



Westaim has a portfolio of development stage new business opportunities, which include coking-resistant coatings, electroluminescent flat panel displays and biomedical coatings. In addition, Westaim manufactures a wide range of other products based on its advanced industrial materials expertise.

Westaim's common shares are listed on The Alberta Stock Exchange, The Toronto Stock Exchange and the Montreal Exchange under the trading symbol "WED."



THE WESTAIM CORPORATION



OFFICES

The Westaim Corporation

10102 - 114 Street
Fort Saskatchewan
Alberta T8L 3W4
Tel. (403) 992-5300
Fax (403) 992-5301

**The Westaim Corporation
(Corporate Office)**

144 - 4th Avenue, S.W.
Suite 1010
Calgary, Alberta T2P 3N4
Tel. (403) 237-7272
Fax (403) 237-6565

INVESTOR RELATIONS

Anthony B. Johnston

Senior Vice President,
Corporate Affairs
Tel. (403) 234-3103
Fax (403) 237-6565

INTERIM
REPORT TO
SHAREHOLDERS
Statement of Earnings
for the six months ended
June 30, 1997

To Our Shareholders:

Operating Results

For the three months ended June 30, 1997, Westaim recorded net earnings of \$4.7 million, or 7 cents per share, on revenue of \$33.9 million. The second-quarter results included a one-time gain of \$5.8 million realized on the sale of 3,500 tonnes of surplus nickel inventory.

For the six months ended June 30, 1997, Westaim recorded net earnings of \$1.3 million, or 2 cents per share, on revenue of \$61.8 million. As the company commenced operations effective June 1, 1996, there are no comparative figures for prior periods.

During the second quarter, Westaim continued to progress in the development of its leading-edge technologies. We also streamlined our operations by creating a separate company called ThermicEdge Corporation.

Engineered Surfaces

Westaim's coking-resistant coatings, which significantly reduce the costly problem of coke build-up in the ethylene industry, continued successful testing during the second quarter. The pilot coatings application plant is now fully booked through April 1998 and design engineering has commenced for the development of a full-scale manufacturing facility.

Biomedical Coatings

We continue to make excellent progress in the development of our Acticoat™ infection-control technology. The first commercial application for this technology will be the burn care market. In the second quarter, we completed a \$5.4-million manufacturing facility, and we also assembled a Physician Advisory Council consisting of leading burn specialists from across North America to assist in the continuing development of Acticoat™.

Electroluminescent Flat Panel Display

We continue to be encouraged by the progress being made in the development of Westaim's electroluminescent (EL) flat panel display technology. In particular, we made significant strides in the second quarter toward the breakthrough of being the first company to develop the technology to produce a full colour flat panel display using EL technology.

ThermicEdge Corporation

ThermicEdge Corporation has been created as a separate company to pursue the commercialization of Westaim's Electronic Materials and Microwear technologies as well as related businesses. The ThermicEdge businesses have significant commercial potential which can be best exploited in a smaller company with a single focus. ThermicEdge will start out as a debt-free publicly-traded company with approximately \$15 million in cash, proven technologies and established customer applications. We will distribute the shares of ThermicEdge to Westaim shareholders through a dividend-in-kind once final regulatory approval has been obtained later this year.

Outlook

I am pleased with the continued progress of our leading-edge technologies as they move toward commercialization and expect further advances in the second half of 1997.

KEVIN J. JENKINS
PRESIDENT AND CHIEF EXECUTIVE OFFICER

Consolidated Balance Sheet

(unaudited)

	June 30, 1997 (thousands of dollars)	December 31, 1996
ASSETS		
Current		
Cash & short-term investments	\$ 207,916	\$ 182,558
Accounts receivable	47,916	42,025
Inventories	71,910	108,047
Prepaid expenses	245	311
	327,987	332,941
Capital assets	63,287	55,175
Deferred charges	1,830	1,666
	\$ 393,104	\$ 389,782
LIABILITIES & SHAREHOLDERS' EQUITY		
Current		
Accounts payable	\$ 50,851	\$ 48,663
Provision for site restoration	507	691
Deferred income taxes	575	575
	51,933	49,929
Shareholders' equity		
Capital stock	359,223	359,201
Deficit	(18,052)	(19,348)
	341,171	339,853
	\$ 393,104	\$ 389,782

Consolidated Statement of Earnings & Deficit

(unaudited)

	Quarter Ended June 30, 1997 (thousands of dollars)	Six Months Ended June 30, 1997
Revenue	\$ 33,867	\$ 61,765
Costs		
Operating	30,533	57,564
Depreciation and amortization	1,125	2,200
Gain on disposal of commodity nickel	(5,764)	(5,764)
Selling, general, and administration	2,606	4,846
Gross divisional earnings	5,367	2,919
Corporate	1,988	3,694
Interest income	(1,600)	(2,855)
Earnings before income taxes	4,979	2,080
Income tax		
Current	257	784
Earnings for the period	4,722	1,296
Deficit, beginning of period	(22,774)	(19,348)
Deficit, end of period	\$ (18,052)	\$ (18,052)
Earnings per common share		
- basic	\$ 0.07	\$ 0.02
- fully diluted	\$ 0.07	\$ 0.02
Weighted average number of shares outstanding (thousands)		
	75,004	75,004

Consolidated Statement of Changes in Financial Position

(unaudited)

	Quarter Ended June 30, 1997 <i>(thousands of dollars)</i>	Six Months Ended June 30, 1997
Cash provided from operations		
Earnings	\$ 4,722	\$ 1,296
Items not affecting cash		
Depreciation and amortization	1,125	2,200
Other items	288	288
Cash provided before working capital changes	6,135	3,784
Decrease in working capital	26,595	32,379
Cash provided from operations	32,730	36,163
Investing activities		
Capital expenditures	(4,285)	(10,440)
Deferred charges	(228)	(387)
Cash used for investing activities	(4,513)	(10,827)
Financing activities		
Issue of common shares	22	22
Cash provided from financing activities	22	22
Cash increase	28,239	25,358
Cash at beginning of period	179,677	182,558
Cash at end of period	\$ 207,916	\$ 207,916

Cash consists of cash and short-term investments with original maturities of less than one year.

Segmented Information and Operating Statistics

REVENUE	Quarter Ended June 30, 1997 <i>(thousands of dollars)</i>	Six Months Ended June 30, 1997	PRODUCTION	Quarter Ended June 30, 1997 <i>(thousands of kilograms)</i>	Six Months Ended June 30, 1997
Specialty Materials	\$ 21,520	\$ 38,517	Cobalt Powders	113	181
Chemicals	4,127	8,149	Aerospace Products	77	173
Coinage	7,624	14,265	Welding Powders	90	185
Technologies	596	834	Battery Materials	45	83
	\$33,867	\$61,765	Coinage	1,810	3,450
			Chemicals	19,464	35,227
DIVISIONAL EARNINGS (loss)			SALES		
Specialty Materials	\$ 1,493	\$ 113	Cobalt Powders	125	217
Chemicals	1,379	2,846	Aerospace Products	111	212
Coinage	1,186	2,514	Welding Powders	134	237
Commodity Nickel Gain	5,764	5,764	Battery Materials	28	34
Technologies	(4,455)	(8,318)	Coinage	1,749	3,274
	\$ 5,367	\$ 2,919	Chemicals	19,128	35,242