



For Immediate Release

Westaim Announces 2001 Second Quarter Results

CALGARY, ALBERTA – July 31, 2001 – The Westaim Corporation announced today that for the second quarter ended June 30, 2001, it recorded net earnings of \$2.0 million, or three cents per share, on revenue of \$16.2 million. The results include a \$20.1 million gain on sale of assets related to the sale of the Westaim Biomedical burn business to Smith & Nephew as well as a write down of investments of \$6.6 million primarily related to Savvion, Inc. In the same quarter last year, the company recorded a net loss of \$10.6 million, or 14 cents per share, on revenues of \$30.2 million.

For the six months ended June 30, 2001, the company posted revenues of \$37.3 million and a net loss of \$6.0 million, or eight cents per share. For the same period last year, Westaim had revenues of \$63.6 million and a net loss of \$8.2 million, or eleven cents per share.

At June 30, 2001, Westaim had \$153.4 million in cash and short-term investments, and no debt.

“It has been an extremely positive first half of the year,” said Kevin J. Jenkins, President and CEO of Westaim. “Our progress in the lab and the marketplace, combined with our strong balance sheet, position us well to become a significant player in the sectors we are targeting.”

iFire Technology

During the first half of 2001, iFire Technology demonstrated CRT-quality color on an 8.5-inch prototype display and is working to transfer the color accomplishment to a 17-inch prototype display. This progress helped iFire to advance discussions with potential partners for commercializing its flat panel technology in the consumer television market.

Westaim Biomedical

In May 2001, Westaim Biomedical closed a major marketing and sales agreement with Smith & Nephew, the world’s leading wound care company. Westaim Biomedical continues to manufacture all Acticoat[®] products for Smith & Nephew and is examining other applications for its nanocrystalline silver technology, including over-the-counter consumer products and pharmaceutical uses.

Savvion, Inc.

Savvion continues to build market awareness of its BusinessManager™ business process management software by broadening its systems integrator (SI) partner base, establishing strategic relationships and expanding its customer base. In May 2001, Savvion BusinessManager™ received a Product of the Year award from eAI Journal magazine.

About The Westaim Corporation

The Westaim Corporation is a technology accelerator that launches exceptional technologies into the marketplace. Its technology investments include Westaim Biomedical Corp., which has developed an infection control technology for use in the treatment of wounds; iFire Technology Inc., which has developed a revolutionary low-cost flat panel display; and Savvion, Inc., a leader in e-business management software. Westaim's common shares are listed on Nasdaq under the symbol WEDX and on The Toronto Stock Exchange under the symbol WED.

For full financial statements and Management Discussion and Analysis, please visit www.westaim.com

For more information contact:

The Westaim Corporation
(403) 234-3103
info@westaim.com
www.westaim.com

This news release may contain forward-looking statements. These statements are based on current expectations that are subject to risks and uncertainties, and the Company can give no assurance that these expectations are correct. Various factors could cause actual results to differ materially from those projected in such statements, including financial considerations and those predicting the timing and market acceptance of future products. The Company disclaims any intention or obligations to revise forward-looking statements whether as a result of new information, future developments or otherwise. All forward-looking statements are expressly qualified in their entirety by this Cautionary Statement.

The Westaim Corporation

Management Discussion and Analysis Three Months ended June 30, 2001

This interim Management Discussion and Analysis should be read in conjunction with the Management Discussion and Analysis included in the annual report of the Company for the year ended December 31, 2000.

Consolidated Results – Three Months ended June 30, 2001

For the three months ended June 30, 2001 the Company reported net earnings of \$2.0 million, compared to a net loss of \$10.6 million for the three months ended June 30, 2000.

The second quarter 2001 results include a \$20.1 million gain on sale of assets related to the sale of the Westaim Biomedical burn business to Smith & Nephew plc. The results also include an equity loss of \$8.7 million related primarily to the Corporation's investment in Savvion, Inc. The equity loss includes a writedown in the carrying value of investments of \$6.6 million primarily related to Savvion, Inc.

Revenue from continuing operations for the three months ended June 30, 2001 was \$16.2 million compared to \$30.2 million in the comparable period in 2000, and was generated primarily from the Coatings Solutions and Coinage Products businesses.

On December 29, 2000 the Company sold substantially all assets related to its Chemicals business. The results from operations of the Chemicals business, until its sale, have been accounted for on a discontinued basis.

Operations

Westaim's operations are organized into two high-potential emerging technology businesses – iFire Technology and Westaim Biomedical; one industrial technology business – Westaim Coating Solutions; and one mature industrial products business – Coinage Products.

iFire Technology – iFire's net loss for the three months ended June 30, 2001 was \$1.6 million compared to a net loss of \$5.7 million for the same period in 2000. The improvement in results reflects an increase in research and development costs which was offset by \$5.1 million in contributions from Technology Partnerships Canada with respect to the contribution agreement entered into in March, 2001. Licensing revenue of \$1.1 million represents the amortization of deferred licensing revenue and is consistent with the same period in 2000.

Westaim Biomedical – Westaim Biomedical's net loss for the quarter of \$1.8 million increased from a net loss of \$1.3 million for the same period in 2000 as a result of increased research and development expenditures. Commencing in May, 2001 sales revenue results from licensing royalties and manufacturing revenue relating to Acticoat products sold by, and produced for, Smith & Nephew plc. Revenue from direct sales, licensing, and manufacturing in the second quarter was \$1.8 million compared to revenue from direct sales of \$1.8 million for the same period in 2000. Combined direct sales of Acticoat dressings to end users by Westaim Biomedical and Smith & Nephew increased by 66% in the second quarter of 2001 compared to the second quarter of 2000.

Westaim Coating Solutions – During the second quarter, the Westaim Ambeon and Surface Engineered Products businesses were combined into a single business – Westaim Coating Solutions. Westaim Coating Solutions is dedicated to marketing and commercializing coating solutions and products for customers in the aerospace, electronics, catalyst, ethylene and other markets. Westaim Coating Solutions' net loss in the second quarter 2001 was \$1.9 million on revenue of \$9.7 million compared to a net loss of \$1.8 million on revenue of \$8.8 million in the second quarter of 2000. Improved sales and operating margins in ethylene coatings products were offset by reduced sales and operating margins in electronic coatings products.

Coinage Products - Coinage Products' net loss was \$2.5 million on revenue of \$3.7 million for the three months ended June 30, 2001 compared to a net income of \$1.0 million on revenue of \$18.7 million for the same period in 2000. The net loss reflects a significant reduction in activity as major contracts for the "Euro" coin and nickel strip products were completed in late 2000, as well as a weakening in the "Euro" exchange rate and competitive pressures in the international coin blank market.

Investments - The Company regularly evaluates the carrying value of all investments for potential impairment in value that is other than temporary in nature. Investments have been written down by \$6.6 million taking into consideration the current business environment, weaker performance outlook and adjustments to technology market valuations in general.

Consolidated Results – Six months ended June 30, 2001

For the six months ended June 30, 2001 the Company reported a net loss of \$6.0 million on revenue of \$37.3 million compared to a net loss of \$8.2 million on revenue of \$63.6 million in the same period of 2000.

The lower net loss in 2001 is primarily attributable to the gain on sale of the Biomedical burn business, research and development contributions to iFire from Technology Partnerships Canada, offset in part by operating losses in the Coinage Products business, increased equity losses from Investments, and the gain on issuance of shares of iFire recorded in 2000.

The lower revenue primarily results from lower sales in the Coinage Products business.

Liquidity and Capital Resources

At June 30, 2001 the Company had cash and short-term investments of \$153.4 million, an increase of \$22.1 million compared to March 31, 2001 and an increase of \$28.9 million compared to December 31, 2000. The increase arose primarily from the proceeds on sale of the Westaim Biomedical burn business and decreases in non-cash working capital balances reduced in part by operating losses.

THE WESTAIM CORPORATION

Consolidated Statement of Operations and Consolidated Statement of Deficit
(unaudited)

(thousands of dollars)	Quarter Ended June 30, 2001	Quarter Ended June 30, 2000 (restated note 9)	Six Months Ended June 30, 2001	Six Months Ended June 30, 2000 (restated note 9)
Revenue	\$ 16,215	\$ 30,242	\$ 37,291	\$ 63,648
Costs				
Manufacturing	12,796	23,945	28,054	49,821
Selling, general and administrative	4,630	4,351	9,598	9,347
Research and development (note 6)	3,986	7,721	7,887	15,457
Depreciation and amortization	2,581	2,272	5,095	4,473
Divisional loss	(7,778)	(8,047)	(13,343)	(15,450)
Corporate expenses	(2,865)	(1,993)	(5,022)	(3,803)
Interest income	1,329	2,591	3,209	4,760
Gain on sale of assets (note 7)	20,122	-	20,122	-
Equity loss (note 4)	(8,740)	(2,781)	(11,572)	(2,781)
Gain on issuance of shares by subsidiary (note 8)	-	-	-	10,509
Earnings (loss) from continuing operations before income taxes	2,068	(10,230)	(6,606)	(6,765)
Income tax recovery (expense)				
Current	(201)	(143)	(48)	(369)
Future	151	(1,214)	667	(2,939)
	(50)	(1,357)	619	(3,308)
Earnings (loss) from continuing operations	2,018	(11,587)	(5,987)	(10,073)
Earnings from discontinued operations net of income taxes (note 10)	-	989	-	1,920
Net earnings (loss) for the period	\$ 2,018	\$ (10,598)	\$ (5,987)	\$ (8,153)
Earnings (loss) per common share (note 11)				
Continuing operations - basic and fully diluted	\$ 0.03	\$ (0.15)	\$ (0.08)	\$ (0.13)
Net earnings (loss) - basic and fully diluted	0.03	(0.14)	(0.08)	(0.11)
Weighted average number of shares outstanding (thousands)	77,722	76,772	77,721	76,172
Deficit at beginning of period	\$ (104,522)	\$ (79,424)	\$ (96,517)	\$ (102,667)
Change in accounting policy (note 3)	-	-	-	20,798
As restated	(104,522)	(79,424)	(96,517)	(81,869)
Net earnings (loss)	2,018	(10,598)	(5,987)	(8,153)
Deficit at end of period	\$ (102,504)	\$ (90,022)	\$ (102,504)	\$ (90,022)

THE WESTAIM CORPORATIONConsolidated Balance Sheet
(unaudited)

	June 30	December 31
(thousands of dollars)	2001	2000
ASSETS		
Current		
Cash and cash equivalents	\$ 102,748	\$ 124,519
Short-term investments	50,659	-
Accounts receivable	24,775	44,894
Inventories	21,201	27,614
Future income taxes (note 3)	6,046	9,345
Other	1,954	778
	<u>207,383</u>	<u>207,150</u>
Capital assets	73,871	77,023
Deferred charges	2,716	2,575
Future income taxes (note 3)	11,031	7,249
Investments (note 4)	5,361	15,485
	<u>\$ 300,362</u>	<u>\$ 309,482</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Accounts payable and accrued liabilities	\$ 18,685	\$ 21,658
Provision for site restoration	5,454	3,885
Deferred licensing revenue	6,568	8,325
	<u>30,707</u>	<u>33,868</u>
Shareholders' equity		
Capital stock (note 5)	372,159	372,131
Deficit	(102,504)	(96,517)
	<u>269,655</u>	<u>275,614</u>
	<u>\$ 300,362</u>	<u>\$ 309,482</u>

THE WESTAIM CORPORATION
Consolidated Cash Flow Statement
(unaudited)

(thousands of dollars)	Quarter Ended June 30, 2001	Quarter Ended June 30, 2000 (restated note 9)	Six Months Ended June 30, 2001	Six Months Ended June 30, 2000 (restated note 9)
Operating Activities				
Earnings (loss) from continuing operations	\$ 2,018	\$ (11,587)	\$ (5,987)	\$ (10,073)
Items not affecting cash				
Depreciation and amortization	2,581	2,272	5,095	4,473
Provision for site restoration costs	891	945	1,721	1,867
Future income taxes	(151)	1,214	(667)	2,939
Gain on sale of assets	(20,122)	-	(20,122)	-
Gain on issuance of shares by subsidiary	-	-	-	(10,509)
Deferred licensing revenue	(1,065)	(963)	(2,143)	(1,349)
Equity loss	8,740	2,781	11,572	2,781
Other	(114)	-	-	-
Cash used in continuing operations before non-cash working capital changes	(7,222)	(5,338)	(10,531)	(9,871)
Changes in continuing operations non-cash working capital				
Accounts receivable	8,520	3,637	20,119	5,965
Inventories	1,916	(3,136)	6,413	(3,758)
Other	(345)	(833)	(1,176)	251
Accounts payable and accrued liabilities	(197)	616	(2,789)	(1,582)
Site restoration expenditures	(122)	(28)	(152)	(1,041)
Deferred licensing revenue	-	3,268	386	11,792
Cash provided from (used in) continuing operations	2,550	(1,814)	12,270	1,756
Cash provided from discontinued operations	-	1,021	-	3,025
Total cash provided from (used in) operating activities	2,550	(793)	12,270	4,781
Investing activities				
Capital expenditures - continuing operations	(2,554)	(2,879)	(4,791)	(6,782)
Capital expenditures - discontinued operations	-	(102)	-	(195)
Short-term investments	(44,159)	(26,975)	(50,659)	63,151
Deferred charges	(149)	220	(298)	(181)
Proceeds on sale of assets (note 7)	23,127	-	23,127	-
Investments	(873)	(3,984)	(1,448)	(23,093)
Cash (used in) provided from investing activities	(24,608)	(33,720)	(34,069)	32,900
Financing activities				
Issuance of common shares	15	9,534	28	9,789
Proceeds on sale of subsidiary shares	-	-	-	10,509
Cash provided from financing activities	15	9,534	28	20,298
Net (decrease) increase in cash and cash equivalents	(22,043)	(24,979)	(21,771)	57,979
Cash and cash equivalents at beginning of period	124,791	139,522	124,519	56,564
Cash and cash equivalents at end of period	\$ 102,748	\$ 114,543	\$ 102,748	\$ 114,543

The Westaim Corporation
Notes to Consolidated Financial Statements
for the six months ended June 30, 2001 (unaudited)
(thousands of dollars)

These interim consolidated financial statements should be read in conjunction with the Company's most recent annual audited financial statements.

Note 1 – Significant Accounting Principles

These interim consolidated financial statements are prepared in accordance with Canadian generally accepted accounting principles, following the same accounting policies and methods of computation as the most recent annual financial statements as at December 31, 2000, except as reported in Note 2 and the following paragraph:

Government Assistance – Government assistance towards research and development expenditures related to capital assets used for research and development is credited against the cost of the related capital asset and all other assistance is credited against the related expenses, as incurred.

Note 2 – Change in Accounting Policy - Earnings Per Share

Effective for the quarter ended March 31, 2001, the Company changed its calculation of fully diluted earnings per share to the treasury stock method in accordance with Section 3500 of the Handbook of the Canadian Institute of Chartered Accountants. Retroactive adoption of this methodology had no impact on the diluted earnings per share amounts of the prior year.

Note 3 – Income Taxes

Commencing January 1, 2000, the Company and its subsidiaries adopted the liability method of accounting for income taxes in accordance with the provisions of Section 3465 of the Handbook of the Canadian Institute of Chartered Accountants. Under this method, current income taxes are recognized for the estimated income taxes payable for the current year. Future income tax assets and liabilities are recognized for temporary differences between the tax and accounting bases of assets and liabilities as well as for the benefit of losses available to be carried forward to future years for tax purposes that are likely to be realized.

The provisions were applied retroactively without restatement of prior period financial statements. At January 1, 2000, future income tax assets of \$20,798 were recorded and this amount has been credited to Deficit at January 1, 2000. Prior to January 1, 2000, the Company and its subsidiaries used the deferral method of accounting for income taxes.

Note 4 – Investments

Included in investments is an interest in Savvion, Inc. accounted for on an equity basis. As at June 30, 2001, the carrying value of this investment amounted to \$5,085 (December 31, 2000: \$15,101).

The carrying value of investments includes a write down of \$6,629, primarily related to Savvion, Inc. recorded in the second quarter of 2001, reflecting the current business environment, weaker performance outlook and adjustments to technology market valuations.

Note 5 – Capital Stock

As at June 30, 2001 the Company had outstanding 77,723,582 common shares and 5,240,999 options convertible into common shares.

Note 6 – Technology Partnerships Canada Agreement

On March 26, 2001, the Company's subsidiary, iFire Technology Inc. (iFire), entered into a research and development contribution agreement with the Government of Canada through Technology Partnerships Canada ("TPC"). Under this agreement, TPC has agreed to contribute 28.371% of eligible research and development costs and related capital expenditures incurred by iFire until April 30, 2003, to a maximum of \$30,000.

Under the terms of the agreement, iFire will pay a royalty to TPC of 1.065% of eventual commercial sales of the technology under development. In addition, TPC will receive warrants to purchase common shares of iFire exercisable for an additional consideration of \$6,283. The warrants expire on April 30, 2007, and as at June 30, 2001, represented approximately 0.5% of the current outstanding common shares of iFire. In certain circumstances after December 31, 2004, TPC may put the warrants to iFire in consideration for their fair market value at that date, or for a 0.255 percentage point increase in the royalty rate, at the option of iFire.

Contributions will be recorded as a reduction of the cost of the applicable capital asset or credited in the statement of operations of iFire as determined by the nature of the expenditure being funded.

In 2001, contribution claims totaling \$9,974 have been recorded reflecting expenditures in 2000 and the first six months of 2001. Of this amount, \$8,870 has been credited to research and development expense, and \$1,104 has been credited to capital assets.

As at June 30, 2001, the Company has received \$5,849 in respect of these claims and recorded a receivable of \$4,125.

Note 7 – Westaim Biomedical agreement with Smith & Nephew plc

On May 8, 2001, Westaim Biomedical entered into a series of agreements relating to its Acticoat™ burn dressing and wound care products with Smith & Nephew plc. Under these agreements, Westaim Biomedical has sold its North American burn dressing business for proceeds of \$23,127 and a gain of \$20,122 and entered into an exclusive global licensing agreement for the sale and marketing of Acticoat™ burn and wound care dressings. Westaim Biomedical will receive royalties based on Smith & Nephew's future sales of these products as well as milestone payments for the achievement of certain regulatory and sales targets. Under a collaborative agreement, the two companies will work together to develop new wound care products and to obtain additional regulatory approvals. Westaim Biomedical will continue to manufacture Acticoat™ products for Smith & Nephew plc under a long term manufacturing agreement.

Note 8 – Gain on issuance of shares by subsidiary

During the quarter ended March 31, 2000, iFire issued shares to a third party reducing the Company's ownership from 100% to 97.5%. The reduction in the Company's equity interest in iFire was accounted for as an effective disposition of shares and resulted in a gain for accounting purposes of \$10,509.

Note 9 – Restatement of prior year's results

In the fourth quarter of 2000, the Company determined that its investment in Savvion, Inc. should be accounted for using the equity basis of accounting, under which the Company recorded its pro rata equity loss in Savvion, Inc. since acquisition, including appropriate amortization of the difference between the purchase price of the investment and the Company's proportionate share of the net book value of Savvion, Inc. at the date of acquisition ("purchase difference"). Prior to the fourth quarter of 2000, the investment had been accounted for using the cost method. Under the cost method, the Company's proportionate share of Savvion, Inc.'s net losses and amortization of the purchase difference were not recorded in its financial statements.

The Company has restated its quarterly financial statements for 2000 to reflect the equity loss in the appropriate period. The total equity loss for the year ended December 31, 2000 is unaffected.

The following summarizes the restatement adjustment recorded by the Company:

Consolidated Balance Sheet

As at June 30, 2000	As Reported	Restated Balance
Investments	\$ 23,093	\$ 20,312
Deficit	(87,241)	(90,022)

Consolidated Statement of Loss

Quarter Ended June 30, 2000		
Equity loss	-	(2,781)
Loss from continuing operations	(8,806)	(11,587)
Net loss	(7,817)	(10,598)
Six Months Ended June 30, 2000		
Equity loss	-	(2,781)
Loss from continuing operations	(7,292)	(10,073)
Net loss	\$ (5,372)	\$ (8,153)

Note 10 – Discontinued operations

Effective December 29, 2000 the Company sold substantially all its assets and liabilities related to the Chemicals business segment, including its wholly-owned subsidiary Thio-Pet Chemicals Ltd., for cash proceeds of \$18,000. Accordingly, the results of these operations and the estimated costs of disposition have been accounted for on a discontinued basis. The assets and liabilities related to this business were principally accounts receivable, inventories, capital assets and trade accounts payable, the book values of which immediately prior to the sale were as follows:

Net working capital	\$ 1,517
Capital assets	3,292
<u>Book value of assets sold</u>	<u>\$ 4,809</u>

The net earnings from discontinued operations, for the three months ended June 30, 2000, were \$989 on revenue of \$4,915 and is after deductions for depreciation of \$64 and income taxes of \$804. The net earnings from discontinued operations, for the six months ended June 30, 2000, were \$1,920 on revenue of \$9,382 and is after deductions for depreciation of \$129 and income taxes of \$1,226. Earnings per common share from discontinued operations were \$0.01 per share for the three months ended June 30, 2000 and \$0.02 per share for the six months ended June 30, 2000.

The gain on disposal of discontinued assets of \$9,239 reported in the fourth quarter of 2000 was net of income taxes of \$3,752.

Note 11 – Earnings per share

In calculating diluted earnings per share under the treasury stock method, the numerator remains unchanged from the basic earnings per share calculation as the assumed exercise of the Corporation's stock options does not result in an adjustment to income. The reconciliation of the denominator in calculating diluted earnings per share is as follows:

(thousands of shares)	Quarter Ended June 30		Six Months Ended June 30	
	2001	2000	2001	2000
Weighted average number of common shares outstanding				
– basic earnings per share	77,722	76,772	77,721	76,172
Effect of dilutive securities				
– stock options	2,787	4,623	2,797	4,386
Weighted average number of common shares outstanding				
– diluted earnings per share	80,509	81,395	80,518	80,558

Note 12 – Segmented Information

	Quarter Ended June 30		Six Months Ended June 30	
	2001	2000	2001	2000
Revenue				
Westaim Coating Solutions	\$ 9,678	\$ 8,752	\$ 21,387	\$ 19,978
Coinage Products	3,698	18,741	9,511	39,043
Westaim Biomedical	1,774	1,786	4,250	3,278
iFire Technology	1,065	963	2,143	1,349
	\$ 16,215	\$ 30,242	\$ 37,291	\$ 63,648
Divisional Earnings (Loss)				
Westaim Coating Solutions	\$ (1,917)	\$ (1,847)	\$ (2,989)	\$ (3,541)
Coinage Products	(2,544)	987	(3,422)	2,900
Westaim Biomedical	(1,819)	(1,294)	(3,345)	(3,578)
iFire Technology	(1,559)	(5,746)	(3,413)	(10,970)
Other	61	(147)	(174)	(261)
	\$ (7,778)	\$ (8,047)	\$ (13,343)	\$ (15,450)

Effective the second quarter of 2001, the Westaim Ambeon and Surface Engineered Products segments have been combined as Westaim Coating Solutions, reflecting the closer alignment of these businesses dedicated to marketing and commercializing coating products.

Note 13 – Comparative figures

Certain 2000 figures have been reclassified to conform to the presentation of the current year.