”); the Company’s ability to raise additional capital; regulatory requirements may delay or deter a change in control of the Company; the potential treatment of the Company as a passive foreign investment company (“**PFIC**”) for U.S. federal income tax purposes; market turmoil, risk of volatile markets and market disruption risk; exposure to epidemics; Company employee error or misconduct; the Company’s cybersecurity; Skyward Specialty’s ability to accurately assess underwriting risk; the effect of intense competition and/or industry consolidation on Skyward Specialty’s business; Skyward Specialty’s reliance on brokers and third parties to sell its products to clients; Skyward Specialty’s ability to alleviate risk through reinsurance; Skyward Specialty’s reserves may prove to be inadequate; Skyward Specialty’s ability to maintain its financial strength and issuer credit ratings; the occurrence of catastrophic events including terrorist attacks and weather related natural disasters on Skyward Specialty’s business; the cyclical nature of the property and casualty (“**P&C**”) insurance industry on Skyward Specialty’s business; the effects of emerging claim and coverage issues on Skyward Specialty’s business; the effect of government regulations designed to protect policyholders and creditors rather than investors; the effect of climate change on the risks that Skyward Specialty insures; the effect of retentions in various lines of business; dependence by Skyward Specialty on key employees; the effect of litigation and regulatory actions; Skyward Specialty’s ability

to successfully manage credit risk (including credit risk related to the financial health of reinsurers); Skyward Specialty's ability to compete against larger more well-established competitors; unfavourable capital market developments or other factors which may affect the investments of Skyward Specialty (including meeting liquidity requirements); Skyward Specialty's ability to manage growth effectively; Skyward Specialty's ability to obtain additional capital; Skyward Specialty's ability to receive dividends from its subsidiaries; Skyward Specialty employee error or misconduct; Skyward Specialty's reliance on information technology and telecommunications systems; dependence by Skyward Specialty on certain third party service providers and program administrators; Skyward Specialty's policies will be enforceable in the manner it intends; Skyward Specialty receiving reimbursement for claims by reinsurers on a timely basis; Skyward Specialty's ability to pay claims accurately and timely; Skyward Specialty's reliance on renewal of existing insurance contracts; the effect of environmental, social and governance matters on Skyward Specialty's business; the effect of any changes in accounting practices and future pronouncements on Skyward Specialty's business; the effect of additional legislation or market regulation enacted by the U.S. federal government on Skyward Specialty's business; Skyward Specialty's ability to utilize net operating loss carryforwards and certain other tax attributes; the effect of change of control requirements under Texas insurance laws and regulations on Skyward Specialty's ability to successfully pursue its acquisition strategy; the effect of Skyward Specialty's debt obligations and other financial obligations on its business; Skyward Specialty's reliance on its intellectual property rights; Skyward Specialty not infringing the intellectual property rights of others; the effect of changes in underwriting guidelines on Skyward Specialty's business; the condition of the global financial markets and economic and geopolitical conditions affecting Arena's business; the variable nature of Arena Investors' revenues, results of operations and cash flows; the effect of rapid changes and growth in assets under management ("AUM") on Arena Investors; Arena Investors' ability to mitigate operational and due diligence risks; the subjective nature of the valuation of the Arena FINCOs' investments; Arena Investors' ability to mitigate regulatory and other legal risks; Arena Investors' ability to find appropriate investment opportunities; Arena Investors' ability to successfully navigate and secure compliance with regulations applicable to it and its business; Arena Investors' ability to mitigate private litigation risks; Arena Investors' ability to manage conflicts of interest; the effects of a decrease in revenues as a result of significant redemptions in AUM on Arena Investors' business; the investment performance of Arena Investors'; Arena Investors investment in illiquid investments; Arena Investors' ability to retain qualified management staff; Arena Investors' ability to mitigate the risk of employee misconduct and employee error; the effect of the COVID-19 pandemic on Arena's business; effect of market conditions on the Arena FINCOs; Arena Investors' ability to implement effective risk management systems; the performance of the investments of the Arena FINCOs; the Arena FINCOs' investment in illiquid investments; Arena Investors' ability to manage risks related to its risk management procedures; Arena Investors' ability to compete against current and potential future competitors; Arena's ability to finance borrowers in a variety of industries; dependence by the Arena FINCOs on the creditworthiness of borrowers; the ability of the Arena FINCOs to mitigate the risk of default by and bankruptcy of a borrower; the ability of the Arena FINCOs to adequately obtain, perfect and secure loans; the ability of the Arena FINCOs to limit the need for enforcement or liquidation procedures; the ability of the Arena FINCOs to protect against fraud; the Arena FINCOs' ability to realize profits; changes to the regulation of the asset-based lending industry; United States tax law implications relating to the conduct of a U.S. trade or business; Arena Investors' cybersecurity; and other risk factors set forth herein or in the Company's annual report or other public filings.

Westaim 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. Although Westaim has attempted to identify important factors that could cause actual actions, events or results to differ materially from those described in forward-looking statements, there may be other factors that cause unanticipated actions, events or results. There can be no assurance that forward-looking statements will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements. The reader is cautioned not to place undue reliance on forward-looking statements.

CORPORATE STRUCTURE

Name and Incorporation

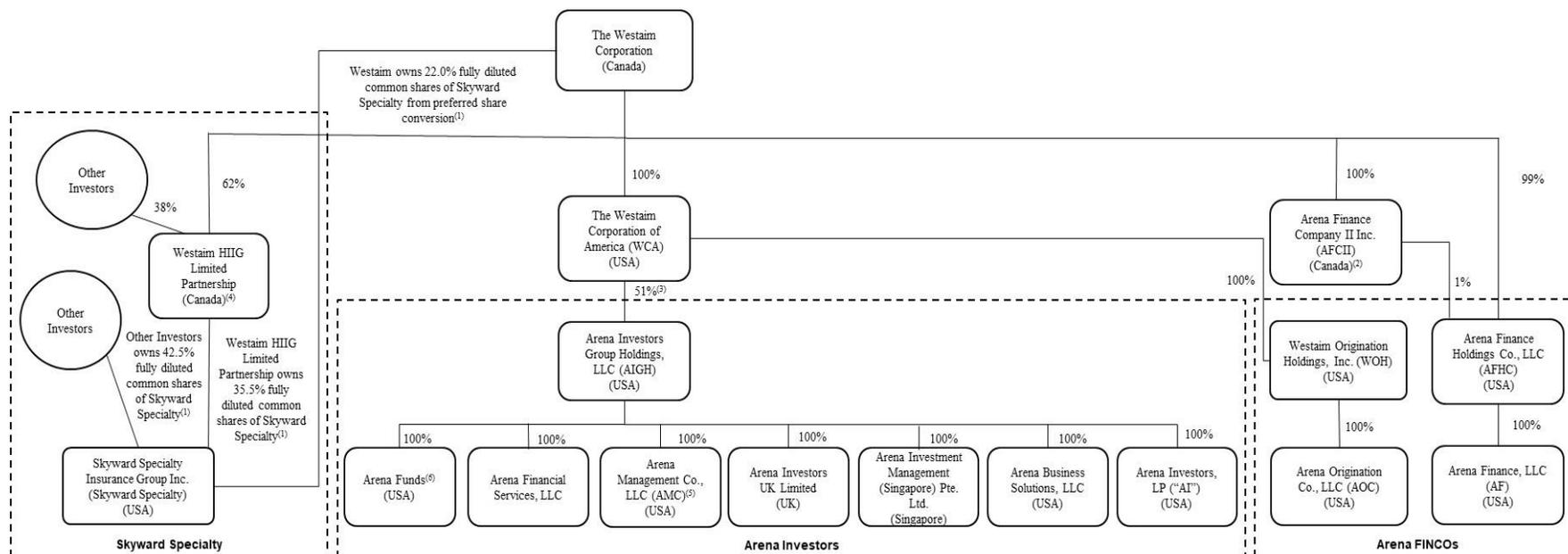
Westaim was incorporated under the *Business Corporations Act* (Alberta) (the "ABCA") by Articles of Incorporation dated May 7, 1996 (the "Articles"). The Articles were amended effective June 26, 1996 to remove the

private company restrictions on the transfer of securities, to create preferred share classes designated as Class A preferred shares and Class B preferred shares and to increase the maximum number of directors to fifteen. Restated Articles of Incorporation were issued under the ABCA on April 17, 2000 and the Articles were further amended on May 24, 2000 to permit meetings of shareholders to be held in certain specified cities outside of Alberta, or in any other city in Canada or the United States and to allow the board of directors of the Company (the “**Board**”) to appoint additional directors between annual meetings, subject to certain limitations. The Articles were amended again on February 8, 2010, February 26, 2010 and September 11, 2012 in connection with the creation of the Non-Voting Shares (as defined herein) and the removal of the conversion restrictions attaching thereto. On October 1, 2013, the Articles were further amended to effect a 50:1 share consolidation of the Common Shares.

Westaim’s registered office is located at 1500, 850 – 2 Street SW, Calgary, Alberta T2P 0R8 and its head office is located at 70 York Street, Suite 1700, Toronto, Ontario M5J 1S9.

Intercorporate Relationships

The following chart sets forth the organizational structure of Westaim, including each of the material entities directly and indirectly owned and/or controlled by Westaim or in which it has a material interest.



Notes:

- (1) The Company's look-through interest in the HIIG Partnership of 22.0% (December 31, 2020 – 21.3%), combined with its direct ownership of the Skyward Specialty preferred shares, which were convertible into Skyward Specialty common shares representing 22.0% (December 31, 2020 – 23.2%) of the fully diluted Skyward Specialty common shares outstanding, resulted in a 44.0% (December 31, 2020 – 44.5%) look-through interest in Skyward Specialty at December 31, 2021. At December 31, 2021, based on the Company's control of the HIIG Partnership, and its ownership of convertible preferred shares, the Company held a 57.5% voting interest in Skyward Specialty (December 31, 2020 – 57.5%).
- (2) On April 1, 2019, Arena Finance Company ("AFC") transferred 1% of its interest to Arena Finance Company II Inc., a newly incorporated, wholly-owned subsidiary of AFC. On October 1, 2019, AFC was dissolved and Westaim assumed AFC's net assets.
- (3) Subject to "earn-in" rights held by Bernard Partners, LLC ("BP LLC"). See "Current Investments".
- (4) Westaim owns 100% of Westaim HIIG GP Inc., which is the general partner of the Partnership.
- (5) Arena Management Co., LLC ("AMC") is the 100% owner of subsidiaries: Arena Investor Management Group, LLC, Quaestor Advisors LLC, Arena Investment Canada Inc. and AIMG UK Limited. AMC is the 50% owner of Arena Technology Services LLC.
- (6) Arena Funds include Arena Special Opportunities Fund (Offshore) GP, LLC (USA), Arena Special Opportunities Fund (Offshore) II GP, LP (USA), Arena Special Opportunities Fund (Onshore) GP (USA), LLC, Arena Special Opportunities Partners (Offshore) GP, LLC (USA), Arena Special Opportunities Partners (Onshore) GP, LLC (USA), Arena Special Opportunities Partners (Offshore) GP II, LLC (USA) and Arena Special Opportunities Partners (Onshore) II GP, LLC (USA).

BUSINESS OF THE COMPANY

General Development of the Business

Skyward Specialty Rights Offering

Convertible preferred shares of Skyward Specialty were acquired by Westaim on April 20, 2020 as Skyward Specialty completed a rights offering (“**Rights Offering**”) that resulted in total gross proceeds of \$100 million to Skyward Specialty. In order to help fund the Rights Offering, the Company received a cash distribution in January and March of 2020 totalling \$35 million from the Arena FINCOs. As part of the Rights Offering, Westaim purchased \$44 million of the Skyward Specialty convertible preferred shares offered.

The convertible preferred shares were initially convertible into Skyward Specialty common shares based on a conversion price equal to \$1.74 per share. The conversion price is subject to adjustments from time to time based on the occurrence of certain events. The Company expects that the final adjustment will result in a conversion price of approximately \$1.50 per share. The fair value of Westaim’s ownership of the Skyward Specialty convertible preferred shares was \$96.0 million.

Skyward Specialty LPT

In 2020, Skyward Specialty closed a Loss Portfolio Transfer (“**LPT**”) agreement that provides reinsurance protection of approximately \$127.4 million above the net ceded loss and loss adjustment expense reserves, primarily related to 2017 and prior policy years and is subject to co-participation layers from Skyward Specialty above specific amounts. For the year ended December 31, 2021, the impact of the LPT net of tax was \$12.7 million, which includes adverse development on prior years’ claims reserves subject to the LPT of \$28.0 million less recoveries from the LPT reinsurer of \$11.9 million and less an income tax recovery of \$3.4 million. For the year ended December 31, 2020, the impact of the LPT net of tax was \$47.2 million, which includes the initial cost of \$43.5 million plus the adverse development on prior years’ claims reserves subject to the LPT of \$49.0 million, less recoveries from the LPT reinsurer of \$32.7 million and less an income tax recovery, at a 21% tax rate, of \$12.6 million. The Company recognized its share of the impact of the initial cost of the LPT before tax charge of \$43.5 million (after tax - \$34.3 million) in its valuation of Skyward Specialty at December 31, 2019.

Other

Skyward Specialty Officer and Chairman Changes

In May of 2020, Andrew Robinson was appointed Chief Executive Officer of Skyward Specialty to replace Stephen L. Way who retired from his position of Chief Executive Officer. Concurrently, Mr. Way also stepped down as Chairman of the board of directors of Skyward Specialty and was replaced by J. Cameron MacDonald (Westaim’s President and Chief Executive Officer). Mr. Way remains a director of Skyward Specialty.

Name Changes

On November 5, 2020, Westaim Arena Holdings II, LLC changed its name to “Arena Investors Group Holdings, LLC”.

On November 17, 2020, Houston International Insurance Group Ltd. changed its name to “Skyward Specialty Insurance Group, Inc.”.

Revolving Loan

On December 21, 2017, the Company, through The Westaim Corporation of America (“**WCA**”), a wholly-owned Delaware subsidiary of Westaim, granted a \$20 million revolving loan facility (the “**Revolving Loan**”) to Arena Investors. On March 6, 2019, the Company amended the Revolving Loan limit of \$20 million to \$25 million which was subsequently further amended on December 22, 2020 to: (a) increase the limit to \$35 million; (b) amend the

interest rate to 5.60%; and (c) extend the term to March 31, 2023. The loan facility is secured by all the assets of Arena Investors. At December 31, 2021, AIGH had drawn \$24 million under the loan facility and forms part of the Company's investment in its associates (Arena Investors).

FX Contracts

The Company from time to time has entered into Canadian dollar currency forward contracts primarily to offset Canadian dollar currency gains or losses on the Company's underlying Canadian dollar currency liabilities, including the currency exposure arising from the Preferred Securities (see "*Description of Capital Structure – Fairfax Private Placement*").

On December 20, 2018, the Company entered into, and subsequently settled, a 365 day Canadian dollar currency forward contract to buy C\$35 million. Starting on December 20, 2019, the Company entered into, and subsequently settled, the first of four consecutive 90 day Canadian dollar currency forward contracts to buy C\$40 million. Starting on December 20, 2020, the Company entered into the first of three consecutive 90 day Canadian dollar currency forward contracts to buy C\$40 million (the second and third being entered into in March and June 2021, respectively) which were subsequently settled in March, June and September of 2021. On September 28, 2021, the Company entered into a 365 day Canadian dollar currency forward contract to buy C\$50 million.

Normal Course Issuer Bid

On October 1, 2021, the Company commenced a normal course issuer bid (the "**NCIB**"). Pursuant to the NCIB, for a 12-month period from October 1, 2021 to September 30, 2022, the Company may purchase up to 11,208,044 Common Shares in total, representing approximately 10% of Westaim's public float of Common Shares as at the close of business on September 22, 2021 (the date immediately prior to the announcement of the NCIB). In accordance with the policies of the TSX Venture Exchange (the "**TSXV**"), the Company may not purchase more than 2% of its issued and outstanding Common Shares during any 30-day period, which as of the date of the announcement of the NCIB represented 2,863,734 Common Shares. The price which the Company will pay for any such Common Shares under the NCIB will be the prevailing market price at the time of acquisition.

The actual number of Common Shares to be purchased pursuant to the NCIB and the timing of any such purchases will be determined by management of the Company. Between October 1, 2021 and December 31, 2021, the Company purchased an aggregate of 500,000 Common Shares for an aggregate purchase price of approximately \$1.1 million.

Summary Description of the Business

Overview

Westaim is a Canadian investment company specializing in providing long-term capital to businesses operating primarily within the financial services industry. Westaim 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 financial services industry and to grow shareholder value over the long term.

Westaim's senior management team and Board have extensive experience in sourcing, executing and financing businesses, and providing strategic advice to businesses in order to help them grow. Accordingly, Westaim expects to provide its portfolio companies with advisory services including, but not limited to, advice on capital allocation, financing strategy, performance measurement and merger and acquisition support. As part of its financing strategy, Westaim also intends to partner with like-minded providers of third party capital to help supplement Westaim's own capital when completing acquisitions. Any fees generated from managing this capital are expected to provide cash flow to the Company to support its operations and augment the return for Westaim's shareholders.

Investment Policy

On September 25, 2013, the Board approved a business acquisition and investment policy for the Company (the “**Investment Policy**”), which policy was amended in August 2014, April 2015 and March 2019. A summary of the Investment Policy and Westaim’s approach to investment appears below.

Investment Objective

Westaim’s investment objective is to maximize the growth of its intrinsic business value on a per share basis over the long-term. Westaim intends to seek to accomplish this objective through:

- Utilizing value investing principles and the expertise and experience of management to opportunistically acquire all or part of high quality businesses that (a) it understands; (b) are expected to generate superior returns on invested capital; and (c) are expected to have long-term prospects for growth;
- Providing acquired businesses with strategic, financial and capital allocation related advice and support to help accelerate their growth;
- Acquiring debt and equity securities of both public and private companies on an opportunistic basis; and
- Maintaining a conservative balance sheet that is expected to allow Westaim to withstand adversity and capitalize on opportunities when they arise.

Business Acquisition and Investment Strategy

To achieve its objectives, the following guidelines will be considered for Westaim’s investment strategy:

- Westaim may invest in both public and non-public businesses and assets that have the potential for superior investment returns;
- As Westaim expects a significant majority of revenues and costs to be sourced and incurred in United States dollars, it changed its functional and presentation currency from Canadian dollars to United States dollars, prospectively from the date of change of August 31, 2015. To reduce the impact on Westaim’s book value due to the movement of currency exchange rates between foreign currencies and Westaim’s functional currency, from time to time, Westaim may enter into foreign exchange forward contracts;
- Availability and quality of operating management with whom to partner will be a critical consideration of the attractiveness of an investment opportunity;
- Westaim intends to invest opportunistically in debt, equity and derivative securities, with a preference for equity and equity-related securities;
- While the Company will consider the liquidity of a particular investment in its evaluation, this will not be an immediate requirement, and will be a secondary consideration to the quality of the business, and the attractiveness of the investment opportunity. While the Company believes that there may be significant potential returns in less liquid investments, where longer time horizons are required, the Company will generally seek to hold its investments for no more than 7 to 15 years;
- Over time, the Company intends to assemble a concentrated portfolio of businesses where its expertise and experience can be utilized to maximize returns on invested capital to the benefit of its shareholders; and
- Pending an investment, consistent with its long-term strategy, the Company expects to invest its surplus cash in interest bearing demand or deposit obligations or Government of Canada short-term debt obligations, other short-term debt obligations, or public equity securities as the Company may determine in accordance with limitations and guidelines established by the Board from time to time.

Investment Process

Westaim's senior management team is responsible for identifying and investigating investment opportunities, including conducting business, tax and legal due diligence and preparing financial models. If a potential investment appears to be consistent with Westaim's investment objective, the opportunity will typically be brought to the Board either at a regularly scheduled or special Board meeting to gauge the Board's view of the merits of the investment. If the Board's feedback is positive, management proceeds to negotiate the definitive terms of the transaction including any required financing. Once the terms are negotiated, the transaction is brought to the Board for final approval and, if approved, is completed and announced.

Implementation

In reaching an investment decision regarding a particular investment, the Company expects to consider, amongst others, the following factors:

- Availability and quality of operating management, and the ability to align management's interest with Westaim's shareholders;
- The ability of management to use their expertise to help grow the business organically and through prudent acquisitions;
- The financial condition and financial performance of the investee company; and
- The size of the investment, its price and valuation, and the Company's ability to efficiently finance its purchase.

Conflicts of Interest

Prior to making an investment, all members of senior management and the Board are obligated to disclose any interest in the potential investment. In the event that a conflict is determined to exist, the person having the conflicted interest is required to abstain from making further decisions concerning the investment.

Monitoring and Reporting

The investment activities of Westaim will be monitored by senior management, and by the Board through regular reporting from the Company's management, no less than quarterly. Skyward Specialty and Arena FINCOs will be monitored, evaluated and communicated to management and the Board on a fair value basis. Arena Investors will be monitored, evaluated and communicated to management and the Board on an equity accounting basis.

Financing

Westaim expects to raise capital from time to time through the public offering of its securities, by private placement, or through the incurrence of debt obligations. The Company expects to maintain a conservative balance sheet in order to provide the flexibility to make opportunistic investments as they arise.

On September 29, 2020, the Arena FINCOs secured a private placement of \$45 million of 6.75% senior secured notes to improve net returns by leveraging invested assets. The net proceeds received from these notes are being used by Arena Finance II, LLC ("AFII"), a subsidiary of Arena Finance, LLC ("AF"), in accordance with their investment objectives.

On July 2, 2021, AFII secured a revolving credit facility with third party lenders with an initial commitment amount of \$13 million and initial termination date of September 30, 2023. On December 30, 2021, the revolving credit facility agreement was amended such that an additional commitment amount of \$8.5 million was secured with another third party lender. Unpaid principal amounts under the revolving credit facility will bear interest at London Interbank Offered Rate ("LIBOR") plus 2.8%. The loan is secured by AFII's equity interests in its subsidiaries,

carries a parental guarantee from AF, and ranks senior to AFII's senior secured notes payable. The net proceeds received under the revolving credit facility are intended to be used as working capital and liquidity support in lieu of maintaining cash reserves and therefore are expected to keep AFII's equity and term debt capital fully invested in productive, yield-earning investments.

Dividends

Westaim does not expect to declare dividends in the near future, as it intends to reinvest cash flows and/or proceeds of investment sales in new opportunities in accordance with its strategy. See "*Dividends and Distributions*".

Investments

Westaim currently has two significant investments, each of which is in the financial services industry. For a description of these investments, see "*Current Investments*".

Competition

There is significant competition for investments sought by the Company from strategic and financial buyers including pension funds and private equity groups. Some of these entities have greater financial, technical, personnel and operational resources than Westaim. In addition, some of these competitors may also have access to lower costs of capital and to funding sources not available to the Company, thereby providing them with a competitive advantage.

Employees

As at December 31, 2021, Westaim had seven full-time employees. In addition, management has an extensive network of relationships, and from time-to-time retains the services of consultants who provide the Company with specific expertise in certain niche areas. As at December 31, 2021, Westaim had two consultants.

CURRENT INVESTMENTS

Skyward Specialty

Overview

Skyward Specialty is a U.S. based specialty insurance company delivering commercial property and casualty ("P&C") products and solutions on a non-admitted (or excess and surplus ("E&S")) and admitted basis in the United States and select international markets. Skyward Specialty focuses its business on markets that are underserved, dislocated and/or for which standard insurance coverages are insufficient or inadequate to meet the needs of businesses operating in these markets comprising their customers and potential customers. These customers typically require highly specialized, customized underwriting solutions and claims capabilities. As such, Skyward Specialty develops and delivers tailored insurance products and services to address each of the niche markets it serves.

Skyward Specialty relies on dedicated underwriting leadership supported by high-quality technical staff with deep experience in their respective niches to produce the business it writes internally, while partnering with program administrators who typically possess a competitive advantage (owing to their scale in a particular market niche and/or proprietary technology) that Skyward Specialty believes would be difficult for it to replicate on its own. Skyward Specialty manages its claims with both in-house professionals as well as through third party administrators. At December 31, 2021, Skyward Specialty's assets were approximately \$2.1 billion and stockholders' equity was approximately \$425 million and for the year ended December 31, 2021, Skyward Specialty had aggregate gross written premiums of approximately \$940 million.

Skyward Specialty's subsidiaries include Houston Specialty Insurance Company ("HSIC"), Imperium Insurance Company ("IIC"), Great Midwest Insurance Company ("GMIC"), Oklahoma Specialty Insurance Company ("OSIC"), Skyward Re, Skyward Underwriting Agency, Inc. ("SUA") and Skyward Service Company ("SSC").

HSIC is a Texas-domiciled insurance company that writes commercial auto, commercial property, excess liability and general liability policies as a non-admitted carrier in 50 states.

IIC is a Texas-domiciled insurance company that primarily writes general liability, excess liability, commercial automotive liability, workers' compensation, and inland marine coverage. IIC is licensed to write direct insurance and reinsurance in 50 states plus the District of Columbia.

GMIC is a Texas-domiciled insurance company that primarily writes auto liability, general liability, surety, accident and health (medical stop-loss ("MSL")) and general and professional liability policies. GMIC is licensed to write direct insurance and reinsurance in 50 states and the District of Columbia, and is a Treasury Department approved listed insurer.

OSIC is an Oklahoma-domiciled insurance company that writes commercial auto, commercial property and general liability policies as a non-admitted carrier in 47 states and the District of Columbia.

Skyward Re, which was established in January 2020, is a Cayman Islands captive reinsurer which provides capacity to Skyward Specialty for specified business transactions that benefit from such an arrangement.

SUA, a Texas corporation, is a licensed agent and MGA, as well as a licensed reinsurance intermediary.

SSC, a Delaware corporation, provides various administrative services to the Skyward Specialty subsidiaries.

Skyward Specialty is headquartered in Houston (Texas) with offices in Atlanta (Georgia), Birmingham (Alabama), Chicago (Illinois), Dallas (Texas), Morristown (New Jersey), Oklahoma City (Oklahoma), Scottsdale (Arizona), and Wakefield (Massachusetts). As a result of the COVID-19 pandemic, the majority of Skyward Specialty's workforce currently works under a hybrid work model, where employees may work remotely or from the office depending on the needs of the business.

Strategy

Skyward Specialty's strategy is to lead in those specialty segments where it chooses to compete. The key pillars of this strategy are to:

1. Provide differentiated products, services and solutions that meet the unique needs of Skyward Specialty's target markets;
2. Attract and retain exceptional underwriting and claims talent and incentive the company's professionals in a manner that aligns with Skyward Specialty's organization and corporate goals;
3. Amplify the expertise of Skyward Specialty's people with advanced technology and analytics that enable superior risk selection, pricing and claims management;
4. Empower the underwriting and claims teams with considerable authority to make decisions and apply their expertise; and
5. Foster a culture that promotes nimbleness and responsiveness to market opportunities and challenges.

Employees

As at December 31, 2021, Skyward Specialty had 395 employees.

Competition

The property & casualty insurance industry is highly competitive and there are many factors that drive this competition, including:

- premium rates;
- claims handling;
- financial strength ratings assigned by independent rating agencies (for example, A.M. Best Company, Inc. ("A.M. Best"));

- coverage;
- type of insurance;
- availability of reinsurance;
- policy terms;
- strength of client and distribution relationships; and
- reputation.

Skyward Specialty competes with a number of insurance companies which vary based on the line of business, volume of premium and geography. Some of Skyward Specialty's notable competitors include: Markel Corporation; W.R. Berkley Corporation; American Financial Group Inc.; Tokio Marine Holdings, Inc.; CNA Financial Corporation; Hiscox, Ltd.; RLI Corp.; Intact Finance Corporation; Argo Group International Holdings, Ltd.; Kinsale Capital Group, Inc.; and James River Group Holdings, Ltd.

Some of these competitors are larger and have greater financial, marketing, and other resources than Skyward Specialty does, in addition to being able to absorb large losses more easily. Other competitors have longer operating history and more market recognition than Skyward Specialty does in certain lines of business.

Distribution

Skyward Specialty tailors its choice of distribution partners to access the particular business it seeks to write. Accordingly, Skyward Specialty distributes products, through retail agents, wholesale brokers, select program administrators, captive managers and A&H TPAs (as defined herein). This approach allows Skyward Specialty to most effectively and efficiently access the business it wants to target based on the needs and dynamics of a particular market niche. Agents and brokers act as intermediaries between property & casualty insurance companies and customers who wish to purchase property & casualty insurance. Insurance agents and brokers and wholesale producers represent the vast majority of the distribution of Skyward Specialty's business.

Regulation

The business of insurance is extensively regulated. In the United States, the insurance business is regulated primarily by individual states. Although the extent of the regulation varies, it relates to, among other things: (a) standards of solvency; (b) licensing of insurers and insurance agents; (c) approval of policy forms; (d) restrictions on the size of risks that may be insured under a single policy; (e) regulation of market conduct and claim practices; (f) premium rates; (g) reserves and provisions for unearned premium, losses and other obligations; (h) the nature of and limitations on investments; and (h) usage of certain methods of accounting for statutory reporting purposes. In all jurisdictions, the applicable laws and regulations are subject to amendment or interpretation by regulatory authorities.

Arena

Overview

Arena consists of two separate businesses, namely (a) Arena Investors, including AI, an investment manager making fundamentals-based, asset-oriented credit and other investments on behalf of third-party investors; and (b) the Arena FINCOs, which include specialty finance companies that primarily purchase fundamentals-based, asset-oriented credit and other investments for their own account and Arena Origination Co., LLC ("AOC"), which primarily facilitates the origination of fundamentals-based, asset-oriented credit investments for its own account and/or possible future sale to specialty finance companies, clients of Arena Investors and/or other third parties. Arena is managed by Daniel B. Zwirn as Chief Executive Officer and Chief Investment Officer.

Arena is headquartered in New York (New York) with offices in San Francisco (California), Jacksonville (Florida), London (United Kingdom), Dublin (Ireland) and Singapore. As a result of the COVID-19 pandemic, the majority of Arena's workforce currently works remotely.

As at December 31, 2021, Arena had 100+ professionals working for the company.

Below is a description of each of the Arena businesses.

Arena Investors

Arena Investors operates as a global investment manager offering third-party clients, including the Arena FINCOs, access to fundamentals-based, asset-oriented credit and other investments that aim to deliver above-market yields with low volatility. Arena Investors provides investment services to third party clients consisting of but not limited to institutional investors, insurance companies, private investment funds, pension funds and other pooled investment vehicles.

Arena Investors generates revenues primarily from Management Fees, Incentive Fees and Asset Servicing Expenses (as such terms are defined herein).

- “**Management Fees**” are the fees generally calculated on Arena Investors’ various segregated client accounts and private pooled investment vehicles, as a percentage of AUM, and the fees generally calculated on Arena FINCOs, as a percentage of net assets.
- “**Incentive Fees**” are the fees generally calculated as a percentage of net profits earned by clients of Arena Investors, including the Arena FINCOs, as of the end of each fiscal year or applicable withdrawal date related to client accounts subject to a “high water mark” and loss carryforward provisions for each measurement date.
- “**Asset Servicing Expenses**” are the expenses generally earned in connection with the monitoring and servicing of the illiquid portion of clients’ investment portfolio, including the Arena FINCOs.

For its core investment strategy, Arena Investors has established U.S. onshore funds Arena Special Opportunities Fund, LP, Arena Special Opportunities Partners I, LP, Arena Special Opportunities Partners (Feeder) I, LP, Arena Special Opportunities Partners II, LP, Arena Special Opportunities Partners (Feeder) II, LP as well as offshore funds, Arena Special Opportunities Fund (Cayman), LP, Arena Special Opportunities Fund (Cayman 2), LLC and Arena Special Opportunities Partners (Cayman) I, LP, as commingled investment vehicles. Arena Investors also establishes separately managed accounts (“SMA”) for its clients, including Westaim. Arena Investors continues to be in discussions with potential clients for additional capital to invest in its various pools, in accordance with its business strategy, including additional SMAs.

AI, an Arena Investors entity, is a limited partnership established under the laws of Delaware. Arena Investors GP, LLC (“AIGP”), a limited liability company established under the laws of Delaware, is the general partner of AI. AIGH, a Delaware LLC, is the sole limited partner of AI and the sole member of AIGP. WCA and BP LLC are currently the only members of AIGH. BP LLC has been provided with certain rights to receive an equity ownership position in AIGH.

The membership interests in AIGH include both an equity percentage, which represents a right to participate in distributions of the capital of AIGH (“**Equity Percentage**”) and a profit percentage, which represents a right to participate in distributions of the profits of AIGH (“**Profit Percentage**”). As of December 31, 2021, 100% of the Equity Percentage in AIGH is held by Westaim (through its wholly-owned subsidiary, WCA) with 51% of the Profit Percentage held by WCA and 49% of the Profit Percentage held by BP LLC.

Under the limited liability company agreement of AIGH dated as of August 31, 2015 among WCA and BP LLC, as amended and restated as of May 23, 2016, as further amended and restated as of November 27, 2019 (the “**Second Amended and Restated AIGH LLCA**”), BP LLC was provided with the right to “earn-in” to up to a 75% equity ownership position in AIGH based on meeting certain pre-established thresholds of Arena Investors’ AUM and profitability measured by TTM EBITDA Margin (as defined in the Second Amended and Restated AIGH LLCA). The initial earn-in entitlement of 49% of the equity ownership will be achieved once Arena Investors’ AUM reaches or exceeds \$1 billion and its TTM EBITDA Margin reaches or exceeds 35% (the “**Initial Threshold**”). Additional increases in AUM and TTM EBITDA Margin will result in additional earn-ins until the maximum earn-in ownership level of 75% is reached by Arena Investors’ AUM reaching or exceeding \$5 billion and its TTM EBITDA Margin reaching or exceeding 60%.

At the commencement of the operations of Arena Investors, notwithstanding that BP LLC did not have any equity ownership in AIGH, BP LLC was entitled to receive a 49% Profit Percentage (as defined in the Second Amended and Restated AIGH LLCA), representing a right to participate in the distribution of profits of AIGH until such time as the Initial Threshold is achieved. In connection with the provisions of the Revolving Loan, BP LLC provided a limited recourse guaranty of AIGH's obligations under the Revolving Loan. This guaranty is limited to BP LLC's interest as a member of AIGH under the Second Amended and Restated AIGH LLCA.

Arena FINCOs

The Arena FINCOs are comprised of AFHC and WOH and each of their respective subsidiaries. Investments held by the Arena FINCOs are derived from essentially the same pool of fundamentals-based, asset-oriented credit and other investment opportunities. Arena Investors' investment strategy, investment process, and risk management are outlined below under "*Current Investments – Arena Investors – Strategy*". Arena has established a methodology to allocate investment opportunities between the respective entities in a manner consistent with each entity's investment mandate. See "*Current Investments – Arena Investors – Strategy – Allocation Methodology*" for a summary overview of the allocation methodology.

- (a) *AF* – AF is a limited liability company formed under the laws of Delaware. AFHC, a wholly-owned Delaware subsidiary of Westaim, is currently the sole member of AF. AF acquires credit investments and other securities from AOC or other third parties at their fair market value. AF does not have a target range of investment; the size of the credit investments and other securities acquired from AOC or other third parties depends on, among other things, any diversification requirements which may be imposed by any lender as well as the investment policy of AFHC. In the absence of such requirements, AF will not be subject to concentration limitations but management of AF will instead use its best judgment as to what is prudent in the circumstances. AFHC and its subsidiaries each have a two-member board of directors consisting of Glenn G. MacNeil, CFO of Westaim and Joseph A. Schenk, an independent director.

Before acquiring any investment, AF reviews the nature of the investment, including the credit-worthiness of the borrower, the nature and extent of any collateral and the expected return on the investment. AF acquires investments based on its assessment of the fair market value of the investments at the time of purchase. If an investment is to be acquired from AOC, such acquisition is reviewed and approved by a person or committee that is independent of each of AOC and Westaim that has knowledge of fundamentals-based, asset-oriented credit investments. AF's primary revenue consists of interest income, dividend income and/or fees earned on the investments that it acquires. The operating results of AF also include any gain (loss) on its investments.

As described under "*Summary Description of Business – Investment Policy – Financing*":

- (i) on September 29, 2020, the Arena FINCOs secured a private placement of \$45 million of 6.75% senior secured notes to improve net returns by leveraging invested assets. The net proceeds received from these notes are being used by Arena Finance II, LLC, a subsidiary of AF, in accordance with their investment objectives; and
 - (ii) on July 2, 2021, AFII secured a revolving credit facility to optimize the use of the private placement proceeds with third party lenders with an initial commitment amount of \$13 million and initial termination date of September 30, 2023. Unpaid principal amounts under the revolving credit facility will bear interest at LIBOR plus 2.8%. On December 30, 2021, the revolving credit facility agreement was amended such that an additional commitment amount of \$8.5 million was secured with another third-party lender. Unpaid principal amounts under the revolving credit facility bears interest at LIBOR plus 2.8%.
- (b) *AOC* – AOC is a limited liability company formed under the laws of Delaware. WOH, a wholly-owned Delaware subsidiary of WCA, is currently the only member of AOC. AOC currently has a three-member board of directors consisting of J. Cameron MacDonald, Daniel B. Zwirn, Chief Executive Officer and Chief Investment Officer of Arena Investors, and Lawrence Cutler, Chief Operating Officer of Arena Investors.

AOC uses the funds that it receives from Westaim to locate credit and other security investment opportunities, investigate such opportunities including conducting due diligence on the potential borrower, structuring and documenting the investment and ultimately, funding the investment using its own funds. Once it has a portfolio of credit and other security investments, AOC may look to dispose of all or a portion of such portfolio in order to provide it with the funds necessary to make additional investments. All or a portion of the portfolio may be disposed of by AOC to third parties, including AF, certain investment funds or client accounts managed by Arena Investors, and/or other third parties. In addition, AOC may retain a portion of the investments for its own account, but this is not its primary investment strategy. Because AOC may offer and sell investments to AF and certain investment funds or client accounts managed by Arena Investors, procedures have been implemented to provide for the review of, and consent to, such transactions on behalf of AF and each related party. These procedures include the review and approval of the transaction by a person or committee that is independent of each of AOC and Westaim that has knowledge of fundamentals-based, asset-oriented credit investments.

The size of the investments originated by AOC depends both on the funds available to AOC as well as any diversification requirements which may be imposed by any lender providing funding to AOC as well as the investment policy of AOC. In the absence of such diversification requirements, AOC will not be subject to concentration limitations, but management will instead use its judgment as to what is prudent in the circumstances.

Before acquiring any investment, AOC reviews the nature of the investment, including the credit-worthiness of the borrower, the nature and extent of any collateral and the expected return on the investment. AOC receives fees in connection with originating or structuring the terms of an investment and receives dividend income, interest or principal payments until it disposes of an investment or a loan is repaid. The operating results of AOC also include any gain (loss) on its investments.

Strategy

Arena makes and manages fundamentals-based, asset-oriented credit and other investments. Fundamentals-based, asset-oriented credit investments refers to loans or credit arrangements which are generally secured by assets. These assets include, but are not limited to, real estate, inventory, vehicles, aircraft, watercraft, oil and gas reserves, a borrower's plant and equipment, other hard assets, securities, receivables, contractual income streams, and certain intellectual property assets. Fundamentals-based, asset-oriented and other 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.

Management believes that Arena's core competitive advantage is its operating model, which allows it to originate unique credit-based investment opportunities in scale and on a cost-efficient basis, through the use of on-balance sheet employee teams, and established relationships with other channels of credit-opportunity origination. Arena's model allows it to originate, create, and structure returns that are not able to be purchased "off-the-shelf" in the credit markets. When looking for new opportunities, Arena seeks situations from which capital is retreating, providing liquidity in those situations where there is scarcity of capital for reasons unrelated to value.

By utilizing both employee teams and third-party relationships to create a pipeline of opportunities, Arena expects to be able to choose the best opportunities in accordance with its investment guidelines.

Arena has pursued and is expected to continue to pursue a complementary group of investment opportunities, all focused on situations where capital is scarce and opportunities available in the market at a given point in time, in order to maximize the return in relation to the risk. Arena provides liquidity to companies and owners of assets who require it in a timely manner and who Arena believes are underserved by conventional sources of capital.

Arena's strategy is comprised of multiple investment strategies, including, but not limited to the following types of investments:

- *Corporate Private Credit.* Senior private corporate debt, bank debt, including, without limitation,

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

- *Real Estate Private Credit and Real Estate Assets.* Real property, secured or unsecured mezzanine financings, DIP loans, “A-tranche” loans (senior secured loans) and “B-tranche” loans (junior secured loans) for real estate properties requiring near-term liquidity, structured letters of credit, real estate loans secured by office buildings, retail centers, hotels, land, single family homes, multi-family apartments, condominium towers, hospitality providers, health care service providers, and corporate campuses, leases and lease residuals.
- *Commercial and Industrial Assets.* Commercial receivables, investments in entities (including, without limitation, start-up businesses) engaged, or to be engaged, in activities or investments such as distressed commercial and industrial loans, commercial and industrial assets such as small-scale asset-based loans, trade claims and vendor puts, specialized or other types of equipment leases and machinery, non-performing loans globally, hard assets (including, without limitation, airplanes and components, industrial machinery), commodities (physical and synthetic), reinsurance and premium finance within life and property casualty insurance businesses, legal-related finance including, without limitation, law firm loans, settled and appellate judgments and probate finance, royalties, trust certificates, intellectual property and other financial instruments that provide for the contractual or conditional payment of an obligation.
- *Structured Finance Investments.* Thinly traded or more illiquid loans and securities backed by mortgages (commercial and residential), other small loans including, without limitation, equipment leases, auto loans, commercial mortgage-backed securities, residential mortgage-backed securities, collateralized loan obligations, collateralized debt obligations, other structured credits and consumer-related assets, aviation and other leased asset securitizations, esoteric asset securitization, revenue interests, synthetics, and catastrophe bonds.
- *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-related assets, retail purchase loans and unsecured consumer loans as well as distressed or charged-off obligations of all of these types, peer-to-peer originated loans of all types, manufactured housing, and municipal consumer obligations.
- *Corporate and Other Securities.* Illiquid positions in asset-backed securities, collateralized debt obligations, collateralized loan obligations, residential mortgage backed securities, commercial mortgage backed securities, other securitized bonds or non-bond tranches and liquid positions including, hedged and unhedged investments in public securities (including, without limitation, public real estate and special purpose acquisition companies), preferred stock, common stock, municipal bonds, senior public corporate debt, other industry relative value, merger arbitrage in transactions such as mergers, hedged investments in regulated utilities, integrated utilities, merchant energy providers, acquisitions, tender offers, spin-offs, recapitalizations and Dutch auctions, limited partnership interests, interests in fund start-ups and investment managers, event-driven relative value equity investments in transactions such as corporate restructurings, strategic block, other clearly defined events, high-yield bonds, credit arbitrage and convertible bond arbitrage, in/post-bankruptcy equities, demutualizations, liquidations and litigation claims, real estate securities, business development companies, master limited partnership interests, royalty trusts, publicly traded partnerships, options and other equity derivatives.

The weighting of each of these strategies is based on management’s assessment of the opportunity available in the area, in order to maximize the return in relation to the risk, and the investment guidelines of each fund, managed account or other capital pool available.

Allocation Methodology

In making allocation decisions with respect to limited investment opportunities that could reasonably be expected to fit the investment objectives of the pooled funds and other clients, or of another member of Arena, consideration is given to the following factors deemed relevant: the investment objectives of each party; the source of the investment opportunity; any rights to investment opportunities that may have been granted to particular parties; the expected duration of the investment in light of clients' investment objectives and policies (including diversification policies); the amount of available capital; the size of the investment opportunity; regulatory and tax considerations; the degree of risk arising from an investment; the expected investment return; relative liquidity; likelihood of current income or such other factors as deemed to be appropriate. Arena has put in place a defined and documented allocation methodology consistent with the foregoing.

Investment Process

Infrastructure and Processes

Arena's investment process seeks to take into consideration the material pitfalls and possible hidden costs of an investment. Arena gains comfort with potential investments through a bottom-up, thorough understanding of the fundamentals of a business and/or situation rather than through portfolio-level, top-down allocations. Arena's investment process is summarized below:

- *Evaluation and Initial Approval.* Investments are sourced by Arena personnel or through third party relationships and proposed to the Chief Investment Officer through an introductory investment memorandum. The Chief Investment Officer reviews potential investment opportunities with all of Arena's senior investment professionals on a regular basis, typically once per week. Once a potential investment has been identified, it is reviewed for possible risks such as operational, administrative, reputational, tax and other risks. A detailed investment memorandum is prepared and scrutinized by Arena's senior investment professionals and the Chief Investment Officer for final conditional approval of the investment.
- *Risk and Funding Management.* The asset management team is responsible for monitoring and surveilling the portfolio of investments, and interfacing with the front and back-office employees. The asset management team determines the capability of the firm to monitor, service and review the investment going forward and assigns an asset manager(s) to monitor the investment independent of the applicable investment professional/team that originated the investment. Ongoing monitoring of an asset for risk management purposes and regulatory analysis is performed by Arena Investors. See "*Current Investments – Arena Investors– Risk Management*". The asset management team is not directly compensated on the outcome of the investments. Allocation across Arena Investors' pooled funds and managed accounts, including the Arena FINCOs, are monitored to ensure compliance with Arena's documented allocation methodology, and compliance with each respective pool's stated investment mandate. See "*Current Investments – Arena Investors – Strategy – Allocation Methodology*".
- *Final Funding.* Legal documentation related to the investment is reviewed by the Arena's senior investment professionals and legal counsel for consistency across investments and tax analysis is also performed. Final sign-off for an investment is required from the Chief Investment Officer, any investment committee of the respective Arena entity, and senior Arena personnel responsible for operations, asset management, treasury, tax, legal and compliance before the investment is funded.

Because of the nature and timing of certain investment opportunities, not all steps of the above summarized process may be followed for each and every investment.

Valuation and Pricing

Arena has established a policy for the valuation of the investments owned by Arena Investors' funds and clients, including the Arena FINCOs. Arena prices or values all investments in accordance with such policy in a manner that it believes to be fair and reasonable. Senior Arena personnel oversee and implement Arena's valuation policy for all

investments and securities and may engage qualified outside third party service providers as appropriate to assist with its pricing and valuation activities.

All investments managed by Arena Investors are priced or valued on a monthly basis using principles consistent with U.S. GAAP. Arena Investors provides the monthly net asset value to its investors and clients determined through its valuation and pricing processes.

Arena utilizes such valuation techniques as it considers appropriate given the facts and circumstances of a particular investment. In some cases, a single valuation technique is considered to be appropriate. In other cases, multiple valuation techniques are utilized. If multiple valuation techniques are used, Arena evaluates and weighs the results, as determined appropriate, considering the reasonableness of the range indicated by those results.

Risk Management

Arena has established a risk management process. Arena manages risk through diversification of investments, policies with respect to the use of leverage, position size limits, security construction and hedging. This multi-strategy approach is designed to allow Arena to shift capital to those types of investments that, in its opinion, offer the most attractive risk/reward characteristics. Arena seeks to diversify by industry, geography, asset class, strategy and sub-strategy.

Arena seeks to mitigate risk by (a) investing at senior (and typically secured) levels in the capital structure of an investee company or otherwise investing within a “margin of safety”; (b) investing in companies, properties or assets at debt to cash flow ratios it believes are attractive; (c) pricing perceived risk and illiquidity into investments; (d) including covenants in transactions that may ultimately create yield enhancement opportunities through amendments and other document changes; and/or (e) embedding robust surveillance and operational controls in Arena’s proprietary information technology systems.

Competition

The investment management industry is highly competitive with various pools of capital pursuing finite investment opportunities. However, management of Arena believes that the competitive environment for Arena is as open as it has been in the United States since the savings and loan crisis of the early 1990s. The majority of market participants prior to the 2008 financial crisis have largely been regulated out of existence, severely hampered by legacy burdens, or retreated to pursue other investment opportunities. These include the proprietary special situation groups of the investment banking firms. Other competitors such as several alternative asset managers have retreated to pursue the opportunities available to them in their original core competencies in the purely liquid markets. Further, large-scale alternative asset management platforms typically focus on large-scale, more crowded investment opportunities while business development companies (BDCs) and small business investment companies (SBICs), as regulated investment companies (RICs), have relatively limited investment mandates.

RISK FACTORS

Westaim is subject to a number of risks, including the risks described below. The risks and uncertainties described below are those believed to be material, but they may not be the only ones faced by Westaim. If any of these risks, or any other risks and uncertainties that have not yet been identified by Westaim or that Westaim currently considers not to be material, actually occur or become material risks, the business, prospects, financial condition, results of operations and cash flows of Westaim could be materially and adversely affected.

Risks Relating to Westaim

Risks inherent in acquisitions generally

The Company intends to actively pursue the acquisition of companies or businesses in Canada, the United States and/or internationally and may seek to acquire securities or other interests in other companies consistent with its investment strategies. Such acquisitions involve inherent risks including but not limited to (a) unanticipated costs; (b) potential loss of key employees of the company or the business acquired; (c) unanticipated changes in business,

industry or general economic conditions that affect the assumptions underlying the acquisition; and (d) decline in the value of the acquired business or assets. Any one or more of these factors could cause the Company to not realize the anticipated benefits of the acquisition in question. In addition, the Company may be required to use available cash, incur debt, issue securities, or a combination of these in order to complete an acquisition. This could affect the Company's future flexibility and ability to raise capital, operate or develop its business and could dilute its existing shareholders' holdings as well as decrease the trading price of its Common Shares. There is no assurance that when evaluating a possible acquisition, the Company will correctly identify and manage the risks and costs inherent in the business or asset to be acquired.

Foreign exchange risk

Effective August 31, 2015, the Company changed its functional and presentation currency from Canadian dollars to United States dollars. However, certain expenses and liabilities of the Company are denominated and paid in Canadian dollars. Accordingly, an appreciation of the Canadian dollar against the U.S. dollar could adversely impact the financial performance of Westaim.

Cash flow might be negative

The Company has made and intends to make investments in private entities which do not typically have an active market. Private investment transactions can be highly structured and the Company expects to take measures, where possible and appropriate, to create defined liquidity events. However, such liquidity events are rarely expected in the first three to five years of making an investment and may not be realized as expected or at all. While the Company may seek to obtain regular cash flow from these investments through management fees, capital appreciation and/or investment income, in the near term these revenues may not be sufficient to offset the Company's operating expenses. Accordingly, the Company may experience negative cash flow at the holding company level until such time as its revenues exceed its operating expenses, which negative cash flow could be funded from the Company's cash resources and other sources of capital which are available to the Company.

Liquidity and financing risks

Westaim's ability to continue its acquisition efforts will be largely reliant on its continued attractiveness to equity investors and third party capital partners. Westaim may incur operating losses as it continues to expend funds to seek out, investigate and complete future acquisitions. There is no guarantee that companies that Westaim acquires or invests in will become or continue to be profitable as general economic conditions, regulatory requirements and other factors affect their operations and future performance. Many of these factors are beyond Westaim's control. Additionally, should Westaim require additional capital to continue its activities, failure to raise such capital could restrict Westaim's activities or result in the Company going out of business. From time to time, Westaim may enter into transactions to acquire assets or the shares of other corporations. These transactions may be financed wholly or partially with debt, which may temporarily increase Westaim's debt levels above industry standards. Westaim cannot assure investors that it will be able to generate sufficient cash flow to pay the interest on any debt or that future working capital, borrowings or equity financing will be available to pay or refinance such debt.

Regulatory rules and required approvals might delay or deter a change of control of Westaim

Many state insurance regulatory laws contain provisions that require advance approval by state agencies of any change of control of an insurance company that is domiciled or, in some cases, has substantial business in that state. "Control" is generally presumed to exist through the ownership of 10% or more of the voting securities of a domestic insurance company or of any company that controls a domestic insurance company. Because Westaim controls greater than 50% of the common stock of Skyward Specialty on a fully-diluted basis, it is considered to exercise control over Skyward Specialty and its insurance subsidiaries. Accordingly, any purchaser of Common Shares representing 10% or more of the voting power of all outstanding Common Shares on a fully-diluted basis will be presumed to have acquired control of Skyward Specialty's domestic insurance subsidiaries unless, following application by that purchaser, the relevant state insurance regulators determine otherwise. Any transaction that would constitute a change in control of any of Skyward Specialty's individual insurance subsidiaries would generally require prior approval by the insurance departments of the states in which the insurance subsidiary is domiciled.

The by-laws of the Company contain restrictions on the ownership, transfer and voting of the Common Shares of the Company which may have an effect on the marketability and liquidity of such securities.

PFIC status

The Company does not believe it was a “passive foreign investment company” (“**PFIC**”) for U.S. income tax purposes for its 2021 fiscal year. The tests for determining PFIC status are based upon the composition of the income and assets of Westaim and its subsidiaries and affiliates from time to time, and it is difficult to make accurate predictions of future income and assets. Accordingly, there can be no assurance that Westaim will not become a PFIC in the future, as a result of its investment in Arena or otherwise. A non-U.S. corporation generally will be considered a PFIC for any taxable year if either: (i) at least 75% of its gross income is passive income, measured on an annual basis; or (ii) at least 50% of the value of its assets is attributable to assets that produce or are held for the production of passive income (which generally includes cash), measured on a quarterly basis. It is difficult to make accurate predictions of future income and assets, which are relevant to the determination of PFIC status. If Westaim were to be treated as a PFIC for any taxation year, such characterization could result in adverse U.S. income tax consequences to certain Westaim investors in the United States.

Market turmoil

Global financial conditions continue to be subject to volatility arising from international geopolitical developments and global economic phenomenon, as well as general financial market turbulence, including a significant market reaction to the novel coronavirus (COVID-19), resulting in a significant reduction in many major market indices and in the trading price of the Common Shares. The unprecedented events in global financial markets have had a profound impact on the global economy. Many industries, including the financial services industry, are impacted by these market conditions. A continued or worsened slowdown in the financial markets or other economic conditions, including, but not limited to, consumer spending, employment rates, business conditions, the state of the financial markets, interest rates and tax rates may adversely affect the Company’s growth and profitability. These instances of market turmoil could adversely impact Westaim’s operations (including the operations of Skyward Specialty and Arena) and the trading price of the Common Shares.

Risk of volatile markets and market disruption risk

The performance of the Company and the price of the Common Shares may be influenced by, among other things, interest rates, changing supply and demand relationships, trade, fiscal, monetary and exchange control programs and policies of governments and national and international political and economic events and policies. In addition, unexpected and unpredictable events such as war and occupation, a widespread health crisis or global pandemic, terrorism and related geopolitical risks may lead to increased short-term market volatility and may have adverse long-term effects on world economies and markets generally. Such impacts could also cause substantial market volatility, exchange trading suspensions and closures, affect Westaim’s performance and significantly reduce the value of an investment in the Common Shares. The Company (including Skyward Specialty and Arena) is therefore exposed to some, and at times, a substantial, degree of market risk. Westaim cannot predict the timing of future events which will likely trigger changes in the trading price of the Common Shares.

Westaim may be exposed to epidemics and/or pandemics

Westaim faces risks related to health epidemics and other outbreaks of communicable diseases, which could significantly disrupt its operations and may materially and adversely affect its business and financial conditions. Westaim’s business (including the businesses of Skyward Specialty and Arena) could be adversely impacted by the effects of COVID-19 or other epidemics and/or pandemics. The near and long-term implications and consequences of the COVID-19 pandemic raise several unique challenges that may affect Westaim’s business strategy. Unprecedented disruptions to daily life, businesses, supply chains, and to economic growth created challenges to our business ecosystem elevating risks to meeting objectives. Many factors still remain unknown, such as the severity, depth and length of the pandemic, the speed of deployment and efficacy of vaccines (including with respect to variants), and the broader impacts of monetary accommodation and fiscal stimulus.

This uncertainty and the cross-accumulation of risks require that Westaim maintain its resilience and flexibility in order to manage the impacts of the pandemic. The global pandemic is elevating disruption themes, amplifying existing financial, nonfinancial, and strategic risks, introducing new uncertainties, and highlighting interdependencies and accentuating risk correlations. Adverse changes and developments affecting the global economy, including significant global economic disruption, previous and potential future stock market decline and increased financial market volatility, individually and in the aggregate, have had and may continue to effect our overall investment portfolio. Global equity markets have experienced material and rapid declines and although price recovery across many sectors has followed, markets continue to experience significant volatility. Government and central banks have reacted with significant monetary and fiscal interventions designed to stabilize economic conditions. The duration and efficacy of these government and central bank interventions is unknown at this time.

Westaim and its businesses, employees, brokers and distribution partners, as well as the workforce of vendors, services providers and counterparties with which Westaim does business, may also be adversely affected by the COVID-19 pandemic or efforts to mitigate the pandemic, including government-mandated shutdowns, requests or orders for employees to work remotely, and other physical distancing measures. Certain pre-existing operational risks may be exacerbated, notably with respect to potential phishing or other cybersecurity-related attacks, privacy risk incidents, fraud, increased reliance on technology, operational resilience and risks related to the operations and resiliency of Westaim's vendors, third-party suppliers and counterparties.

Additionally, increased economic uncertainty and unemployment resulting from the spread of COVID-19 may reduce the demand for our products.

Westaim is subject to the risk of employee error or misconduct

Employee errors or misconduct could result in regulatory sanctions or reputational harm, which could materially adversely affect the business, financial condition and/or profitability of Westaim. Misconduct by employees could include binding Westaim to transactions that exceed authorized limits or present unacceptable risks, or concealing from Westaim unauthorized or unsuccessful activities, which, in either case, may result in unknown and unmanaged risks or losses. Employee misconduct could also involve the improper use of confidential information, which could result in regulatory enforcement proceedings, sanctions and serious reputational harm. Westaim is also susceptible to loss as a result of employee error. While management will proactively take measures to deter employee misconduct or prevent employee error, the precautions management takes to prevent and detect this activity may not be effective in all cases, which could materially adversely affect the business, financial condition and/or profitability of Westaim which could adversely affect the business, financial condition and/or profitability of Westaim.

Cybersecurity risks

Westaim's computer systems may be subject to cybersecurity risks or other breaches of information technology security, noting the increasing frequency and severity of these kinds of incidents. Despite the implementation of security measures, the infrastructure supporting Westaim's computer systems may be vulnerable to physical break-ins, computer viruses, programming errors, attacks by third parties or similar disruptive problems. Such breach of Westaim's cybersecurity could have a material adverse effect on Westaim's results of operations or financial condition.

Risks Relating to Skyward Specialty's Business

Assessment of underwriting risk

Skyward Specialty's underwriting success is dependent on its ability to accurately assess the risks associated with the business it writes and retains. Skyward Specialty relies on the experience of its underwriting staff in assessing those risks. If Skyward Specialty misunderstands the nature or extent of the risks, it may fail to establish appropriate premium rates which could adversely affect its financial results. In addition, Skyward Specialty's employees, including members of management and underwriters, make decisions and choices in the ordinary course of business that involve exposing it to risk.

Competition

Skyward Specialty faces competition from other specialty insurance companies, standard insurance companies and underwriting agencies. In particular, competition in the insurance industry is based on many factors, including price of coverage, the general reputation and perceived financial strength of the company, relationships with retail agents and brokers, terms and conditions of products offered, ratings assigned by independent rating agencies, speed of claims payment and reputation, and the experience and reputation of the members of its underwriting team in the particular lines of insurance and reinsurance Skyward Specialty seeks to underwrite. In recent years, the insurance industry has undergone increasing consolidation, which may further increase competition. In addition, some of Skyward Specialty's competitors are larger and have greater financial, marketing, and other resources than it does, in addition to being able to absorb large losses more easily. Other competitors have longer operating history and more market recognition than Skyward Specialty does in certain lines of business.

A number of new, proposed or potential industry or legislative developments could further increase competition in Skyward Specialty's industry. For example, there has been an increase in capital-raising by companies with whom it competes, which could result in new entrants to the markets and an excess of capital in the industry. Additionally, the possibility of federal regulatory reform of the insurance industry could increase competition from standard carriers.

Skyward Specialty may not be able to continue to compete successfully in the insurance markets. Increased competition in these markets could result in a change in the supply and demand for insurance, affect Skyward Specialty's ability to price its products at risk-adequate rates and retain existing business, or underwrite new business on favorable terms. If this increased competition so limits Skyward Specialty's ability to transact business, its operating results could be adversely affected.

Reliance on distribution channels

Substantially all of Skyward Specialty's products are ultimately distributed through independent retail agents and brokers who have the principal relationships with policyholders. Retail agents and brokers generally own the "renewal rights," and thus Skyward Specialty's business model is dependent on its relationships with, and the success of, the retail agents and brokers with whom it do business. Further, Skyward Specialty is also dependent on the relationships its wholesalers and program administrators maintain with the agents and brokers from whom they source their business.

Skyward Specialty periodically reviews the agencies, brokers, wholesalers and program administrators with whom it does business to identify those that do not meet its profitability standards or are not aligned with its business objectives. Following these periodic reviews, Skyward Specialty may restrict such distributors' access to certain types of products or terminate its relationship with them, subject to applicable contractual and regulatory requirements that limit its ability to terminate agents or requires Skyward Specialty to renew policies. Even through the utilization of these measures, Skyward Specialty may not achieve the desired results.

Because Skyward Specialty relies on these distributors as its sales channel, any deterioration in the relationships with its distributors or failure to provide competitive compensation could lead its distributors to place more premium with other carriers and less premium with Skyward Specialty. In addition, Skyward Specialty could be adversely affected if the distributors with whom it does business exceed their granted authority, fail to transfer collected premium to Skyward Specialty or breach the obligations that they owe to Skyward Specialty. Although Skyward Specialty routinely monitors its distribution relationships, such actions could expose it to liability.

Also, if distribution consolidation continues at its current pace or increases in the future, Skyward Specialty's sales channels could be materially affected in a number of ways, including loss of market access or market share in certain geographic areas. Specifically, Skyward Specialty could be negatively affected due to loss of talent as the people most knowledgeable about its products and with whom it has developed strong working relationships exit the business following an acquisition, or, increases in Skyward Specialty's commission costs as larger distributors acquire more negotiating leverage over their fees. Any such disruption that materially affects Skyward Specialty's sales channel could have a negative impact on its results of operations and financial condition.

As the speed of digitization accelerates, Skyward Specialty is subject to risks associated with both its distributors and their ability to keep pace. In an increasingly digital world, distributors who cannot provide a digital or technology-driven experience risk losing customers who demand such an experience, and such customers may choose to utilize more technology-driven distributors.

Third-party reinsurance

Skyward Specialty purchases reinsurance from third parties that it believes enhances its business by allowing it to strategically manage capital by mitigating its exposure to loss frequency and severity, as well as limiting its loss to catastrophic events which reduces volatility in its underwriting performance. Reinsurance involves transferring, or ceding, a portion of Skyward Specialty's risk exposure on policies that it writes to another insurer, the reinsurer, in exchange for a cost. If Skyward Specialty is unable to renew its expiring contracts, enter into new reinsurance arrangements on acceptable terms or expand its coverage, its loss exposure could increase, which would increase its potential losses related to loss events. If Skyward Specialty is unwilling to bear an increase in loss exposure, it may need to reduce the level of its underwriting commitments, both of which could materially adversely affect its business, financial condition and results of operations.

There are situations in which reinsurers may exclude certain coverages from, or alter terms in, the reinsurance contracts Skyward Specialty enters into with them. As a result, Skyward Specialty, like other insurance companies, write insurance policies which to some extent do not have the benefit of reinsurance protection. These gaps in reinsurance protection expose Skyward Specialty to greater risk and greater potential losses.

Loss and loss expense reserves

Skyward Specialty's success depends on its ability to accurately assess the risks related to the businesses and people that it insures. Skyward Specialty establishes loss and loss adjustment expense reserves for the best estimate of the ultimate payment of all claims that have been incurred, or could be incurred in the future, and the related costs of adjusting those claims, as of the date of its financial statements. Reserves do not represent an exact calculation of liability. Rather, reserves represent an estimate of what Skyward Specialty expects the ultimate settlement and administration of claims will cost it, and its ultimate liability may be greater or less than its estimate.

As part of the reserving process, Skyward Specialty reviews historical data and considers the impact of various factors including:

- claims inflation, which is the sustained increase in cost of raw materials, labor, medical services and other components of claims cost;
- claims development patterns by line of business, as well as frequency and severity trends;
- pricing for its products;
- legislative activity;
- social and economic patterns; and
- litigation, judicial and regulatory trends.

These variables are affected by both internal and external events that could increase Skyward Specialty's exposure to losses, and it continually monitors its loss reserves using new information on reported claims and a variety of statistical techniques and modeling simulations. This process assumes that past experience, adjusted for the effects of current developments, anticipated trends and market conditions, is an appropriate basis for predicting future events. There is, however, no precise method for evaluating the impact of any specific factor on the adequacy of loss reserves, and actual results may deviate, perhaps substantially, from Skyward Specialty's reserve estimates. For instance, the following uncertainties may have an impact on the adequacy of Skyward Specialty's reserves:

- When a claim is received, it may take considerable time to fully appreciate the extent of the covered loss

suffered by the insured and, consequently, estimates of loss associated with specific claims can increase over time. Consequently, estimates of loss associated with specified claims can change as new information emerges, which could cause the reserves for the claim to become inadequate.

- New theories of liability are enforced retroactively from time to time by courts.
- Volatility in the financial markets, economic events and other external factors may result in an increase in the number of claims and/or severity of the claims reported. In addition, elevated inflationary conditions would, among other things, cause loss costs to increase. See also “*Adverse economic factors.*”
- If claims were to become more frequent, even if Skyward Specialty had no liability for those claims, the cost of evaluating such potential claims could escalate beyond the amount of the reserves it has established. As Skyward Specialty enters new lines of business, or as a result of new theories of claims, it may encounter an increase in claims frequency and greater claims handling costs than it had anticipated.

If any of Skyward Specialty’s reserves should prove to be inadequate, it will be required to increase its reserves resulting in a reduction in its net income and stockholders’ equity in the period in which the deficiency is identified. Future loss experience substantially in excess of established reserves could also have a material adverse effect on Skyward Specialty’s future earnings and liquidity and its financial rating.

Decline in financial strength rating

Participants in the insurance industry use ratings from independent ratings agencies, such as A.M. Best, as an important means of assessing the financial strength and quality of insurers. In setting its ratings, A.M. Best performs quantitative and qualitative analysis of a company's balance sheet strength, operating performance and business profile. A.M. Best financial strength ratings range from “A++” (Superior) to “F” for insurance companies that have been publicly placed in liquidation. As of the date of this AIF, A.M. Best has assigned a financial strength rating of “A-” (Excellent) (Outlook Stable) to Skyward Specialty. A.M. Best assigns ratings that are intended to provide an independent opinion of an insurance company's ability to meet its obligations to policyholders and such ratings are not evaluations directed to investors and are not a recommendation to buy, sell or hold Skyward Specialty’s common stock or any other securities Skyward Specialty may issue. A.M. Best's analysis includes comparisons to peers and industry standards as well as assessments of operating plans, philosophy and management. A.M. Best periodically reviews Skyward Specialty’s financial strength rating and may revise its downward at their discretion based primarily on its analyses of Skyward Specialty’s balance sheet strength, operating performance and business profile. There are specific building blocks A.M. Best reviews, including capital adequacy, operating performance, operating profile and Enterprise Risk Management, as well as other factors that could affect their analyses such as:

- If Skyward Specialty changes its business practices from its organizational business plan in a manner that no longer supports A.M. Best's rating;
- If unfavorable financial, regulatory or market trends affect Skyward Specialty, including excess market capacity;
- If Skyward Specialty’s losses exceed its loss reserves;
- If Skyward Specialty has unresolved issues with government regulators;
- If Skyward Specialty is unable to retain its senior management or other key personnel;
- If Skyward Specialty’s investment portfolio incurs significant losses or its liquidity is limited; or
- If A.M. Best alters its capital adequacy assessment methodology in a manner that would adversely affect Skyward Specialty’s rating.

These and other factors could result in a downgrade of Skyward Specialty’s financial strength rating. A downgrade

or withdrawal of Skyward Specialty's rating could result in any of the following consequences, among others:

- Causing its current and future distribution partners and insureds to choose other, more highly-rated competitors;
- Increasing the cost or reducing the availability of reinsurance to it; or
- Severely limiting or preventing it from writing new and renewal insurance contracts.

In addition, in view of the earnings and capital pressures experienced by many financial institutions, including insurance companies, it is possible that rating organizations will heighten the level of scrutiny that they apply to such institutions, will increase the frequency and scope of their credit reviews, will request additional information from the companies that they rate or will increase the capital and other requirements employed in the rating organizations' models for maintenance of certain ratings levels. Skyward Specialty can offer no assurance that its rating will remain at its current level. It is possible that such reviews of Skyward Specialty may result in adverse ratings consequences, which could have a material adverse effect on its financial condition and results of operations.

Unexpected changes in the interpretation of Skyward Specialty's coverage or provisions

There can be no assurances that loss limitations or exclusions in Skyward Specialty's policies will be enforceable in the manner it intends. As industry practices and legal, judicial, social, and other conditions change, unexpected and unintended issues related to claims and coverage may emerge. For example, many of Skyward Specialty's policies limit the period during which a policyholder may bring a claim, which may be shorter than the statutory period under which such claims can be brought against its policyholders. While these limitations and exclusions help Skyward Specialty assess and mitigate its loss exposure, it is possible that a court or regulatory authority could nullify or void a limitation or exclusion or legislation could be enacted modifying or barring the use of such limitations or exclusions. These types of governmental actions could result in higher than anticipated losses and loss adjustment expenses, which could have a material adverse effect on Skyward Specialty's financial condition or results of operations. In addition, court decisions, such as the 1995 Montrose decision in California could read policy exclusions narrowly so as to expand coverage, thereby requiring insurers to create and write new exclusions.

These issues may adversely affect Skyward Specialty's business by either broadening coverage beyond its underwriting intent or by increasing the frequency or severity of claims. In some instances, these changes may not become apparent until sometime after Skyward Specialty has issued insurance contracts that are affected by the changes. As a result, the full extent of liability under Skyward Specialty's insurance contracts may not be known for many years after a contract is issued.

Reinsurers may not reimburse for claims on a timely basis, or at all

The reinsurance contracts that Skyward Specialty enters into to help manage its risks require it to pay premiums to the reinsurance carriers who will in turn reimburse it for a portion of covered policy claims. In many cases, a reinsurer will be called upon to reimburse Skyward Specialty for policy claims many years after it has paid insurance premiums to the insurer. Although reinsurance makes the reinsurer liable to Skyward Specialty to the extent the risk is transferred or ceded to the reinsurer, it does not relieve it (the ceding insurer) of its primary liability to its policyholders. Skyward Specialty's current reinsurance program is designed to limit its financial risk. However, Skyward Specialty's reinsurers may not pay claims Skyward Specialty incurs on a timely basis, or they may not pay some or all of these claims. For example, reinsurers may default in their financial obligations to Skyward Specialty as the result of insolvency, lack of liquidity, operational failure, fraud, asserted defenses based on agreement wordings or the principle of utmost good faith, asserted deficiencies in the documentation of agreements or other reasons. Any disputes with reinsurers regarding coverage under reinsurance contracts could be time consuming, costly, and uncertain of success. These risks could cause Skyward Specialty to incur increased net losses, and, therefore, adversely affect its financial condition. As of December 31, 2021, Skyward Specialty had \$536 million of aggregate reinsurance recoverables.

Failure to accurately and timely pay claims

Skyward Specialty must accurately and timely evaluate and pay claims that are made under its policies. Many factors affect Skyward Specialty's ability to pay claims accurately and timely, including the training and experience of its claims representatives, including its third party claims administrators ("TPAs"), the effectiveness of its management, and its ability to develop or select and implement appropriate procedures and systems to support its claims functions and other factors. Skyward Specialty's failure to pay claims accurately and timely could lead to regulatory and administrative actions or material litigation, undermine its reputation in the marketplace and materially and adversely affect its business, financial condition, results of operations, and prospects.

In addition, if Skyward Specialty does not manage its TPAs effectively, or if its TPAs are unable to effectively handle its volume of claims, its ability to handle an increasing workload could be adversely affected. In addition to potentially requiring that growth be slowed in the affected markets, Skyward Specialty's business could suffer from decreased quality of claims work which, in turn, could adversely affect its operating margins.

Severe weather conditions, catastrophes, pandemics and man-made event events

Skyward Specialty's business is exposed to the risk of severe weather conditions, earthquakes and man-made catastrophes. Catastrophes can be caused by various events, including natural events such as severe winter weather, tornadoes, windstorms, earthquakes, hailstorms, severe thunderstorms and fires, or man-made events such as explosions, war, terrorist attacks and riots. Over the past several years, changing weather patterns and climatic conditions, such as global warming, have added to the unpredictability and frequency of natural disasters in certain parts of the world, including the markets in which Skyward Specialty operates. Climate change may increase the frequency and severity of extreme weather events. This effect has led to conditions in the ocean and atmosphere, including warmer-than-average sea-surface temperatures and low wind shear that increase hurricane activity. The occurrence of a natural disaster or other catastrophe loss could materially adversely affect Skyward Specialty's business, financial condition, and results of operations. Additionally, any increased frequency and severity of such weather events, including hurricanes, could have a material adverse effect on Skyward Specialty's ability to predict, quantify, reinsure and manage catastrophe risk and may materially increase its losses resulting from such catastrophe events.

The extent of losses from catastrophes is a function of both the frequency and severity of the insured events and the total amount of insured exposure in the areas affected. The incidence and severity of catastrophes and severe weather conditions are inherently unpredictable. Skyward Specialty manages its exposure to losses by analyzing the probability and severity of the occurrence of loss events and the impact of such events on its overall underwriting and investment portfolio. In addition, Skyward Specialty's inability to obtain reinsurance coverage at reasonable rates and in amounts adequate to mitigate the risks associated with severe weather conditions and other catastrophes could have a material adverse effect on its business and results of operations.

Skyward Specialty's business is also exposed to the risk of pandemics, outbreaks, public health crises, and geopolitical and social events, and their related effects. While to date Skyward Specialty has not seen a meaningful decrease in the growth rate of its gross written premiums since the beginning of the COVID-19 pandemic and related economic downturn, this pandemic situation remains fluid and continues to evolve, and at this time Skyward Specialty is unable to determine the ultimate impact of this pandemic on its business, financial condition, results of operations and cash flows. While policy terms and conditions in the lines of business written by Skyward Specialty would be expected to preclude coverage for virus-related claims, court decisions and governmental actions may challenge the validity of any exclusions or its interpretation of how such terms and conditions operate. If pandemics, outbreaks and other events occur or re-occur, Skyward Specialty's business, financial condition, results of operations and cash flows may be materially adversely affected.

Program administrators

Skyward Specialty markets and distributes certain of its insurance products through program administrators that have limited quoting and binding authority, and they in turn, sell Skyward Specialty's insurance products to insureds through retail agents and brokers. These program administrators can bind certain risks without Skyward Specialty's initial approval. If any of these program administrators fail to comply with Skyward Specialty's underwriting

guidelines and the terms of their appointments, Skyward Specialty could be bound on a particular risk or number of risks that were not anticipated when it developed the insurance products or estimated losses and loss adjustment expenses. Such actions could adversely affect Skyward Specialty's results of operations.

Reliance on distribution channels

The distribution networks of Skyward Specialty's products are multi-faceted and distinct to each line of business. Skyward Specialty's relationship with its brokers or program administrators may be discontinued at any time. Even if the relationships do continue, they may not be on terms that are profitable for Skyward Specialty. For example, as brokerage firms continue to consolidate, their ability to force commission increases as does the concentration of business Skyward Specialty may have with a particular broker. Further, certain premiums from policyholders, where the business is produced by brokers, are collected directly by the brokers and remitted to Skyward Specialty. In certain jurisdictions, when the insured pays its policy premium to its broker for payment on behalf of Skyward Specialty's insurance subsidiary, the premium might be considered to have been paid under applicable insurance laws and regulations. Accordingly, the insured would no longer be liable to Skyward Specialty for those amounts, whether or not it has actually received the premium from that broker. Consequently, Skyward Specialty assumes a degree of credit risk associated with the brokers with which it works. Skyward Specialty reviews the financial condition of potential new brokers before it agrees to transact business with them. Although the failure by any of Skyward Specialty's brokers to remit premiums to it has not been material to date, there may be instances where Skyward Specialty's brokers collect premiums but do not remit them to Skyward Specialty and Skyward Specialty may be required under applicable law to provide the coverage set forth in the policy despite the related premiums not being paid to it.

Because the possibility of these events occurring depends in large part upon the financial condition and internal operations of Skyward Specialty's brokers, it monitors broker behavior and reviews financial information on an as-needed basis. If Skyward Specialty is unable to collect premiums from its brokers in the future, or are limited in its ability to cancel policies for non-payment, Skyward Specialty's underwriting profits may decline and its financial condition and results of operations could be materially and adversely affected.

Renewals of existing contracts

Most of Skyward Specialty's contracts are written for a one-year term. In Skyward Specialty's financial forecasting process, it makes assumptions about the rates of renewal of its prior year's contracts. The insurance and reinsurance industries have historically been cyclical businesses with intense competition, often based on price. If actual renewals do not meet expectations or if Skyward Specialty chooses not to write renewals because of pricing conditions, its written premium in future years and its future operations would be materially adversely affected.

Increased public attention to environmental, social and governance matters

Recently, more attention is being directed towards publicly traded companies regarding environmental, social and governance ("ESG") matters. A failure, or perceived failure, to respond to investor or customer expectations related to ESG concerns could cause harm to Skyward Specialty's business and reputation. For example, Skyward Specialty's insureds include a wide variety of industries, including potentially controversial industries. Damage to Skyward Specialty's reputation as a result of its provision of policies to certain insureds could result in decreased demand for its insurance products and could have a material adverse effect on its business, operational results and financial results, as well as require additional resources to rebuild its reputation, competitive position and brand strength.

Changes in accounting practices and future pronouncements

Developments in accounting practices may require Skyward Specialty to incur considerable additional compliance expenses, particularly if it is required to prepare information relating to prior periods for comparative purposes or to apply the new requirements retroactively. The impact of changes in current accounting practices and future pronouncements cannot be predicted but may affect the calculation of net income, shareholder's equity and other relevant financial statement line items.

Skyward Specialty's insurance subsidiaries are required to comply with statutory accounting principles, or SAP. SAP and various components of SAP are subject to constant review by the National Association Of Insurance Commissioners ("NAIC") and its task forces and committees, as well as state insurance departments, in an effort to address emerging issues and otherwise improve financial reporting. Various proposals are pending before committees and task forces of the NAIC, some of which, if enacted and adopted on a state level, could have negative effects on insurance industry participants. The NAIC continuously examines existing laws and regulations. Skyward Specialty cannot predict whether or in what form such reforms will be enacted and, if so, whether the enacted reforms will positively or negatively affect it.

Adverse economic factors

Factors, such as business revenue, economic conditions, the volatility and strength of the capital markets, and inflation can affect the business and economic environment. These same factors affect Skyward Specialty's ability to generate revenue and profits. In an economic downturn that is characterized by higher unemployment, declining spending, and reduced corporate revenue, the demand for insurance products is generally adversely affected, which directly affects Skyward Specialty's premium levels and profitability. Negative economic factors may also affect Skyward Specialty's ability to receive the appropriate rate for the risk it insures with its policyholders and may adversely affect the number of policies it can write, and its opportunities to underwrite profitable business. In an economic downturn, Skyward Specialty's customers may have less need for insurance coverage, cancel existing insurance policies, modify their coverage or not renew the policies they hold with Skyward Specialty. Existing policyholders may exaggerate or even falsify claims to obtain higher claims payments. In addition, if certain segments of the economy, such as the construction or energy production and servicing segments (which would affect several of Skyward Specialty's underwriting divisions at one time) were to significantly collapse, it could adversely affect Skyward Specialty's results. These outcomes would reduce Skyward Specialty's underwriting profit to the extent these factors are not reflected in the rates it charges.

Insurance business is historically cyclical in nature

Historically, insurance carriers have experienced significant fluctuations in operating results due to competition, frequency and severity of catastrophic events, levels of capacity, adverse litigation trends, regulatory constraints, general economic conditions, and other factors. The supply of insurance is related to prevailing prices, the level of insured losses and the level of capital available to the industry that, in turn, may fluctuate in response to changes in rates of return on investments being earned in the insurance industry. As a result, the insurance business historically has been a cyclical industry characterized by periods of intense price competition due to excessive underwriting capacity as well as periods when shortages of capacity increased premium levels. Demand for insurance depends on numerous factors, including the frequency and severity of catastrophic events, levels of capacity, the introduction of new capital providers and general economic conditions. All of these factors fluctuate and may contribute to price declines generally in the insurance industry.

As a result, Skyward Specialty's operating results are subject to fluctuation and have historically varied from quarter to quarter. Skyward Specialty expects its quarterly results will continue to fluctuate in the future due to a number of factors, including the general economic conditions in the markets where it operates, the frequency of occurrence or severity of catastrophe or other insured events, fluctuating interest rates, claims exceeding its loss reserves, competition in its industry, deviations from expected premium retention rates of its existing policies and contracts, adverse investment performance, and the cost of reinsurance coverage.

Performance of Skyward Specialty's investment portfolio

Skyward Specialty's results of operations depend, in part, on the performance of its investment portfolio. Skyward Specialty seeks to hold a diversified portfolio of investments that is managed by professional investment advisory management firms in accordance with its investment policy and routinely reviewed by its Investment Committee. However, Skyward Specialty's investments are subject to general economic conditions and market risks as well as risks inherent to specific securities. Skyward Specialty's primary market risk exposures are to changes in interest rates and equity prices.

A significant amount of Skyward Specialty's investment portfolio is invested in fixed maturity securities, or

separately managed accounts and limited partnerships invested primarily in fixed maturity securities. In recent years, interest rates have been at or near historic lows. A protracted low interest rate environment would continue to place pressure on Skyward Specialty's net investment income, particularly as it relates to these securities and short-term investments, which, in turn, may adversely affect its operating results. Future increases in interest rates could cause the values of Skyward Specialty's fixed income securities portfolios to decline, with the magnitude of the decline depending on the duration of securities included in its portfolio and the amount by which interest rates increase. Some fixed income securities have call or prepayment options, which create possible reinvestment risk in declining rate environments. Other fixed income securities, such as mortgage-backed and asset-backed securities, carry prepayment risk or, in a rising interest rate environment, may not prepay as quickly as expected.

All of Skyward Specialty's fixed maturity securities, including those held in separately managed accounts and limited partnerships, are subject to credit risk. Credit risk is the risk that certain investments may default or become impaired due to deterioration in the financial condition of one or more issuers of the securities Skyward Specialty holds, or due to deterioration in the financial condition of an insurer that guarantees an issuer's payments on such investments. Downgrades in the credit ratings of fixed maturity securities (where rated) could also have a significant negative effect on the market valuation of such securities.

Skyward Specialty also invests in marketable preferred and common equity securities and exchange traded funds. These securities are carried on the balance sheet at fair market value and are subject to potential losses and declines in market value.

The above market and credit risks could reduce Skyward Specialty's net investment income and result in realized investment losses. Skyward Specialty's investment portfolio is subject to increased valuation uncertainties when investment markets are illiquid, as is the case with its fixed maturity securities held to maturity, separately managed accounts, and limited partnership investments. The valuation of investments is more subjective when markets are illiquid, thereby increasing the risk that the estimated fair value (i.e., the carrying amount) of the securities Skyward Specialty holds in its portfolio does not reflect prices at which actual transactions would occur.

Risks for all types of securities are managed through the application of Skyward Specialty's investment policy, which establishes investment parameters that include but are not limited to, maximum percentages of investment in certain types of securities and minimum levels of credit quality, which Skyward Specialty believes are within applicable guidelines established by the NAIC and the Texas Department of Insurance. In addition, Skyward Specialty's Investment Committee periodically reviews its Enterprise Based Asset Allocation models to assist in overall risk management.

Although Skyward Specialty seeks to preserve its capital, it cannot be certain that its investment objectives will be achieved, and results may vary substantially over time. In addition, although Skyward Specialty seeks to employ investment strategies that are not correlated with its insurance and reinsurance exposures, losses in its investment portfolio may occur at the same time as underwriting losses and, therefore, exacerbate the adverse effect of the losses on Skyward Specialty.

Meet liquidity requirements

Skyward Specialty invests the premiums it receives from its insureds until they are needed to pay policyholder claims. Consequently, Skyward Specialty seeks to manage the duration of its investment portfolio based on the duration of its loss and loss adjustment expense reserves to provide sufficient liquidity and avoid having to liquidate investments to fund claims. Risks such as inadequate loss and loss adjustment reserves or unfavorable trends in litigation could potentially result in the need to sell investments to fund these liabilities. Skyward Specialty may not be able to sell its investments at favorable prices or at all. Sales could result in significant realized losses depending on the conditions of the general market, interest rates and credit issues with individual securities.

Extensive regulation

Skyward Specialty's primary insurance subsidiaries, HSIC, IIC, and GMIC, are subject to extensive regulation in Texas, their state of domicile, and to a lesser degree, the other states in which they operate. Most insurance regulations are designed to protect the interests of insurance policyholders, as opposed to the interests of investors or

stockholders. These regulations generally are administered by a department of insurance in each state and relate to, among other things, capital and surplus requirements, investment and underwriting limitations, affiliate transactions, dividend limitations, changes in control, solvency and a variety of other financial and non-financial aspects of Skyward Specialty's business. Significant changes in these laws and regulations could further limit Skyward Specialty's discretion or make it more expensive to conduct its business. State insurance regulators also conduct periodic examinations of the affairs of insurance and reinsurance companies and require the filing of annual and other reports relating to financial condition, holding company issues and other matters. These regulatory requirements may impose timing and expense constraints that could adversely affect Skyward Specialty's ability to achieve some or all of its business objectives.

Skyward Specialty's insurance subsidiaries are part of an "insurance holding company system" within the meaning of applicable Texas statutes and regulations. As a result of such status, certain transactions between Skyward Specialty's insurance subsidiaries and one or more of their affiliates may not be effected unless the insurer has provided notice of that transaction to the Texas Department of Insurance. These prior notification requirements may result in business delays and additional business expenses. If Skyward Specialty's insurance subsidiaries fail to file a required notification or fail to comply with other applicable insurance regulations in Texas, it may be subject to significant fines and penalties and its working relationship with the Texas Department of Insurance may be impaired.

In addition, state insurance regulators have broad discretion to deny or revoke licenses for various reasons, including the violation of regulations. In some instances, where there is uncertainty as to applicability, Skyward Specialty follows practices based on its interpretations of regulations or practices that it believes generally to be followed by the industry. These practices may turn out to be different from the interpretations of regulatory authorities. If Skyward Specialty does not have the requisite licenses and approvals or does not comply with applicable regulatory requirements, state insurance regulators could preclude or temporarily suspend Skyward Specialty from carrying on some or all of its activities in their state or could otherwise penalize it. This could adversely affect Skyward Specialty's ability to operate its business. Further, changes in the level of regulation of the insurance industry or changes in laws or regulations themselves or interpretations by regulatory authorities could interfere with Skyward Specialty's operations and require it to bear additional costs of compliance, which could adversely affect its ability to operate its business.

Skyward Specialty's insurance subsidiaries are subject to risk-based capital requirements, based upon the "risk based capital model" adopted by the NAIC, and other minimum capital and surplus restrictions imposed under Texas law. These requirements establish the minimum amount of risk-based capital necessary for a company to support its overall business operations. It identifies property and casualty insurers that may be inadequately capitalized by looking at certain inherent risks of each insurer's assets and liabilities and its mix of net written premium. Insurers falling below a calculated threshold may be subject to varying degrees of regulatory action, including supervision, rehabilitation or liquidation. Failure to maintain Skyward Specialty's risk-based capital at the required levels could adversely affect the ability of its insurance subsidiary to maintain regulatory authority to conduct Skyward Specialty's business and its A.M. Best Rating.

Additional government or market regulation

Skyward Specialty's business could be adversely affected by changes in state laws, including those relating to asset and reserve valuation requirements, surplus requirements, limitations on investments and dividends, enterprise risk and risk-based capital requirements, and, at the federal level, by laws and regulations that may affect certain aspects of the insurance industry, including proposals for preemptive federal regulation. The U.S. federal government generally has not directly regulated the insurance industry except for certain areas of the market, such as insurance for flood, nuclear and terrorism risks. However, the federal government has undertaken initiatives or considered legislation in several areas that may affect the insurance industry, including tort reform, corporate governance and the taxation of reinsurance companies.

Ability to utilize net operating loss carryforwards and certain other tax attributes

As of December 31, 2021, Skyward Specialty had gross federal income tax net operating losses ("NOLs"), of approximately \$134 million available to offset its future taxable income, if any, prior to consideration of annual

limitations that may be imposed under Section 382 of the Internal Revenue Code of 1986, as amended (the “Code”), or otherwise.

Skyward Specialty may be unable to fully use its NOLs, if at all. Under Section 382 of the Code, if a corporation undergoes an “ownership change” (very generally defined as a greater than 50% change, by value, in the corporation’s equity ownership by certain stockholders or groups of stockholders over a rolling three-year period), Skyward Specialty’s ability to use its pre-ownership change NOLs to offset its post-ownership change income may be limited. Skyward Specialty may experience ownership changes in the future as a result of subsequent shifts in its stock ownership, some of which may be outside of its control. Future regulatory changes could also limit Skyward Specialty’s ability to utilize its NOLs. To the extent Skyward Specialty is not able to offset future taxable income with its NOLs, its net income and cash flows may be adversely affected.

The Tax Cuts and Jobs Act (the “**Tax Act**”), as modified by the Coronavirus Aid, Relief, and Economic Security Act (the “**CARES Act**”), among other things, includes changes to U.S. federal tax rates and the rules governing NOL carryforwards. For federal NOLs arising in tax years beginning after December 31, 2017, with certain exceptions, including for insurance companies that are not life insurance companies, the Tax Act as modified by the CARES Act limits a taxpayer’s ability to utilize NOL carryforwards in taxable years beginning after December 31, 2020 to 80% of taxable income. In addition, federal NOLs arising in tax years beginning after December 31, 2017, with an exception for insurance companies that are not life insurance companies, can be carried forward indefinitely. For federal NOLs for insurance companies that are not life insurance companies subject to taxation under Part 2 of subchapter L of the Code, NOLs may be carried forward for 20 taxable years regardless of when they arise. The income of insurance companies that are not life insurance companies is generally not subject to a percentage limitation for offset by group NOLs. Deferred tax assets for NOLs will need to be measured at the applicable tax rate in effect when the NOLs are expected to be utilized. The new limitation on use of NOLs may significantly impact Skyward Specialty’s ability to utilize its NOLs to offset taxable income in the future. In addition, for state income tax purposes, there may be periods during which the use of net operating loss carryforwards is suspended or otherwise limited, which could accelerate or permanently increase state taxes owed.

Ability to obtain cash dividends or other permitted payments from insurance subsidiaries

The continued operation and growth of Skyward Specialty’s business will require substantial capital. Skyward Specialty does not intend to declare and pay cash dividends on shares of its common stock in the foreseeable future. Because Skyward Specialty is a holding company with no business operations of its own, its ability to pay dividends to stockholders and meet its debt payment obligations largely depends on dividends and other distributions from its insurance subsidiaries, HSIC, IIC and GMIC. State insurance laws, including the laws of Texas restrict the ability of HSIC, IIC and GMIC, respectively, determine how Skyward Specialty declares stockholder dividends. State insurance regulators require insurance companies to maintain specified levels of statutory capital and surplus. Dividend payments are further limited to that part of available policyholder surplus that is derived from net profits on Skyward Specialty’s business. State insurance regulators have broad powers to prevent the reduction of statutory surplus to inadequate levels, and there is no assurance that dividends up to the maximum amounts calculated under any applicable formula would be permitted. Moreover, state insurance regulators that have jurisdiction over the payment of dividends by Skyward Specialty’s insurance subsidiaries may in the future adopt statutory provisions more restrictive than those currently in effect.

Any determination to pay dividends in the future will be at the discretion of Skyward Specialty’s board of directors and will depend upon results of operations, financial condition, contractual restrictions pursuant to its debt agreements, its indebtedness, restrictions imposed by applicable law and other factors its board of directors deems relevant. Consequently, investors may need to sell all or part of their holdings of Skyward Specialty’s common stock after price appreciation, which may never occur, as the only way to realize any future gains on their investment. Investors seeking immediate cash dividends should not purchase Skyward Specialty’s common stock.

Change of control

Under applicable Texas insurance laws and regulations, no person may acquire control of a domestic insurer until written approval is obtained from the state insurance commissioner on the proposed acquisition. Such approval would be contingent upon the state insurance commissioner's consideration of a number of factors including, among

others, the financial strength of the proposed acquiror, the acquiror's plans for the future operations of the domestic insurer and any anti-competitive results that may arise from the consummation of the acquisition of control. Texas insurance laws and regulations pertaining to changes of control apply to both the direct and indirect acquisition of ten percent or more of the voting stock of a Texas-domiciled insurer. Accordingly, the acquisition of ten percent or more of Skyward Specialty's common stock would be considered an indirect change of control of Skyward Specialty and would trigger the applicable change of control filing requirements under Texas insurance laws and regulations, absent a disclaimer of control filing and its acceptance by the Texas Insurance Department. These requirements may discourage potential acquisition proposals and may delay, deter or prevent a change of control of Skyward Specialty, including through transactions that some or all of the stockholders of Skyward Specialty might consider to be desirable.

Additional capital

Skyward Specialty's future capital requirements depend on many factors, including its ability to write new business successfully and to establish premium rates and reserves at levels sufficient to cover losses. Skyward Specialty may need to raise additional funds through financings or curtail its growth. Many factors will affect the amount and timing of Skyward Specialty's capital needs, including its growth rate and profitability, its claims experience, and the availability of reinsurance, market disruptions, and other unforeseeable developments. If Skyward Specialty needs to raise additional capital, equity or debt financing may not be available at all or may be available only on terms that are not favorable to it. In the case of equity financings, dilution to Skyward Specialty's stockholders could result. In the case of debt financings, Skyward Specialty may be subject to covenants that restrict its ability to freely operate its business. In any case, such securities may have rights, preferences and privileges that are senior to those of the shares of common stock offered hereby. If Skyward Specialty cannot obtain adequate capital on favorable terms or at all, it may not have sufficient funds to implement its operating plans and its business, financial condition or results of operations could be materially adversely affected.

Debt obligations

Skyward Specialty's indebtedness under a certain credit agreement (the "**Credit Agreement**"), and its other financial obligations (including trust preferreds and subordinated debt) could:

- impair its ability to obtain financing or additional debt in the future for working capital, capital expenditures, acquisitions or general corporate purposes;
- impair its ability to access capital and credit markets on terms that are favorable to it;
- have a material adverse effect on it if it fails to comply with financial and affirmative and restrictive covenants in its Credit Agreement and an event of default occurs as a result of a failure that is not cured or waived;
- requires it to dedicate a portion of its cash flow for interest payments on its indebtedness and other financial obligations, thereby reducing the availability of its cash flow to fund working capital and capital expenditures; and
- limit its flexibility in planning for, or reacting to, changes in its business and the industry in which it operates.

Skyward Specialty's financial covenants in the Credit Agreement require it to maintain certain minimum fixed charges coverage ratio and total adjusted capital of its subsidiaries. If Skyward Specialty breaches these covenants, Prosperity will have the right to accelerate repayment of the outstanding amounts. In the event that Prosperity accelerates the repayment of Skyward Specialty's indebtedness, there can be no assurance that Skyward Specialty will have sufficient cash on hand to satisfy such obligations and its business operations may be materially harmed.

Furthermore, there is no guarantee that Skyward Specialty will be able to pay the principal and interest under the Credit Agreement or that future working capital, borrowings or equity financing will be available to repay or

refinance any amounts outstanding under the Credit Agreement. Skyward Specialty obligations under the Credit Agreement are secured by a perfected security interest in all of its tangible and intangible assets (including its intellectual property assets), except for certain customary excluded property, and all of Skyward Specialty's and its subsidiaries capital stock, with certain limited exceptions. In addition, Skyward Specialty may enter into debt agreements in the future that may contain similar or more burdensome terms and covenants, including financial covenants.

Loss of key personnel and inability to attract and retain qualified personnel

Skyward Specialty depends on its ability to attract and retain experienced and seasoned personnel who are knowledgeable about its business. The pool of talent from which Skyward Specialty actively recruits is limited and may fluctuate based on market dynamics specific to its industry and independent of overall economic conditions. As such, higher demand for employees having the desired skills and expertise could lead to increased compensation expectations for existing and prospective personnel, making it difficult for Skyward Specialty to retain and recruit key personnel and maintain labor costs at desired levels. Should any of Skyward Specialty's key personnel terminate their employment with Skyward Specialty, or if Skyward Specialty is unable to retain and attract talented personnel, it may be unable to maintain its current competitive position in the specialized markets in which it operates, which could adversely affect its results of operations.

Security breaches, loss of data, cyberattacks, and other information technology failures

Skyward Specialty's business is highly dependent upon its information technology and telecommunications systems, including its underwriting systems. Skyward Specialty relies on these systems to interact with brokers and insureds, to underwrite business, to prepare policies and process premiums, to perform actuarial and other modeling functions, to process claims and make claims payments, and to prepare internal and external financial statements. Some of these systems may include or rely on third-party systems not located on Skyward Specialty's premises or under its control. Events such as natural catastrophes, terrorist attacks, industrial accidents or computer viruses and other cyber attacks may cause Skyward Specialty's systems to fail or be inaccessible for extended periods of time. While Skyward Specialty has implemented business contingency plans and other reasonable plans to protect its systems, whether housed internally or through third-party cloud services, sustained or repeated system failures or service denials could severely limit its ability to write and process new and renewal business, provide customer service, pay claims in a timely manner or otherwise operate in the ordinary course of business.

Computer viruses, hackers, employee misconduct, and other external hazards could expose Skyward Specialty's systems to security breaches, cyber-attacks or other disruptions. While Skyward Specialty has implemented security measures designed to protect against breaches of security and other interference with Skyward Specialty's systems and networks, its systems and networks may be subject to breaches or interference and Skyward Specialty and its third-party service providers will likely continue to experience cybersecurity incidents of varying degrees. Any such event may result in operational disruptions as well as unauthorized access to or the disclosure or loss of Skyward Specialty's proprietary information or its customers' data and information, which in turn may result in legal claims, regulatory scrutiny and liability, reputational damage, the incurrence of costs to eliminate or mitigate further exposure, the loss of customers or affiliated advisors, reputational harm or other damage to its business. In addition, the trend toward general public notification of such incidents could exacerbate the harm to Skyward Specialty's business, financial condition and results of operations. Even if Skyward Specialty successfully protects its technology infrastructure and the confidentiality of sensitive data, it could suffer harm to its business and reputation if attempted security breaches are publicized. Skyward Specialty cannot be certain that advances in criminal capabilities, discovery of new vulnerabilities, attempts to exploit vulnerabilities in its systems, data thefts, physical system or network break-ins or inappropriate access, or other developments will not compromise or breach the technology or other security measures protecting the networks and systems used in connection with its business.

Third parties to whom Skyward Specialty outsources certain of its functions are also subject to these risks. While Skyward Specialty reviews and assess its third-party providers' cybersecurity controls, as appropriate, and makes changes to its business processes to manage these risks, Skyward Specialty cannot ensure that its attempts to keep such information confidential will always be successful. Moreover, Skyward Specialty's increased use of third-party services (e.g. cloud technology and software as a service) can make it more difficult to identify and respond to cyberattacks in any of the above situations due to the dynamic nature of these technologies. These risks could

increase as vendors adopt and use more cloud-based software services rather than software services which can be run within Skyward Specialty's data centers.

Managing growth effectively

Skyward Specialty intends to grow its business in the future, which could require additional capital, systems development and skilled personnel. However, Skyward Specialty must be able to meet its capital needs, expand its systems and its internal controls effectively, allocate its human resources optimally, identify, hire, train and develop qualified employees and effectively incorporate the components of any business it may acquire in its effort to achieve growth. The failure to manage Skyward Specialty's growth effectively could have a material adverse effect on its business, financial condition and results of operations.

Litigation

As is typical in Skyward Specialty's industry, Skyward Specialty continually faces risks associated with litigation of various types, including disputes relating to insurance claims under its policies as well as other general commercial and corporate litigation. Although Skyward Specialty is not currently involved in any out-of-the-ordinary litigation with its customers, other members of the insurance industry are the target of class action lawsuits and other types of litigation, some of which involve claims for substantial or indeterminate amounts, and the outcomes of which are unpredictable. This litigation is based on a variety of issues, including insurance and claim settlement practices. Skyward Specialty cannot predict with any certainty whether it will be involved in such litigation in the future or what impact such litigation would have on its business.

Loss of key vendor relationships or failure of a vendor to protect Skyward Specialty's data, confidential and proprietary information

Skyward Specialty relies on services and products provided by many vendors in the United States and abroad. These include, for example, vendors of computer hardware and software, and vendors and/or outsourcing of services such as claim adjustment services, human resource benefits management services and investment management services. In the event that any vendor suffers a bankruptcy or otherwise becomes unable to continue to provide products or services, or fails to protect Skyward Specialty's confidential, proprietary, and other information, Skyward Specialty may suffer operational impairments and financial losses. In addition, while Skyward Specialty generally monitors vendor risk, including the security and stability of its critical vendors, it may fail to properly assess and understand the risks and costs involved in the third-party relationships, and its financial condition and results of operations could be materially and adversely affected.

Skyward Specialty anticipates that it will continue to rely on third-party software in the future. Although Skyward Specialty believes that there are commercially reasonable alternatives to the third-party software it currently licenses, this may not always be the case, or it may be difficult or costly to replace. In addition, integration of new third-party software may require significant work and require substantial investment of Skyward Specialty's time and resources. Skyward Specialty's use of additional or alternative third-party software would require it to enter into license agreements with third parties, which may not be available on commercially reasonable terms or at all. Many of the risks associated with the use of third-party software cannot be eliminated, and these risks could negatively affect Skyward Specialty's business.

Intellectual Proprietary rights

Skyward Specialty's success and ability to compete depends in part on its intellectual property, which includes its rights in its brand and its proprietary technology used in certain of its product lines. Skyward Specialty primarily rely on copyright and trade secret laws, and confidentiality agreements with Skyward Specialty's employees, customers, service providers, partners and others to protect its intellectual property rights. However, the steps Skyward Specialty takes to protect its intellectual property may be inadequate. Skyward Specialty's efforts to enforce its intellectual property rights may be met with defenses, counterclaims and countersuits attacking the validity and enforceability and scope of Skyward Specialty's intellectual property rights. Skyward Specialty's failure to secure, protect and enforce its intellectual property rights could adversely affect Skyward Specialty's brand and adversely impact its business.

Skyward Specialty's success depends also in part on Skyward Specialty not infringing on the intellectual property rights of others. Skyward Specialty's competitors, as well as a number of other entities and individuals, may own or claim to own intellectual property relating to Skyward Specialty's industry or the Company. In the future, third parties may claim that Skyward Specialty is infringing on their intellectual property rights, and Skyward Specialty may be found to be infringing on such rights. Any claims or litigation could cause Skyward Specialty to incur significant expenses and, if successfully asserted against it, could require that Skyward Specialty pay substantial damages or ongoing royalty payments, prevent it from offering its services, or require that it complies with other unfavorable terms. Even if Skyward Specialty were to prevail in such a dispute, any litigation could be costly and time-consuming and divert the attention of Skyward Specialty's management and key personnel from its business operations.

Change in underwriting guidelines or its strategy

Skyward Specialty's management has the authority to change Skyward Specialty's underwriting guidelines or Skyward Specialty's strategy without notice to Skyward Specialty's stockholders and without stockholder approval. As a result, Skyward Specialty may make fundamental changes to its operations without stockholder approval, which could result in Skyward Specialty pursuing a strategy or implementing underwriting guidelines that may be materially different from the strategy or underwriting guidelines described elsewhere in this AIF.

Risks Relating to Arena

Difficult global market, economic and geopolitical conditions

The success and growth of Arena's business is highly dependent upon conditions in the global financial markets and economic and geopolitical conditions throughout the world that are outside of Arena's control and difficult to predict. Factors such as equity prices, equity market volatility, asset or market correlations, interest rates, counterparty risks, availability of credit, inflation rates, economic uncertainty, changes in laws or regulation (including laws relating to the financial markets generally or the taxation or regulation of the hedge fund industry), trade barriers and tariffs, disease, commodity prices, currency exchange rates and controls, and national and international political circumstances (including governmental instability or dysfunction, wars, terrorist acts or security operations) can have a material impact on the value of Arena's funds' portfolio investments or Arena's general ability to conduct business. Difficult market, economic and geopolitical conditions can negatively impact those valuations and Arena's ability to conduct business, which in turn would reduce or even eliminate Arena's revenues and profitability, thereby having a material adverse effect on Arena's business, financial condition or results of operations. As a global alternative asset manager, Arena seeks to generate consistent, positive, absolute returns across all market cycles for the investors in Arena's funds. Arena's ability to do this has been, and in the future may be, materially impacted by conditions in the global credit or equity financial markets and economic and geopolitical conditions worldwide.

Unpredictable or unstable market, economic or geopolitical conditions have resulted and may in the future result in reduced opportunities to find suitable risk-adjusted investments to deploy capital and make it more difficult to exit and realize value from existing investments, which could materially adversely affect Arena's ability to raise new funds and increase AUM and, therefore, may have a material adverse effect on Arena's business, financial condition or results of operations. In addition, during such periods, financing and other capital markets activity may be greatly reduced, making it harder and more competitive for asset managers to find suitable investment opportunities and to obtain funding for such opportunities. If Arena fails to react appropriately to difficult market, economic and geopolitical conditions, Arena's funds could incur material losses.

The highly variable nature of Arena Investors' revenues, results of operations and cash flows.

Arena Investors' revenues are influenced by the combination of the amount of AUM and the investment performance of Arena Investors' funds and managed accounts. Asset flows, whether inflows or outflows, can be highly variable. Furthermore, Arena Investors' investment performance, which affects the amount of AUM and the amount of incentive income investors may earn in a given year, can be volatile due to, among other things, general market and economic conditions. Accordingly, Arena Investors' revenues, results of operations and cash flows are all highly variable. Arena Investors may also experience fluctuations in results due to a number of other factors,

including changes in management fees resulting from changes in the management fee rates Arena Investors charges investors or due to changes in the values of investments, as well as capital inflows or outflows. Changes in Arena Investors' operating expenses, unexpected business developments and initiatives and general economic and market conditions may also cause fluctuations.

The amount of incentive income that may be generated is uncertain until it is actually crystallized. As a result, Arena Investors' interim results may not be indicative of historical performance or any results that may be expected for a full year.

In addition, Arena Investors' funds and managed accounts generally have "high-water marks." This means that if an investor experiences losses in a given year, Arena Investors will not be able to earn incentive income with respect to such investor's investment unless and until their investment performance surpasses the previous high-water mark. A failure to earn incentive income as a result of any high-water marks that do arise may adversely impact Arena Investors' business, financial condition or results of operations.

Arena Investors has experienced and may again experience periods of rapid growth, and could experience significant declines in AUM

Rapid changes in AUM may impose substantial demands on Arena Investors' legal, compliance, accounting, risk management, administrative and operational infrastructures. The complexity of these demands, and the time and expense required to address them, is a function not simply of the size of the increase or decrease, but also of the composition of such growth, for example, an expansion in Arena Investors' product offerings or entering into new lines of business places additional demands on Arena Investors' infrastructure. Furthermore, Arena Investors' future growth will depend on, among other things, Arena Investors' ability to maintain and develop highly reliable operating platforms, management systems and financial reporting and compliance infrastructures that are also sufficiently flexible to promptly and appropriately address Arena Investors' business needs, applicable legal and regulatory requirements and relevant market and other operating conditions, all of which can change rapidly.

Addressing the matters described above may require Arena Investors to incur significant additional expenses and to commit additional senior management and operational resources, even if Arena Investors is experiencing declines in AUM.

There can be no assurance that Arena Investors will be able to manage operations effectively without incurring substantial additional expense or that Arena Investors will be able to grow its business and AUM, and any failure to do so could materially adversely affect Arena Investors ability to generate revenues and control expenses.

Arena Investors is subject to operational risks

Operational risks may disrupt Arena Investors' businesses, result in losses or limit growth. Although Arena Investors takes protective measures and endeavours to modify them as circumstances warrant, the security of Arena Investors' computer systems, software and networks may be vulnerable to breaches, unauthorized access, misuse, computer viruses or other malicious code and other events that could have a security impact. Arena Investors retains confidential information regarding its business dealings in its computer systems. Arena Investors may be required to spend significant capital and other resources to protect against security breaches or to alleviate problems caused by such breaches. Despite the implementation of security measures, the infrastructure supporting Arena Investors' computer systems may be vulnerable to physical break-ins, computer viruses, programming errors, attacks by third parties or similar disruptive problems. In addition, Arena Investors could be subject to liability if hackers were able to penetrate its network security or otherwise misappropriate confidential information.

Additionally, breaches of security may occur through intentional or unintentional acts by those having authorized or unauthorized access to confidential or other information of Arena Investors or its clients or counterparties. The compromise of confidential information could result in remediation costs, legal liability, regulatory action and reputational harm, which could have a material adverse effect on Arena Investors' results of operations or financial condition.

In addition, Arena Investors operates in an industry that is highly dependent on its information systems and technology. There can be no assurance that Arena Investors' information systems and technology will continue to be able to accommodate its operations, or that the cost of maintaining such systems will not increase from its current level. Such a failure to accommodate Arena Investors' operations, or a material increase in costs related to such information systems, could have a material adverse effect on Arena Investors, which could adversely affect the business, financial condition and/or profitability of Westaim.

Due diligence risks

Before making investments, Arena Investors conducts due diligence pursuant to which it may be required to evaluate important and complex business, financial, tax, accounting, environmental and legal issues. Outside consultants, legal advisors, accountants and tax/other advisers may be involved in the due diligence process in varying degrees depending on the type of investment. The due diligence investigation that Arena Investors carries out with respect to any investment opportunity may not reveal or highlight all relevant facts that may be necessary or helpful in evaluating such investment opportunity, including, among other things, the existence of fraud or other illegal or improper behaviour. Moreover, such an investigation will not necessarily result in the investment being successful.

The valuation of the Arena FINCOs' investments will be subject to significant subjectivity

Valuation methodologies for certain of the Arena FINCOs' investments may be subject to significant subjectivity, and the value of assets or investments established pursuant to such methodologies may never be realized, which could result in significant losses for the Arena FINCOs. There may be no readily-ascertainable market prices for the types of illiquid investments that Arena may acquire. The fair value of such investments is determined periodically by Arena FINCOs based on its valuation methodologies. These policies are based on a number of factors, including the nature of the investment, the expected cash flows from the investment, bid or ask prices provided by third parties for the investment, the length of time the investment has been held, the trading price of securities (in the case of publicly traded securities), restrictions on transfer and other recognized valuation methodologies.

Change(s) in the investment management industry may impact Arena Investors

Change(s) in the investment management industry could result in a decline in Arena Investors' revenues. Arena Investors' ability to generate revenues in the investment management industry is significantly influenced by the growth of AUM generally experienced by the investment management industry and by Arena Investors' relative performance within the investment management industry. The historical growth of the investment management industry may not continue and adverse economic conditions and other factors, including a protracted or precipitous decline in the U.S., international or global financial markets or a change in the acceptance of fees typically charged by industry participants, could affect the popularity of Arena Investors' services or result in clients withdrawing from the markets or decreasing their level and/or rate of investment. A decline in the growth of the investment management industry or other changes to the industry that discourage investors could affect Arena Investors' ability to attract clients or could lead to redemptions of securities of its investment products for reasons that may be unrelated to their performance but would nonetheless result in a lower AUM and a corresponding decline in revenues. Accordingly, the foregoing could adversely affect the business, financial condition and/or profitability of Arena Investors.

Arena Investors is subject to regulatory and other legal risks

Arena Investors may become involved in lawsuits or investigations that could result in significant liabilities and reputational harm, which could materially adversely affect its results of operations, financial condition and liquidity. Arena Investors could be sued by many different parties, including, but not limited to, its clients or fund investors, creditors of its funds, shareholders of the companies in which it has invested, its employees and regulators. In addition, Arena Investors may participate in transactions that involve litigation (including the enforcement of property rights) from time to time, and such transactions may expose Arena Investors to increased risk from countersuits.

The cost of settling any such claims could adversely affect Arena Investors' results of operations. Lawsuits or investigations in which Arena Investors may become involved could be very expensive and highly damaging to its reputation, even if the underlying claims are without merit. Moreover, Arena Investors could incur legal, settlement and other costs in an amount that exceeds the insurance coverage maintained by Arena Investors or by its funds. The costs arising out of litigation or investigations could have a material adverse effect on Arena Investors' results of operations, financial condition and liquidity.

Arena Investors' may be subject to private litigation that could result in significant legal and other liabilities and reputational harm

Arena Investors faces significant risks that may subject it to private litigation and legal liability. In general, Arena Investors will be exposed to litigation risk in connection with any allegations of misconduct, negligence, dishonesty or bad faith arising from its management of any fund or managed account. Arena Investors may also be subject to litigation arising from investor dissatisfaction with performance, including certain losses due to the failure of a particular investment strategy or improper trading activity, if Arena Investors violates restrictions in relevant organizational documents or from allegations that it improperly exercised control or influence over companies in which Arena Investors has investments. In addition, Arena Investors is exposed to risks of litigation relating to claims that it has not properly addressed conflicts of interest. Any litigation arising in such circumstances is likely to be protracted, expensive and surrounded by circumstances that could be materially damaging to Arena Investors' reputation and Arena Investors' business. Moreover, in such cases, Arena Investors would be obligated to bear legal, settlement and other costs, which may be in excess of any available insurance coverage. In addition, although Arena Investors is indemnified by the funds and managed accounts, Arena Investors' rights to indemnification may be challenged. If Arena Investors is required to incur all or a portion of the costs arising out of any litigation or investigation as a result of inadequate insurance proceeds, if any, or fail to obtain indemnification from the funds or managed accounts, Arena Investors' business, financial condition or results of operations could be materially adversely affected. In the event any fund-related litigation scenarios described above materialize, it is possible Arena Investors is made a party to any such litigation. While Arena Investors maintains insurance, there can be no assurance that the insurance will prove to be adequate. If Arena Investors is required to incur all or a portion of the costs arising out of litigation, Arena Investors' business, financial condition or results of operations could be materially adversely affected. Furthermore, any such litigation could be protracted, expensive and highly damaging to Arena Investors' reputation, which could result in a significant decline in AUM and revenues, even if the underlying claims are without merit. In addition, Arena Investors may participate in transactions that involve litigation (including the enforcement of property rights) from time to time, and such transactions may expose Arena Investors to reputational risk and increased risk from countersuits.

Arena Investors may experience a lack of suitable investment opportunities

A lack of appropriate investment opportunities could adversely affect targeted performance of Arena Investors' investment products. An important component of investment performance is the availability of appropriate investment opportunities for new client assets. If Arena Investors is not able to find sufficient investments for new client assets in a timely manner, investment performance could be materially adversely affected. Alternatively, if there are insufficient investment opportunities for new client assets, management may elect to limit Arena Investors' growth and reduce the rate of intake of new client assets. As AUM increases, Arena Investors may not be able to exploit the investment opportunities that have previously been available to it or find sufficient investment opportunities for producing the returns targeted. If Arena Investors' investment managers are not able to identify sufficient appropriate investment opportunities for new client assets, Arena Investors' investment performance and management's decision to continue to grow may be materially adversely affected.

Arena Investors is subject to significant regulatory oversight

The business of Arena Investors is subject to risks relating to regulatory compliance of investment managers, investment advisors, investment dealers and the securities business generally. The ability of Arena Investors to carry on its business is dependent upon compliance with and registration under securities legislation in the jurisdictions in which it carries on business. The securities business of Arena Investors is subject to extensive regulation under securities laws in the U.S., Canada, the United Kingdom and elsewhere. Compliance with many of the regulations applicable to Arena Investors involves a number of risks, particularly in areas where applicable regulations may be

subject to interpretation. In the event of non-compliance with an applicable regulation, securities regulators may institute administrative or judicial proceedings that may result in censure, fine, civil penalties, issuance of cease-and-desist orders, deregistration or suspension of the non-compliant investment dealer or investment adviser, suspension or disqualification of the investment dealer's officers or employees, or other adverse consequences. The imposition of any such penalties or orders on Arena Investors regardless of duration or any subsequent appellate results could have a material adverse effect on Arena's business, and consequentially could adversely affect the operating results and financial condition of Westaim.

Additional regulation, changes in existing laws and rules, or changes in interpretations or enforcement of existing laws and rules often affect directly the method of operation and profitability of securities firms. It is not possible to predict with any certainty what effect any such changes might have on Arena's business. Furthermore, its business may be materially affected not only by regulations applicable to Arena Investors as a financial market intermediary, but also by regulations of general application. For example, returns on investments in a given time period could be affected by, among other things, existing and proposed tax legislation, competition policy and other governmental regulations and policies, including the interest rate policies of the Federal Reserve, the Bank of Canada or other global central banks and changes in interpretation or enforcement of existing laws and rules that affect the business and financial communities or industry-specific legislation or regulations.

Arena Investors' may fail to deal appropriately with conflicts of interest

As Arena Investors expands the scope of its business, it increasingly confronts potential conflicts of interest relating to Arena Investors' funds' and managed account investment activities. Certain of Arena Investors' funds and managed accounts have overlapping investment objectives and potential conflicts may arise with respect to its decisions regarding how to allocate investment opportunities among or even within those vehicles. In addition, investors may perceive conflicts of interest regarding investment decisions for vehicles in which Arena Investors' employees, who have and may continue to make significant personal investments, are personally invested.

It is possible that actual, potential or perceived conflicts could give rise to investor dissatisfaction or litigation or regulatory enforcement actions. Appropriately dealing with conflicts of interest is complex and difficult and Arena Investors' reputation could be damaged if Arena Investors fails, or appears to fail, to deal appropriately with one or more potential or actual conflicts of interest. Regulatory scrutiny of, or litigation in connection with, conflicts of interest would have a material adverse effect on Arena Investors' reputation, which would materially adversely affect Arena Investors' business, financial condition or results of operations in a number of ways, including an inability to raise additional funds and a reluctance of counterparties to do business with Arena Investors.

Arena Investors may experience poor investment performance

Poor investment performance could negatively impact Arena Investors. Poor investment performance by the funds and managed accounts managed by Arena Investors could lead to a loss of clients, lower AUM and a decline in revenues. Arena Investors' revenues are, in part, dependent upon the Management Fees and Incentive Fees earned by Arena Investors with respect to such funds and managed accounts, which are based, in part, on the value of the AUM of Arena Investors. Poor investment performance (relative to Arena Investors' competitors or otherwise) could impair revenues and growth as existing clients might withdraw funds in favour of better performing products and the ability of Arena Investors to attract funds from existing and new clients would be reduced. All of the foregoing could result in lower AUM and could impact Arena Investors' ability to earn fees. In addition, the ability to earn Incentive Fees is directly related to investment performance and therefore, poor investment performance may cause Arena Investors to earn lower Incentive Fees. There can be no assurance that Arena Investors will be able to achieve or maintain any particular level of AUM, which may have a material adverse effect on its ability to attract and retain clients, the Management Fees and potential Incentive Fees earned, and overall profitability, which accordingly could adversely affect the business, financial condition and/or profitability of Westaim. Poor performance of the investments made by AOC or acquired by AF could result in losses and/or a write down of the carrying value of such investments which could adversely affect the financial condition and/or profitability of Westaim.

Arena Investors may face a decrease in revenues as a result of significant redemptions in Arena Investors' funds

Subject to any specific redemption provisions applicable to a fund or managed account, investors in Arena Investors' multi-strategy and opportunistic credit funds may generally redeem their investments on an annual basis (subject to certain other provisions as applicable). In a declining market, during periods when the alternative asset management industry generally experiences outflows, or in response to specific events that occur at Arena Investors, Arena Investors could experience increased redemptions and as a consequence, a reduction in AUM. Furthermore, investors in Arena Investors' funds may also invest in funds managed by other alternative asset managers that have restricted or suspended redemptions or may in the future do so. Such investors may redeem capital from Arena Investors' funds, even if Arena Investors' performance is superior to such other alternative asset managers' performance if they are restricted or prevented from redeeming capital from those other managers. Arena Investors may experience elevated redemption levels if economic and market conditions remain uncertain or worsen. The decrease in revenues that would result from significant redemptions in Arena Investors' funds or managed accounts could have a material adverse effect on Arena Investors' business, financial condition or results of operations.

Arena Investors may face challenges relating to its illiquid investments

The investment strategies contemplated for clients of Arena Investors involve investments with limited or no liquidity which could make it challenging to raise investment capital from third party investors, making Arena Investors a less profitable investment for Westaim. Illiquid investments might not be able to be disposed of at favourable prices or at all, which could lead to investment losses and lower fees, and accordingly, could adversely affect the business, financial condition and/or profitability of Westaim.

Arena Investors is exposed to risks relating to its risk management procedures

A failure in management's ability to manage risks in Arena Investors' investment products could materially adversely affect the business, financial condition and/or profitability of Arena Investors, which accordingly could adversely affect the business, financial condition and/or profitability of Westaim. Some of the methods of managing risk are based upon the use of observed historical market behaviour. As a result, these methods may not predict future risk exposures, which may be significantly greater than the historical measures indicated. Other risk management methods may depend upon evaluation of information regarding markets, clients or other matters that is publicly available or otherwise accessible. This information may not in all cases be accurate, complete, up-to-date or properly evaluated. Management of operational, legal and regulatory risk requires, among other things, policies and procedures to record properly and verify a large number of transactions and events, and these policies and procedures may not be fully effective.

Arena Investors is dependent on key management and staff

Failure by Arena Investors to retain and attract qualified staff could lead to a loss of key employees and clients and could lead to a decline in Arena Investors' revenues and consequentially the financial condition and/or profitability of Westaim. Arena Investors' business is dependent on the highly skilled and often highly specialized individuals engaged by Arena Investors. These employees have critical industry experience and relationships that is relied upon to implement the business plan of Arena Investors. However, there can also be no assurance that their historical success can be replicated. The contribution of these individuals to the investment management, client service, sales, marketing and operational teams is important to attracting and retaining clients. While resources will be devoted to recruiting, training and compensating these individuals, the growth in total AUM in the investment management industry, the number of new firms entering the industry and the reliance on performance results to sell financial products have increased the demand for high quality professionals in all aspects of asset management.

Arena is subject to the risk of employee misconduct

There is a risk that Arena Investors' employees, joint venture partners, consultants or agents could engage in misconduct that materially adversely affects its business. Arena Investors is subject to a number of obligations and standards arising from the asset management business and Arena Investors' authority over the assets it manages, as well as Westaim's status as a public company. The violation of these obligations and standards by any of Arena Investors' employees, joint venture partners, consultants or agents could materially adversely affect Arena Investors'

investors and Arena Investors. In addition to these numerous and complex obligations, Arena Investors' business requires proper dealing with confidential matters of great significance to companies in which Arena Investors may invest or otherwise do business with. If employees, joint venture partners, consultants or agents were improperly to use or disclose confidential information, Arena Investors could be subject to litigation, regulatory investigations or sanctions and suffer serious harm to its reputation, financial position and current and future business relationships. Furthermore, there have been a number of recent highly publicized cases involving fraud or other misconduct by employees (including in the workplace via inappropriate or unlawful behavior or actions directed to other employees) in the financial services industry generally and there can be no assurance that Arena Investors will not suffer from similar employee misconduct. It is not always possible to detect or deter employee misconduct, and the precautions Arena Investors takes to detect and prevent this activity have not been and may not be effective in all cases. If one of Arena Investors' employees, joint venture partners, consultants or agents were to engage in misconduct or were to be accused of such misconduct, even if such allegations were unsubstantiated, Arena Investors' reputation and business, financial condition or results of operations could be materially adversely affected.

Arena Investors' business is subject to competitive pressures

The investment management industry is highly competitive. Competitive pressures could reduce Arena Investors' revenues. Some of Arena Investors' current competitors have, and potential future competitors could have, substantially greater technical, financial, marketing, distribution and other resources. There can be no assurance that Arena Investors will be able to achieve or maintain any particular level of AUM or revenues in this competitive environment. Competition could have a material adverse effect on Arena Investors' profitability and there can be no assurance that Arena Investors will be able to compete effectively in this environment. In addition, the ability to grow Management Fees and Incentive Fees is dependent on the ability to provide clients with products and services that are competitive. Investors have become more price and value conscious for a variety of reasons, including the current state of the capital markets, low interest rates and reduced investment return expectations, increased regulatory focus, investment performance and the availability of lower cost investment products. There can be no assurance that Arena Investors will be able to retain a given fee structure or, with such fee structure, retain clients in the future. A significant reduction in the Management Fees or Incentive Fees would have a material adverse effect on the revenues of Arena Investors, which could adversely affect the business, financial condition and/or profitability of Westaim.

Arena is subject to certain conflicts of interest

Arena is subject to certain conflicts of interest in the management of assets on behalf of Arena Investors' clients and in respect to transactions involving the Arena FINCOs. These conflicts arise primarily from the involvement of AOC and other affiliates regarding: (a) the acquisition by an Arena investment vehicle and/or an Arena Investors' managed account client of loans originated by AOC; (b) an acquisition by AF of loans originated by AOC or another Arena investment vehicle; (c) cross-trades among such entities or between an Arena investment vehicle and an Arena Investors' managed account client; (d) co-investments between one Arena investment vehicle and another; and (e) the provision of services to an Arena investment vehicle for compensation. Further, entities comprising Arena may engage in a broad spectrum of activities, including direct (or principal) investment activities for their own accounts and Arena Investors' investment advisory activities that, with respect to any particular client, are independent from, and may from time-to-time conflict with, overlap with or compete with, the investment activities of that client and/or of other clients.

In addition to the foregoing, bonuses or incentive compensation that may be paid to employees of Arena Investors are determined by the board of directors of AIGH (the "**AIGH Board**"). At such time that BP LLC's right to participate in distributions of the capital of AIGH exceeds 50%, BP LLC will be entitled to appoint five members of the eight member AIGH Board. Accordingly, at such time, BP LLC's nominees (which are expected to include the senior management team of Arena Investors) will be able to determine the quantum of bonuses or incentive compensation that may be paid to employees of Arena Investors. In such circumstances, although the Second Amended and Restated AIGH LLCA provides that such bonuses or incentive compensation must be reasonable in the circumstances and consistent with industry practice (unless approved by the AIGH Board by unanimous consent), it is expected that the senior management team of Arena Investors will retain wide latitude in determining such compensation.

Arena is subject to the risk of employee error

Employee errors could result in regulatory sanctions or reputational harm, which could materially adversely affect the business, financial condition and/or profitability of Arena. Error by employees could result in unknown and unmanaged risks or losses. Arena is also susceptible to loss as a result of employee error. While management will proactively take measures to prevent employee error, the precautions management takes to prevent this activity may not be effective in all cases, which could materially adversely affect the business, financial condition and/or profitability of Arena which could adversely affect the business, financial condition and/or profitability of Westaim.

Loan concentration may increase investment risks

Arena invests in a variety of industries. However, if industry segments in which Arena has a concentration of investments experience adverse economic or business conditions, loan delinquencies, default rates or write-downs in those segments may increase and could materially adversely affect Arena, and accordingly, adversely affect the financial condition and/or profitability of Westaim.

The risk of the ongoing COVID-19 pandemic

The degree to which COVID-19 may continue to impact Arena's business, results of operations, financial condition and liquidity will depend on future developments, which are highly uncertain, difficult to predict and outside of Arena's control, including the continued global spread of COVID-19, the severity and the duration of the pandemic, the efficacy of the COVID-19 vaccines, further actions that may be taken by governmental authorities, businesses or individuals and how quickly and to what extent normal economic and operating conditions can resume. Risks that could be brought by the continuation of the COVID-19 pandemic include, but are not limited to, dislocations in market prices for investments, substantial market uncertainty which could lead to a decline in AUM and other negative effects that could flow from an overall economic downturn. As a result, the further impact on Arena's business, results of operations, financial condition and liquidity cannot be reasonably estimated at this time, but the impact could be significant. In addition, the continuation or a resurgence of the COVID-19 pandemic could heighten many other risks described in this report.

Risks Relating to the Arena FINCOs

Difficult market conditions can adversely affect the Arena FINCOs

Significant disruptions and volatility in the global financial markets and economies could impair the investment performance of the Arena FINCOs. Although the Arena FINCOs seek to generate consistent, positive, absolute returns across all market cycles, they may be materially affected by conditions in the global financial markets and economic conditions. The global market and economic climate may become increasingly uncertain due to numerous factors beyond Arena FINCOs' control, including but not limited to, concerns related to unpredictable global market and economic factors, uncertainty in U.S. federal fiscal, tax, trade or regulatory policy and the fiscal, tax, trade or regulatory policy of foreign governments, rising interest rates, inflation or deflation, the availability of credit, performance of financial markets, terrorism or political uncertainty.

If Arena Investors' risk management processes and systems are ineffective, the Arena FINCOs may be exposed to material unanticipated losses

Arena Investors continues to refine and implement its risk management techniques, strategies and assessment methods. These methods, even if properly implemented, may not allow Arena Investors to fully mitigate the risk exposure of the Arena FINCOs in all economic or market environments, or against all types of risk, including risks that Arena Investors might fail to identify or anticipate. Because Arena Investors' risk management processes cannot anticipate for every investment the economic and financial outcome or timing and other specifics of the outcome, Arena FINCOs will, in the course of its activities, incur losses.

The Arena FINCOs depend on the creditworthiness of borrowers

The specialty finance operations of the Arena FINCOs depend on the creditworthiness of borrowers and their ability to fulfill their obligations. Although AOC originates opportunities only with borrowers which it believes to be creditworthy, there can be no assurance that borrowers will not default and that the Arena FINCOs will not sustain a loss on their loans as a result. The Arena FINCOs also rely on representations made by borrowers in their loan documentation. However, there can be no assurance that such representations are accurate or that the Arena FINCOs will have any recourse against the borrower in the event a representation proves to be untrue.

The Arena FINCOs are subject to the risk of default by and/or bankruptcy of a borrower

A borrower's failure to satisfy its borrowing obligations, including any covenants imposed, could lead to defaults and the termination of the borrower's loans and enforcement against its assets. In order to protect and recover its investments, the Arena FINCOs may be required to bear significant expenses (including legal, accounting, valuation and transaction expenses) to the extent necessary to seek recovery upon default or to negotiate new terms with a defaulting borrower. In certain circumstances, a borrower's default under one loan could also trigger cross-defaults under other agreements and jeopardize that borrower's ability to meet its obligations under a loan agreement it may have with the Arena FINCOs. Should a borrower become insolvent, the value of the collateral in the event of liquidation will depend on market and economic conditions, the availability of buyers and other factors. There can be no assurance that the proceeds, if any, from the sale of all of a borrower's collateral will be sufficient to satisfy the loan obligations secured by the collateral, or that sufficient assets will remain after priority creditors have been repaid.

Collateral securing loans may be inadequate

While loans are generally secured by a lien on specified collateral of the borrower (particularly inventory, receivables and tangible fixed assets), there can be no assurance that such security will be properly obtained or perfected, or that the value of the collateral securing any particular loan will protect the Arena FINCOs from suffering a partial or complete loss if the loan becomes non-performing and the Arena FINCOs move to enforce against the collateral. In such event, loan losses could be suffered which could materially adversely affect the business, financial condition and/or profitability of the Arena FINCOs and accordingly, adversely affect the financial condition and/or profitability of Westaim.

The Arena FINCOs may be required to undertake enforcement and/or liquidation procedures

From time to time, the Arena FINCOs may be required to take enforcement proceedings with respect to non-performing loans and/or to liquidate collateral. Enforcement and liquidation proceedings can be time-consuming and, if a sufficient number of loans require enforcement, the attention of the management of the Arena FINCOs may be diverted from day-to-day operations or from pursuing other investment opportunities and significant expenses may be incurred for which there may be no recovery.

Fraud by a borrower may cause losses

While the Arena FINCOs make every effort to verify the accuracy of information provided to it when making an investment decision, and have systems and controls to assist it in protecting itself against fraud, a borrower may fraudulently misrepresent information relating to its financial health, operations or compliance with the terms under which AOC is prepared to advance funds or AFHC is prepared to purchase a loan. In cases of fraud, it will be difficult and more unlikely that the Arena FINCOs will be able to collect amounts owing under a loan or realize on collateral, which could have a material adverse effect on the Arena FINCOs and, in turn, adversely affect the financial condition and/or profitability of Westaim.

The Arena FINCOs may fail to realize any profits

The Arena FINCOs invest in securities that are not publicly traded or that are otherwise illiquid, including complex structured products. There may be no readily available liquidity in these securities, particularly at times of market stress or where many participants may be seeking liquidity at the same time. In many cases, the Arena FINCOs may

be prohibited, whether by contract, by applicable securities laws or by the lack of a liquid market, from selling such securities for a period of time. Moreover, even if the securities are publicly traded, large holdings of securities can often be disposed of only over a substantial length of time, exposing the investment returns to risks of downward movement in market prices during the required holding period. Accordingly, under certain conditions, the Arena FINCOs may be forced to either sell securities at lower prices than they had expected to realize or defer, potentially for a considerable period of time, sales that had been planned to be made. Investment in illiquid assets involves considerable risk and the Arena FINCOs may lose some or all of the principal amount of such investments.

The Arena FINCOs make investments in businesses that it does not control, exposing the Arena FINCOs to the risk of decisions made by others

Investments by the Arena FINCOs will include investments in debt or equity of businesses that it does not control. Such investments may be acquired through trading activities or through purchases of securities from the issuer. Those investments will be subject to the risk that the company, in which the investment is made, may make business, financial or management decisions contrary to our expectations, with which we do not agree or that the majority stakeholders or the management of the company may take risks or otherwise act in a manner that does not serve the Arena FINCOs' interests. In addition, the Arena FINCOs may make investments in which it shares control over the investment with co-investors, which may make it more difficult for Arena Investors to implement its investment approach or exit the investment when it otherwise would. If any of the foregoing were to occur with respect to one or more significant investments, the values of such investments by the Arena FINCOs could decrease and results could suffer as a result.

The valuation of the Arena FINCOs investments will be subject to significant subjectivity

Valuation methodologies for certain of Arena FINCOs investments may be subject to significant subjectivity, and the value of assets or investments established pursuant to such methodologies may never be realized, which could result in significant losses for Arena FINCOs. There may be no readily-ascertainable market prices for the types of illiquid investments that Arena FINCOs may acquire. The fair value of such investments is determined periodically by Arena FINCOs based on its valuation methodologies. These policies are based on a number of factors, including the nature of the investment, the expected cash flows from the investment, bid or ask prices provided by third parties for the investment, the length of time the investment has been held, the trading price of securities (in the case of publicly traded securities), restrictions on transfer and other recognized valuation methodologies.

Loan concentration may increase investment risks

Arena Investors invests in a variety of industries on behalf of the Arena FINCOs. However, if industry segments in which the Arena FINCOs has a concentration of investments experience adverse economic or business conditions, loan delinquencies, default rates or write-downs in those segments may increase and could materially adversely affect the Arena FINCOs, and accordingly, adversely affect the financial condition and/or profitability of Westaim.

The operations of the Arena FINCOs are largely unregulated

Unlike major commercial banks, asset-based lenders are not subject to regulatory capital requirements that would impede their ability to extend credit. Any changes to the regulation of the asset-based lending industry could have a material adverse effect on the Arena FINCOs' business and, accordingly, adversely affect the financial condition and/or profitability of Westaim.

AFHC may be considered to be conducting a U.S. trade or business

Under U.S. tax laws, if a fiscally transparent entity is engaged in the conduct of a trade or business in the United States, an interest holder in such entity is also treated as so engaged. There is a risk that the U.S. tax authorities may assert that AFHC, a fiscally transparent entity for U.S. federal income tax purposes, is engaged in the conduct of a U.S. trade or business by virtue of its investment activity. If the U.S. tax authorities successfully make this assertion, then AFHC will be treated as engaged in the conduct of a trade or business in the United States. In such instance, AFHC will be subject to U.S. federal income tax at a maximum 21% rate (under current law) that is effectively connected with a U.S. trade or business (“**Effectively Connected Income**”), and will be required to file U.S. federal

income tax returns to report such income. If U.S. federal income tax was not timely paid, or a U.S. federal income tax return was not timely and correctly filed, AFHC could also be subject to penalties and interest relating to any such underpayment of taxes; the liability for any underpaid taxes will remain outstanding for at least three years once a tax return is filed, but remains outstanding indefinitely if no U.S. federal income tax return is filed. AFHC may also be subject to a 30% “branch profits tax” on any Effectively Connected Income; this branch profits tax may be reduced to 5% under the United States-Canada income tax treaty, however, if AFHC qualifies for treaty benefits. In addition to the foregoing, AFHC may have tax payment and tax return filing obligations in one or more states in which AFHC conducts activities or has investment activity.

The Arena FINCOs use leverage, which could materially adversely affect the ability to achieve positive rates of return

The Arena FINCOs use leverage, either directly or through the use of derivative instruments, to increase the yield on the overall accounts and may use leverage in certain of its investments. The use of leverage poses a significant degree of risk, most notably by significantly increasing the risk of loss associated with leveraged investments that decline in value and enhances the possibility of a significant loss in the value of the investments. Volatility in the credit markets increases the degree of risk associated with such leverage. Increases in interest rates could also decrease the value of fixed-rate debt investments made by the Arena FINCOs. To the extent there is a significant increase in the use of leverage, any of the foregoing circumstances could have a material adverse effect on the Arena FINCOs’ results.

DESCRIPTION OF CAPITAL STRUCTURE

The authorized capital of Westaim consists of an unlimited number of common shares, an unlimited number of Class A preferred shares, issuable in series and an unlimited number of Class B preferred shares, issuable in series. On February 8, 2010, the Company filed articles of amendment to create a series of Class A preferred shares designated as Series 1 Class A non-voting, participating, convertible preferred shares (the “**Non-Voting Shares**”). The terms of the Non-Voting Shares were revised on February 26, 2010 and September 11, 2012.

As of the date hereof, the Company had issued and outstanding 142,686,718 Common Shares. No Non-Voting Shares or other series of Class A preferred shares or Class B preferred shares are outstanding. In addition to the foregoing, as of the date hereof, the Company had issued and outstanding 5,000,000 Preferred Securities (see “*Fairfax Private Placement*”).

Common Shares

Each Common Share carries one vote at all meetings of shareholders, is entitled to receive dividends as and when declared by the directors, and, subject to the prior rights of the holders of the Non-Voting Shares, is entitled to a pro rata share of the remaining property and assets of the Company distributable to the holders of the Common Shares and the Non-Voting Shares, upon any liquidation, dissolution or winding up of the Company.

The insurance laws applicable to Skyward Specialty prohibit any person from acquiring control of a domestic insurance company or any entity that controls such insurance company unless that person has filed a notification with specified information with that state’s Commissioner of Insurance (the “**Commissioner**”) and has obtained the Commissioner’s prior approval (the “**Control Restrictions**”). Under such laws, the acquisition of 10% or more of the voting securities of an insurance company or an entity that controls an insurance company is presumptively considered an acquisition of control of the insurance company, although such presumption may be rebutted. Accordingly, any person or entity that acquires, directly or indirectly, 10% or more of the voting securities of Westaim without the requisite prior approvals will be in violation of these laws and may be subject to injunctive action requiring the disposition or seizure of those securities or prohibiting the voting of those securities, or to other actions that may be taken by the applicable state insurance regulators.

In view of the foregoing restrictions, the by-laws of Westaim contain the following provisions designed to enable the Company to enforce compliance with the Control Restrictions:

- The Company may require a proposed subscriber or transferee of shares to submit a declaration with respect to the holding of shares of the Company and any other matter that the directors consider relevant to determine if the registration of the subscription or transfer would result in a violation of the Control Restrictions.
- The Company also may require a declaration at any time if proxies are solicited from shareholders or when, in the opinion of the directors, the acquisition, ownership, holding or control of shares by any person could violate the Control Restrictions.
- The Company has the power to refuse to issue or record a transfer and to prevent a shareholder from exercising the voting rights, of any share of any class if:
 - (a) such person (i) owns, holds or controls, directly or indirectly; or (ii) following the issue or recording of the transfer, the shareholder would own, hold or control, directly or indirectly, a “significant voting interest” in the Company, unless the required approvals from all relevant insurance regulatory authorities have been obtained; or
 - (b) the person requesting the issue or recording of the transfer refuses to sign and deliver a declaration (or provide other information reasonably necessary to assist the directors in making a determination that the Control Restrictions have not been contravened) with respect to his, her or its ownership, holding or control of shares of the Company.

For these purposes, a “significant voting interest” in the context of the Company means the holding, directly or indirectly, of voting securities of the Company carrying 10% or more of the votes carried by all voting securities of the Company.

The restrictions relating to the transfer and the issue of shares of the Company do not generally apply to the transfer and the issue of securities of the Company in favour of a securities broker while such securities broker is performing no more than a function that is usual and customary for a securities broker.

The restrictions on the ownership, transfer and voting of the Common Shares may have an effect on the marketability and liquidity of such securities.

The foregoing provisions will cease to apply if and for so long as the Control Restrictions are no longer applicable to the Company.

Class A Preferred Shares

The Class A preferred shares of each series shall rank equally with the Class A preferred shares of every other series with respect to dividends and return of capital, and shall be entitled to preference over the Class B preferred shares and Common Shares and over any other shares ranking junior to the Class A preferred shares with respect to priority in payment of dividends and in the distribution of assets in the event of the liquidating, dissolution or winding-up of the Company, or any other distribution of the assets of the Company among its shareholders for the purpose of winding-up its affairs. Except as required by law or unless provision is made in the Company’s articles, in general, the holders of the Class A preferred shares as a class shall not be entitled to receive notice of, attend or vote at any meeting of the shareholders of Westaim.

Non-Voting Shares

Any holder of Non-Voting Shares may convert any or all Non-Voting Shares held by such holder into Common Shares based on the then applicable exercise number which at the date hereof is one Common Share for each Non-Voting Share. The Non-Voting Shares: (a) rank equally with the Class A preferred shares of every other series with

respect to dividends and return of capital; (b) are entitled to such dividends as the directors may declare; provided, however, that no dividend on the Non-Voting Shares shall be declared unless the directors shall declare an equal dividend on the Common Shares; and (c) are entitled to a preference as to \$0.0001 per Non-Voting Share over the Class B preferred shares and the Common Shares and over any other shares ranking junior to the Non-Voting Shares, following which the Non-Voting Shares shall rank equally with the Common Shares with respect to the distribution of assets in the event of the liquidation, dissolution or winding-up of Westaim, whether voluntary or involuntary, or any other distribution of the assets of Westaim for the purpose of winding up its affairs. Except as required by law, the holders of the Non-Voting Shares as a series shall not be entitled to receive notice of, attend or vote at any meeting of the shareholders of Westaim.

Class B Preferred Shares

Subject to the prior rights of the Class A preferred shares, the Class B preferred shares of each series shall rank equally with the Class B preferred shares of every other series with respect to dividends and return of capital, and shall be entitled to preference over the Common Shares and over any other shares ranking junior to the Class B preferred shares with respect to priority in payment of dividends and in the distribution of assets in the event of the liquidating, dissolution or winding-up of the Company, or any other distribution of the assets of the Company among its shareholders for the purpose of winding-up its affairs, but are subject to the preference of the Class A preferred shares. Except as required by law or unless provision is made in the Company's articles, in general, the holders of the Class B preferred shares as a class shall not be entitled to receive notice of, attend or vote at any meeting of the shareholders of Westaim.

Fairfax Private Placement

On June 2, 2017 (the "**Closing Date**"), Westaim closed its transaction (the "**Fairfax Private Placement**") with Fairfax Financial Holdings Limited, through certain of its subsidiaries (collectively, "**Fairfax**").

Fairfax agreed to purchase, on a private placement basis, up to 10,000,000 5% interest rate subordinate preferred securities of Westaim (the "**Preferred Securities**") for aggregate subscription proceeds of up to C\$100 million, each issuable for a principal amount of C\$10. The Preferred Securities must be issued in tranches of not less than 2,500,000 Preferred Securities, and for not less than C\$25 million aggregate subscription proceeds. On the Closing Date, Westaim closed an initial sale of 5,000,000 Preferred Securities for C\$50 million (the "**Initial Tranche**"), and had discretion until January 1, 2018 to require Fairfax to purchase all or part of the remaining 5,000,000 Preferred Securities, for up to C\$50 million, which it did not exercise. The Preferred Securities are subordinate secured securities that will mature on May 26, 2116 but may be repaid, in whole or in part, by Westaim at any time after June 2, 2022 and at any time after June 2, 2020 if the volume-weighted average trading price of the Common Shares for any 10 day period prior to the date on which the applicable redemption notice is given is at least C\$5.60.

As part of the Fairfax Private Placement, Westaim also issued to Fairfax 28,571,430 Common Share purchase warrants (the "**Warrants**"), each exercisable for one Common Share at an exercise price of C\$3.50. The Warrants vest proportionately based upon the aggregate percentage of Preferred Securities purchased by Fairfax under the Fairfax Private Placement with an aggregate of 14,285,715 having vested on the Closing Date based on the closing of the Initial Tranche. Each vested Warrant is exercisable on or prior to June 2, 2022, but the expiry date will be extended to June 2, 2024 if the volume-weighted average trading price of the Common Shares for the 10 day period ending on June 2, 2022 is less than C\$5.60. After June 2, 2020, Westaim can also elect to require early exercise of the Warrants if the volume-weighted average trading price of the Common Shares for any 10 day period prior to the election is at least C\$5.60. All Warrants that had not vested on or before 11:59 p.m. on January 31, 2018 were cancelled. As a result, on January 31, 2018, 14,285,715 Warrants were cancelled. Accordingly, there are currently 14,285,715 Warrants issued to Fairfax which are outstanding and vested.

MARKET FOR SECURITIES

Trading Price and Volume

The Common Shares are currently listed and posted for trading on the TSXV under the symbol “WED”. The following table sets forth the reported high and low prices and the aggregate volume of trading of the Common Shares on the TSXV for the periods indicated:

<u>Month</u>	<u>High</u>	<u>Low</u>	<u>Aggregate Volume</u>
2021	(C\$)	(C\$)	
January	2.60	2.41	1,862,444
February	2.79	2.59	1,635,631
March	2.77	2.58	992,025
April	2.85	2.65	1,391,196
May	2.85	2.53	1,867,779
June	2.77	2.65	1,102,284
July	2.70	2.50	2,599,770
August	2.60	2.33	3,596,372
September	2.78	2.49	1,025,094
October	2.72	2.56	1,396,209
November	2.66	2.53	2,045,769
December.....	2.60	2.36	1,585,589

The Preferred Securities are currently listed and posted for trading on the TSXV under the symbol “WED.PR.A”. There has been no trading of such securities on the TSXV during the most recently completed financial year of the Company.

Prior Sales

During the fiscal year ended December 31, 2021, the Company issued the following securities that are not listed or quoted on a marketplace:

Date of Issue	Type of Security Issued	Number of Securities Issued	Issuance / Exercise Price Per Security
March 31, 2021	Deferred Share Units	58,585	C\$2.68
June 30, 2021	Deferred Share Units	58,149	C\$2.67
September 30, 2021	Deferred Share Units	58,517	C\$2.70
December 31, 2021	Deferred Share Units	63,124	C\$2.50

DIVIDENDS AND DISTRIBUTIONS

The Company has not declared dividends or distributions for any of its three most recently completed fiscal years and does not expect to declare dividends or distributions in the foreseeable future. Other than the applicable “solvency test” under the ABCA, there are no restrictions preventing the Company from declaring dividends on any classes of its shares, however, any future payment of dividends will be dependent upon the earnings and financial condition of the Company and other factors that the directors may deem appropriate at the time.

DIRECTORS AND EXECUTIVE OFFICERS

Name, Residency and Principal Occupation

The following table sets forth the names, residency, principal occupation and position(s) with the Company of the current directors of Westaim and the period of service as a director. All directors hold office until the next annual meeting of shareholders of the Company or until the director resigns or a successor is duly elected or appointed.

Name and Residency	Principal Occupation at Present ⁴	Position(s) with the Company	Period of Service as a Director
Stephen R. Cole ⁽¹⁾⁽²⁾⁽³⁾ Ontario, Canada	President of Seonee Inc. (<i>a financial advisory services company</i>)	Lead Director, Director and Chair of the Human Resources and Compensation Committee	November 2014 to date
Ian W. Delaney ⁽³⁾ Ontario, Canada	Executive Chair of the Company	Director and Executive Chair of the Company	May 1996 to date
John W. Gildner ⁽¹⁾⁽²⁾⁽³⁾ Ontario, Canada	Independent businessman	Director and Chair of the Audit Committee	May 2009 to date
J. Cameron MacDonald Ontario, Canada	President and Chief Executive Officer of the Company	Director, President and Chief Executive Officer	December 2008 to date
Lisa Mazzocco ⁽²⁾⁽³⁾ California, United States	Independent consultant	Director and Chair of the Corporate Governance Committee	May 2020 to date
Kevin E. Parker ⁽¹⁾⁽³⁾ New York, United States	Managing Partner at Sustainable Insight Capital Management (“SICM”) (<i>an institutional investment firm</i>)	Director	May 2020 to date
Bruce V. Walter ⁽¹⁾⁽²⁾⁽³⁾ Ontario, Canada	Chair of Nunavut Iron Ore, Inc. (<i>a resource company</i>) and Vice-Chair of Centerra Gold Inc. (<i>a gold mining company</i>)	Director	1997 - 2012; May 2015 to date

Notes:

- (1) Stephen R. Cole, John W. Gildner, Kevin E. Parker and Bruce V. Walter are members of the audit committee of the Board (the “**Audit Committee**”).
- (2) Stephen R. Cole, John W. Gildner, Lisa Mazzocco and Bruce V. Walter are members of the human resources and compensation committee of the Board (the “**Human Resources and Compensation Committee**”).
- (3) Stephen R. Cole, Ian W. Delaney, John W. Gildner, Lisa Mazzocco, Kevin E. Parker and Bruce V. Walter are members of the nominating and corporate governance committee of the Board (the “**Corporate Governance Committee**”).
- (4) Each of the directors has been engaged for more than five years in his present principal occupation except for Mr. Cole and Ms. Mazzocco. From May 2013 to July 2018, Mr. Cole was a Senior Advisor to Duff & Phelps Canada Limited (“**Duff & Phelps**”) (*a financial advisory services company*). Since May 2013, Mr. Cole has been the President of Seonee Inc. (*a financial advisory services company*). From April 2011 to October 2020, Ms. Mazzocco was the Chief Investment Officer at University of Southern California (“**USC**”) (*a private research university*). From October 2020 to December 2020, Ms. Mazzocco was a special advisor to the President of USC. Since December 2020, Ms. Mazzocco has been an independent consultant.

The following table sets forth the names, residency and office of the executive officers of the Company:

Name and Residency	Office(s) with the Company	Principal Occupation During the Past Five Years
Ian W. Delaney Ontario, Canada	Executive Chair of the Company	Executive Chair of the Company
J. Cameron MacDonald Ontario, Canada	President and Chief Executive Officer of the Company	President and Chief Executive Officer of the Company
Robert T. Kittel Ontario, Canada	Chief Operating Officer of the Company	Chief Operating Officer of the Company
Glenn G. MacNeil Ontario, Canada	Chief Financial Officer of the Company	Chief Financial Officer of the Company

Shareholdings of Directors and Executive Officers

As at the date hereof, the directors and executive officers of the Company as a group beneficially own, directly or indirectly, or exercise control or direction over 16,650,956 or approximately 11.7% of the number of issued and outstanding Common Shares and nil Preferred Securities.

Cease Trade Orders, Bankruptcies, Penalties or Sanctions

To the knowledge of the Company, no director or executive officer of the Company is, as at the date of this AIF, or was, within ten years before the date of this AIF, a director, Chief Executive Officer or Chief Financial Officer of any company (including Westaim) that:

- (a) was the subject of a cease trade order, an order similar to a cease trade order or an order that denied the relevant company access to any exemption under Canadian securities legislation, that was in effect for a period of more than 30 consecutive days, (an “**order**”), that was issued while the director or executive officer was acting in the capacity as director, Chief Executive Officer or Chief Financial Officer; or
- (b) was subject to an order that was issued after the director or executive officer ceased to be a director, Chief Executive Officer or Chief Financial Officer and which resulted from an event that occurred while that person was acting in the capacity as director, Chief Executive Officer or Chief Financial Officer.

To the knowledge of the Company, except as set out below, no director or executive officer of the Company, or a shareholder holding a sufficient number of securities of the Company to affect materially the control of the Company:

- (a) is, as at the date of this AIF, or has been within the ten years before the date of this AIF, a director or executive officer of any company (including Westaim) that, while that person was acting in that capacity, or within a year of that person ceasing to act in that capacity, became bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or was subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold its assets; or
- (b) has, within the ten years before the date of this AIF, become bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency, or become subject to or instituted any proceedings, arrangement or compromise with creditors, or had a receiver, receiver manager or trustee appointed to hold the assets of the director, executive officer or shareholder.

Mr. Parker was a director of agri.capital Group S.A. (“**ACG**”) before resigning in January 2015. Following his resignation, ACG filed for bankruptcy in Luxembourg in February 2015.

Mr. Parker was a Manager of Green Partners Technology Holdings GmbH (“**GPTH**”). In 2014, a judge of the district court of St. Gallen, Switzerland ordered the voluntary dissolution of GPTH by bankruptcy and it was deleted from the commercial register in 2015.

To the knowledge of the Company, except as set out below, no director or executive officer of the Company, or a shareholder holding a sufficient number of securities of the Company to affect materially the control of the Company, has been subject to:

- (a) any penalties or sanctions imposed by a court relating to securities legislation or by a securities regulatory authority or has entered into a settlement agreement with a securities regulatory authority; or
- (b) any other penalties or sanctions imposed by a court or regulatory body that would likely be considered important to a reasonable investor in making an investment decision.

Mr. Cole has been a director of FARO Technologies Inc. (“**FARO**”) since 2005. As a result of an internal review, FARO learned that its China subsidiary had made payments to certain customers in China that may have violated the *Foreign Corrupt Practices Act* (the “**FCPA**”) and other applicable laws. In February 2006, FARO’s audit committee instituted an internal investigation and subsequently notified the U.S. Securities and Exchange Commission (the “**SEC**”) and the U.S. Department of Justice (“**DOJ**”) of this matter in March 2006. The results of the investigation revealed that there were referral fee payments made by the Chinese subsidiary (in aggregate less than \$500,000) in possible violation of the FCPA between 2004 and 2006. In June 2008, FARO entered into settlement agreements with the SEC and DOJ pursuant to which FARO paid an aggregate of \$2.95 million in fines, disgorgement of

associated profit and interest. FARO also had a two-year monitoring obligation that has since expired and other continuing obligations with the SEC and the DOJ with respect to compliance with the FCPA and other laws, full cooperation with the government, and the adoption of a compliance code containing specific provisions intended to prevent violations of the FCPA.

Conflicts of Interest

Certain of the Company's directors and officers serve or may agree to serve as directors or officers of other companies or have significant shareholdings in other companies and, to the extent that such other companies may participate in ventures in which the Company may participate, the directors and officers of the Company may have a conflict of interest in negotiating and concluding terms respecting the extent of such participation. In the event that such a conflict of interest arises at a meeting of the Company's directors, a director who has such a conflict will abstain from voting for or against the approval of such participation or such terms. To the knowledge of the Company, there are no existing or potential material conflicts of interest between Westaim or any of its subsidiaries and any director or officer of Westaim or any of its subsidiaries.

AUDIT COMMITTEE

The Audit Committee's Charter

The responsibilities and duties of the Audit Committee are set out in the Audit Committee's charter, the text of which is set forth in Appendix "A" to this AIF.

Composition of the Audit Committee

The Audit Committee consists of four members: John W. Gildner (Chair), Stephen R. Cole, Kevin E. Parker and Bruce V. Walter. All members of the Audit Committee are "independent" and "financially literate" for the purposes of National Instrument 52-110 – *Audit Committees* ("NI 52-110").

Relevant Education and Experience

The following is a description of the education and experience of each member of the Audit Committee that is relevant to the performance of his responsibilities as a member of the Audit Committee:

Stephen R. Cole – From 1975 until June 2010, Mr. Cole was President and Founding Partner of Cole & Partners, a Toronto based mergers and acquisition and corporate financial advisory service company. In June 2010 until May 2013, Mr. Cole was President of Duff & Phelps, a global financial advisory and investment banking services firm. Thereafter, in his capacity as President of Seeonee Inc., he has been an advisor to various family offices, and professional firms. Mr. Cole is a Fellow of the Chartered Professional Accountants of Ontario, Fellow of the Canadian Chartered Institute of Business Valuators, Senior Member of the American Society of Appraisers and Full Member of the ADR Institute of Canada, Inc. Mr. Cole became Director of FARO Technologies Inc. ("FARO"), a NASDAQ listed company, in 2000, and currently remains a director and audit committee Chair. Previously, he was FARO's Lead Director and Chair of the compensation committee. He is currently a director and an advisory committee member to several private companies. Previously, Mr. Cole was a director of H. Paulin & Co. Limited, a Toronto Stock Exchange listed company, where he also served as Chair of the audit committee. Mr. Cole has also held a position as an advisory committee member or director of various private companies and charitable and professional organizations such as Enterprise Capital LP II, The Canadian Institute of Chartered Business Valuators, Quetico Foundation, Nature Conservancy of Canada (Ontario Division), UJA Federation and Foundation and past Chair of The Baycrest Centre.

John W. Gildner – Mr. Gildner holds a B.B.A. from Wilfrid Laurier University, having specialized in Economics. Mr. Gildner is currently a private investor. Prior to 2009, Mr. Gildner was a Managing Director of CIBC World Markets Inc., an investment bank, where he worked for 25 years (at both CIBC World Markets Inc. and Wood Gundy Limited, which was purchased by the Canadian Imperial Bank of Commerce in 1988) in various roles within the trading operations. Most recently at CIBC World Markets Inc., Mr. Gildner was head of the firm's equity division proprietary trading groups, where he had oversight of the firm's equity-related proprietary investing and

trading strategies and activities. Mr. Gildner also served on several management, risk management, due diligence, and investment committees at the company. In these capacities, Mr. Gildner has had extensive experience analyzing and evaluating financial results and the financial statements of public companies. In 2010 Mr. Gildner obtained the Chartered Director (C.Dir.) designation from the Directors College (a joint venture of McMaster University and The Conference Board of Canada).

Kevin E. Parker – Mr. Parker is currently the Managing Partner at SICM. He has over 35 years of investment experience. Prior to SICM, Kevin was a Member of the Management Board of Deutsche Bank for 10 years and the former Global Head of Deutsche Asset Management from 2004 to 2012. In this role, he was responsible for more than \$750 billion dollars invested across a broad range of assets including Equities, Fixed Income, Real Estate, Infrastructure, Private Equity, Hedge Funds, Sustainable Investments and other businesses. Also at Deutsche Bank, Mr. Parker served as the Global Head of Institutional Equities from 2000 until 2004 and from 1997 until 2000 was responsible for building and developing Deutsche Bank’s Equity Derivatives, Prime Brokerage Services, Equity Trading and Equity Proprietary Trading Businesses. Prior to Deutsche Bank, Mr. Parker held a variety of positions at Morgan Stanley, including Head of Asian Derivatives, Global Head of Equity Derivatives Trading and Chief Information Officer. Mr. Parker holds a Bachelor of Science in Finance from New York University.

Bruce V. Walter – Mr. Walter is currently Chair of Nunavut Iron Ore, Inc. and serves as Vice Chair of Centerra Gold Inc. From 2002 until 2007, Mr. Walter was a director and officer of Dynatec Corporation, initially as Vice-Chair and from 2005 as President and Chief Executive Officer. Prior thereto his career included serving as President of Sherritt Inc., President and Chief Executive Officer of Plaintree Systems Inc., and Managing Director and Co-Head of the Media, Telecom & Technology investment and corporate banking group at BMO Nesbitt Burns. Mr. Walter also served as Vice-President of Horsham Corporation and was a partner in the predecessor law firm to Davies Ward Phillips & Vineberg LLP. Mr. Walter received his Juris. Doctor (J.D.) and Master of Business Administration degrees from York University in 1981. He received his PhD in law in 1985 from the University of Cape Town. Mr. Walter currently serves on the National Advisory Board of The Salvation Army.

Pre-Approval of Audit and Non-Audit Services by Independent Auditors

The Audit Committee pre-approves all audit services provided to the Company by its independent auditors. The Audit Committee’s policy or practice regarding the pre-approval of non-audit services is that all such services shall be pre-approved by the Audit Committee as a whole or by the Chair of the Audit Committee, who must report all such pre-approvals to the Audit Committee at its next meeting following the granting thereof. Prior to the granting of any pre-approval, the Audit Committee or its Chair, as the case may be, must be satisfied that the performance of the services in question will not compromise the independence of the independent auditors.

Audit Committee Oversight

At no time since the commencement of the Company’s most recently completed financial year has a recommendation of the Audit Committee to nominate or compensate an external auditor not been accepted by the Board.

Audit Fees

The following table summarizes fees billed by the Company’s independent auditors, Deloitte LLP, for the years ended December 31, 2021 and December 31, 2020:

(in thousands of U.S. dollars)	2021	2020
Audit Fees ⁽¹⁾	\$246.6	\$251.1
Audit-Related Fees	-	-
Tax Fees	-	-

(in thousands of U.S. dollars)	2021	2020
All Other Fees	-	-
Total Fees	\$246.6	\$251.1

Note:

- (1) Includes reviews of quarterly consolidated financial statements.

Exemption

The Company is relying upon the exemption in Section 6.1 of NI 52-110 with respect to the reporting obligations of “venture issuers”.

PROMOTERS

No person or company has been, within the two most recently completed financial years, or during the current financial year, of the Company, a promoter of Westaim or of a subsidiary of Westaim.

LEGAL PROCEEDINGS AND REGULATORY ACTIONS

Legal Proceedings

The Company is not aware of any pending or threatened proceedings or claims for damages involving the Company. In the normal course of carrying on its business, each of Skyward Specialty and Arena becomes the subject of claims and is involved in various legal proceedings. However, the Company is not aware of any pending or threatened proceedings or claims for damages involving Skyward Specialty or Arena that are expected to have a material impact on Westaim.

Regulatory Actions

During the financial year ended December 31, 2021, there were no: (a) penalties or sanctions imposed against the Company by a court relating to securities legislation or by a securities regulatory authority; (b) other penalties or sanctions imposed by a court or regulatory body against the Company that would likely be considered important to a reasonable investor in making an investment decision; and (c) settlement agreements the Company entered into before a court relating to securities legislation or with a securities regulatory authority.

INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS

Management of the Company is not aware of any material interest, direct or indirect, of any of the following persons or companies in any transaction within the three most recently completed financial years or during the current financial year that has materially affected or is reasonably expected to materially affect the Company:

- (a) a director or executive officer of the Company;
- (b) a person or company that beneficially owns, or controls or directs, directly or indirectly, more than 10% of any class or series of the Company’s outstanding voting securities; and
- (c) an associate or affiliate of any of the persons or companies referred to in paragraphs (a) or (b).

TRANSFER AGENT AND REGISTRAR

The registrar and transfer agent for the Common Shares is Computershare Investor Services Inc., located in Calgary, Alberta, Canada.

MATERIAL CONTRACTS

Except for contracts entered into in the ordinary course of business, the only contracts: (a) entered into during the 12-month period ended December 31, 2021 which are material; or (b) entered into before the 12-month period ended December 31, 2021, but are still in effect, and which are required to be filed with the Canadian securities regulatory authorities are the following:

- (a) indenture dated as of June 2, 2017 between, among Westaim, Westaim HIIG GP Inc., Westaim HIIG Holdings Inc. and Computershare Trust Company of Canada (the “**Indenture**”);
- (b) governance agreement made as of June 2, 2017 between Westaim and Fairfax (the “**Governance Agreement**”); and
- (c) second Amended and Restated AIGH LLCA.

The Indenture and the Governance Agreement were filed on the System for Electronic Document Analysis and Retrieval (“**SEDAR**”) on June 6, 2017. For a summary of these two agreements, please see the material change report of the Company dated June 6, 2017 and filed on SEDAR at www.sedar.com, which is incorporated by reference into, and forms an integral part of, this AIF. Also see “*Description of Capital Structure – Fairfax Private Placement*”. The Second Amended and Restated AIGH LLCA was filed on SEDAR on March 26, 2020. For further information on the Second Amended and Restated AIGH LLCA, see “*Current Investments – Arena – Arena Investors*”.

INTERESTS OF EXPERTS

The Company’s auditors are Deloitte LLP, Chartered Professional Accountants and Licensed Public Accountants, who have prepared the Auditor’s Report to Shareholders dated April 13 2022. Deloitte LLP has confirmed that it is independent with respect to the Company within the meaning of the Rules of Professional Conduct of the Chartered Professional Accountants of Ontario. To the Company’s knowledge, Deloitte LLP has no registered or beneficial interest, direct or indirect, in any securities or other property of the Company.

ADDITIONAL INFORMATION

Additional information, including directors’ and officers’ remuneration and indebtedness, principal holders of the Company’s securities and securities authorized for issuance under the Company’s equity compensation plans, where applicable, is contained in the Company’s management information circular. Additional financial information relating to the Company is contained in the Company’s comparative financial statements and associated management’s discussion and analysis for its most recently completed fiscal year ended December 31, 2021.

All of these documents as well as additional information relating to the Company are available on SEDAR at www.sedar.com.

APPENDIX “A”

THE WESTAIM CORPORATION

AUDIT COMMITTEE CHARTER

(Revised March 2022)

A. Overview and Mandate

The Audit Committee (the “**Committee**”) is responsible to the Board of Directors (the “**Board**”) of The Westaim Corporation (the “**Corporation**”). The Committee shall review the annual consolidated financial statements of the Corporation and shall report thereon to the Board before such annual consolidated financial statements are approved by the Board, and shall oversee the accounting and financial reporting processes of the Corporation and the audits of the financial statements of the Corporation. The Committee also shall perform the duties as described under “Duties and Responsibilities” below.

The Committee, in its capacity as a committee of the Board, shall be directly responsible for the appointment, compensation, retention and oversight of the work of any registered public accounting firm engaged (including for the resolution of disagreements between management and the auditor regarding financial reporting) for the purpose of preparing or issuing an audit report or performing other audit, review or attestation services for the Corporation (the “**auditor**”), and each auditor must report directly to the Committee.

It is recognized that the Committee will be acting only within the terms of reference set out herein and it is not intended that the Committee shall usurp any of the powers or responsibilities of the Board as set out in the Business Corporations Act (Alberta) and/or the By-laws of the Corporation.

The Committee may engage independent counsel or other advisors as it determines necessary to carry out its duties.

The Corporation shall provide for appropriate funding, as determined by the Committee in its capacity as a committee of the Board, for payment of:

- a. compensation to any auditor;
- b. compensation to any independent counsel or adviser employed by the Committee pursuant to this charter; and
- c. ordinary administrative expenses of the Committee that are necessary or appropriate in respect of the performance by the Committee of its duties.

B. Membership and Attendance at Meetings

1. The members of the Committee shall consist of not fewer than three (3) members each of whom shall be a director of the Corporation.
2. A majority of members of the Committee shall satisfy the independence requirements applicable to members of audit committees under National Instrument 52-110 – Audit Committees of certain of the Canadian Securities Administrators and the requirements of any other applicable legislation or stock exchange rules, subject to any exemptions or relief that may be granted from such requirements (collectively, the “**Independence Requirements**”).
3. Each member of the Committee shall have, or shall acquire within a reasonable time following appointment to the Committee, the ability to read and understand a set of financial statements that present a breadth and level of complexity of accounting issues that are generally comparable to the breadth and complexity of the issues that can reasonably be expected to be raised by the Corporation’s financial statements.

4. The Chair of the Committee shall be appointed by the Board and shall be responsible for the overall operation of the Committee and shall satisfy the Independence Requirements.
5. Members shall serve one-year terms and may serve consecutive terms.
6. The auditor of the Corporation is entitled to receive notice of every meeting of the Committee and be heard thereat.
7. In its discharge of its responsibilities and duties set out herein, the Committee shall have free and unrestricted access at all times, either directly or through its duly appointed representatives, to the relevant accounting books, records and systems of the Corporation and shall discuss with the officers of the Corporation such books, records, systems and other matters considered appropriate.

C. Duties and Responsibilities

The Committee shall fulfill the following duties arising from its mandate set out above:

8. Review and assess the adequacy of this charter on an annual basis, or more often if deemed appropriate.
9. Review the annual consolidated financial statements of the Corporation and the notes thereto following the examination thereof by the auditor and prior to their approval by the Board and report to the Board thereon.
10. Review and approve the quarterly financial statements, notes thereto and quarterly management discussion and analysis (MD&A) and related press releases of the Corporation prior to their release.
11. Review the annual MD&A, and other public disclosure documents and related press releases, including any prospectus prior to their approval by the directors.
12. Review, and approve, the planned scope of the examination of the annual and quarterly consolidated financial statements and all related audit activities by the auditor of the Corporation, including expected related audit fees.
13. Review the accounting principles and practices to be applied and followed by the Corporation during the fiscal year and any significant changes from those applied and followed during the previous year.
14. Review the adequacy of the systems of internal accounting and audit policies, practices and controls established by the Corporation, and discuss with the auditor the results of its reviews and reports.
15. Review all litigation and claims involving or against the Corporation which could materially adversely affect its financial position and which the auditor or any officer of the Corporation may refer to the Committee.
16. Ensure the auditor's ultimate accountability to the Board and the Committee as representatives of the shareholders and as such representatives, to evaluate the performance of the auditor and review and report to the directors regarding the nomination and the remuneration and other material terms of the engagement of the auditor, and the performance by the auditor thereunder, and to recommend to the shareholders the reappointment or replacement of the auditor.
17. Ensure that the auditor submits on a periodic basis to the Committee, a formal written statement delineating all relationships between the auditor and the Corporation, consistent with Canadian auditor independence standards, and to review such statement and to actively engage in a dialogue with the auditor with respect to any disclosed or undisclosed relationships or services that may impact on the objectivity and independence of the auditor, and to review the statement and the dialogue with the Board of Directors and recommend to the Board of Directors appropriate action to ensure the independence of the auditor.

18. Provide a line of communication between the auditor and the Board, and communicate directly with the auditor and with any internal auditor of the Corporation.
19. Meet with the auditor at least once per quarter without management present to allow a candid discussion regarding any concerns the auditor may have and to resolve any disagreements between the auditor and management regarding the Corporation's financial reporting.
20. Review and pre-approve non-audit services provided by the auditor.
21. Review and approve hiring policies regarding partners, employees, and former partners and employees of the present and former external auditors of the Corporation.
22. Review any internal audit plan and review all reports arising from any such internal audit activity.
23. Approve the Corporation's Disclosure Policy and review and assess the adequacy of the policy on an annual basis, or more often if deemed appropriate.
24. Review and approve all "related party" transactions, as defined by the rules of the applicable regulatory authorities.
25. Review the status of taxation matters of the Corporation and its major subsidiaries.
26. Review the short term investment strategies respecting the cash balance of the Corporation.
27. Review the hedging strategies of the Corporation.
28. Review the adequacy of all insurance policies maintained by the Corporation.
29. Establish procedures for:
 - a. the receipt, retention, and treatment of complaints received by the Corporation regarding accounting, internal accounting controls, or auditing matters; and
 - b. the confidential, anonymous submission by employees of the Corporation of concerns regarding questionable accounting or auditing matters.
30. Review regular reports from management and others with respect to the Corporation's compliance with laws and regulations having a material impact on the financial statements of the Corporation.
31. Review annually the Corporation's reserves with respect to environmental, health and safety matters.
32. Review quarterly, for reasonableness, the valuations of: (a) the Corporation's issued and outstanding warrants to purchase common shares of the Corporation issued to certain affiliates of Fairfax Financial Holdings Limited in 2017; and (b) other derivatives held by the Corporation.
33. Review quarterly, for reasonableness, the valuations of the Corporation's investments in private and public companies, if and where applicable.
34. Conduct or undertake such other duties as may be required from time to time by any applicable regulatory authorities, including the TSX Venture Exchange or any other stock exchange.
35. At least annually, undertake a self assessment of the Committee's performance of its duties.

D. Meetings

36. Meetings of the Committee are held as required and at least quarterly.

37. Committee meetings may be called by the Committee Chair or by a majority of the Committee members.
38. The procedures for calling, holding, conducting and adjourning meetings of the Committee shall be the same as those applicable to meetings of the Board. Notwithstanding such procedures, a meeting of the Committee may also be called by the external auditor.
39. A quorum for the transaction of business at any meeting of the Committee is a majority of appointed members.
40. The Committee may invite to a meeting any officers or employees of the Corporation, legal counsel, advisors and other persons whose attendance it considers necessary or desirable in order to carry out its responsibilities.
41. Meetings may be held by way of telephone conference call or videoconference.
42. A written resolution signed by all Committee members entitled to vote on that resolution at a meeting of the Committee is as valid as one passed at a Committee meeting.
43. The Corporate Secretary will ensure that minutes of the proceedings of all meetings of the Committee are maintained and available to the Board when requested.

E. Reporting

The Committee shall report on its review of the audited consolidated financial statements of the Corporation to the Board prior to the approval of financial statements by the Board. In addition, the Chair of the Committee shall, when deemed necessary or when requested by the Chair of the Board, report to the Board from time to time on the activities of the Committee.