



The Westaim Corporation's technology businesses consist of Westaim Biomedical, Surface Engineered Products and Westaim Advanced Display Technologies. Its industrial businesses produce coin blanks, aerospace materials and chemical products. A TSE 300 company, Westaim's common shares are listed on The Toronto Stock Exchange, The Alberta Stock Exchange and the Montreal Exchange under the trading symbol "WED".

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## INTERIM REPORT TO SHAREHOLDERS



The Westaim  
Corporation

For the third quarter ended  
September 30, 1998

## To Our Shareholders:

### Operating Results

For the three months ended September 30, 1998, The Westaim Corporation posted revenues of \$18.5 million and a net loss of \$5.8 million, or 8 cents a share. During the same quarter in 1997, Westaim posted revenues of \$21.3 million and a net loss of \$27.7 million, or 37 cents per share. The 1997 figures included a loss from discontinued operations of \$26.8 million.

For the nine months ended September 30, 1998, Westaim recorded revenues of \$61.5 million and a net loss of \$6.7 million, or 9 cents per share. For the previous nine-month period ended September 30, 1997, the company posted revenues of \$62.8 million and a net loss of \$26.4 million, or 35 cents per share.

At September 30, 1998, Westaim's cash balance stood at \$212.8 million.

### Surface Engineered Products

During the period, Westaim officially launched its second technology business into the marketplace. Surface Engineered Products announced in September its first commercial order for its CoatAlloy™ anti-coking product for the ethylene industry. At the same time, it also announced it would accelerate 1999 expansion plans for its new surface alloy application plant in Edmonton, Alberta in order to meet expected customer demand. The 100,000-square foot plant will be in production in December 1998.

### Westaim Biomedical

Westaim Biomedical's Acticoat® antimicrobial burn wound dressing continued to gain acceptance in North American burn centers. Acticoat® is currently being utilized in 45 burn units throughout North America, in either clinical, evaluation or commercial use. Revenue in the third quarter rose 78% over second quarter and we expect this same pattern of growth to continue in the fourth quarter.

### Westaim Advanced Display Technologies

Westaim Advanced Display Technologies has been making excellent progress towards achieving a 17-inch flat panel Solid State Display (SSD) prototype by year-end. Since the June acquisition of a 36,000-square foot trial manufacturing and research facility in Toronto, the division has hired 20 new senior technical personnel. These new employees will play an important role in accelerating the technical progress of our flat panel Solid State Display.

We continue to emphasize speed to market with all three of our technologies and are very pleased with the progress to date in 1998.

KEVIN J. JENKINS  
PRESIDENT AND CHIEF EXECUTIVE OFFICER

## Consolidated Balance Sheet *(unaudited)*

<i>(thousands of dollars)</i>	September 30, 1998	December 31, 1997
<b>ASSETS</b>		
Current		
Cash and short-term investments	\$ 212,758	\$ 240,063
Accounts receivable	21,343	39,772
Inventories	27,677	35,154
Prepaid expenses	705	765
	262,483	315,754
Capital assets	50,620	31,839
Deferred charges	1,442	2,055
	\$ 314,545	\$ 349,648
<b>LIABILITIES &amp; SHAREHOLDERS' EQUITY</b>		
Current		
Accounts payable and accrued liabilities	\$ 23,918	\$ 39,488
Deferred income taxes	227	267
	24,145	39,755
Shareholders' equity		
Capital stock	360,393	359,768
Deficit	(69,993)	(49,875)
	290,400	309,893
	\$ 314,545	\$ 349,648

## Consolidated Statement of Loss & Deficit *(unaudited)*

<i>(thousands of dollars)</i>	Quarter Ended September 30, 1998	Quarter Ended September 30, 1997	Nine Months Ended September 30, 1998	Nine Months Ended September 30, 1997
Revenue	\$ 18,468	\$ 21,255	\$ 61,488	\$ 62,753
Costs				
Manufacturing	11,928	15,541	39,585	45,081
Selling, general and administrative	4,714	1,449	10,211	4,337
Research and development	7,284	4,327	17,722	9,632
Gain on disposal of commodity nickel	—	(573)	—	(6,336)
Depreciation and amortization	1,118	900	2,564	2,586
Divisional (loss) earnings	(6,576)	(389)	(8,594)	7,453
Corporate	2,046	2,147	5,941	5,842
Interest income	(2,948)	(2,065)	(8,676)	(4,920)
(Loss) earnings from continuing operations				
before income taxes	(5,674)	(471)	(5,859)	6,531
Income tax (recovery)				
Current	159	404	835	1,188
Deferred	—	—	(40)	—
(Loss) earnings from continuing operations	\$ (5,833)	(875)	(6,654)	5,343
Loss from discontinued operations	—	(3,057)	—	(7,979)
Write-down of discontinued assets	—	(23,732)	—	(23,732)
Net loss for the period	\$ (5,833)	\$ (27,664)	\$ (6,654)	\$ (26,368)
(Loss) earnings per common share				
Continuing operations	\$ (0.08)	\$ (0.01)	\$ (0.09)	\$ 0.07
Net loss	\$ (0.08)	\$ (0.37)	\$ (0.09)	\$ (0.35)
Weighted average number of shares outstanding (thousands)	75,197	75,026	75,197	75,026
Deficit at beginning of period	\$ 64,160		\$ 49,875	
Net loss	5,833		6,654	
Dividend-in-kind	—		13,464	
Deficit at end of period	\$ 69,993		\$ 69,993	

Comparative figures have been restated to conform to the presentation of the current year.

## Consolidated Statement of Changes in Financial Position *(unaudited)*

<i>(thousands of dollars)</i>	Quarter Ended September 30, 1998	Quarter Ended September 30, 1997	Nine Months Ended September 30, 1998	Nine Months Ended September 30, 1997
<b>Operating activities</b>				
(Loss) earnings from continuing operations	\$ (5,833)	\$ (875)	\$ (6,654)	\$ 5,343
Items not affecting cash				
Depreciation and amortization	1,118	900	2,564	2,586
Deferred income taxes	—	—	(40)	—
Other items	91	(184)	272	105
Cash (used for) provided from operations before working capital changes	(4,624)	(159)	(3,858)	8,034
Decrease in working capital from continuing operations	3,679	4,577	10,396	36,956
Cash (used for) provided from continuing operations	(945)	4,418	6,538	44,990
Cash used for discontinued operations	—	(2,590)	—	(6,999)
Total cash (used for) provided from operating activities	(945)	1,828	6,538	37,991
<b>Investing activities</b>				
Capital expenditures - continuing operations	(6,991)	469	(21,617)	(4,855)
Capital expenditures - discontinued operations	—	(1,341)	—	(6,457)
Deferred charges	97	183	613	(204)
Cash used for investing activities	(6,894)	(689)	(21,004)	(11,516)
<b>Financing activities</b>				
Dividend-in-kind	—	—	(13,464)	—
Issue of common shares	253	211	625	233
Cash provided from (used for) financing activities	253	211	(12,839)	233
Cash (decrease) increase	(7,586)	1,350	(27,305)	26,708
Cash at beginning of period	220,344	207,916	240,063	182,558
Cash at end of period	\$ 212,758	\$ 209,266	\$ 212,758	\$ 209,266

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

## Segmented Information *(unaudited)*

<i>(thousands of dollars)</i>	Quarter Ended September 30, 1998	Quarter Ended September 30, 1997	Nine Months Ended September 30, 1998	Nine Months Ended September 30, 1997
<b>REVENUE</b>				
Aerospace	\$ 7,763	\$ 8,020	\$ 23,769	\$ 26,270
Chemicals	4,628	4,550	12,338	12,699
Coinage	5,871	8,063	24,356	22,328
Biomedical	206	—	322	—
Surface Engineered Products	—	—	—	—
Advanced Display Technologies	—	—	—	—
Other	—	622	703	1,456
	\$ 18,468	\$ 21,255	\$ 61,488	\$ 62,753
<b>DIVISIONAL EARNINGS (loss)</b>				
Aerospace	\$ 1,958	\$ 2,097	\$ 6,579	\$ 7,000
Chemicals	1,327	1,653	3,674	4,499
Coinage	1,143	870	5,813	3,384
Biomedical	(4,801)	(1,491)	(9,847)	(3,114)
Surface Engineered Products	(3,116)	(969)	(6,669)	(2,814)
Advanced Display Technologies	(2,710)	(896)	(5,824)	(2,402)
Commodity Nickel Gain	—	573	—	6,336
Other	(377)	(2,226)	(2,320)	(5,436)
	\$ (6,576)	\$ (389)	\$ (8,594)	\$ 7,453