

**For immediate release**

## **Westaim announces 2002 year-end results**

**CALGARY, ALBERTA – February 20, 2003** – The Westaim Corporation announced today that for the year ended December 31, 2002, it recorded a net loss of \$49.8 million, or 64 cents per share compared to a net loss of \$67.5 million, or 87 cents per share, in the previous year. Included in the results were losses from discontinued operations of \$19.7 million and \$59.0 million for 2002 and 2001 respectively. Revenues from continuing operations were \$49.1 million in 2002 compared to \$50.3 million in 2001.

For the three months ended December 31, 2002, the Company posted a net loss of \$9.4 million, or 12 cents per share, on revenues of \$13.7 million compared to a net loss of \$53.7 million, or 69 cents per share, on revenues of \$12.5 million in the previous year. For the quarter, losses from discontinued operations were \$3.1 million in 2002 and \$44.8 million in 2001.

The divisional loss from continuing operations for 2002 was \$15.7 million, compared to a loss of \$9.5 million in 2001. This loss primarily reflects the planned level of investment towards research and development in Westaim's technology divisions.

At December 31, 2002, Westaim had \$102.9 million in cash and equivalents, compared to \$138.4 million in 2001. The Company has no debt.

“We made significant progress with both NUCRYST and iFire in 2002,” said Barry M. Heck, President & CEO of Westaim. “In 2003 we will build on last year's accomplishments as NUCRYST enters its first human trials for a drug based on its nanocrystalline technology and iFire begins to work on product-sized, mid-30-inch flat panel displays.”

The Westaim Corporation's technology investments include: NUCRYST Pharmaceuticals, which researches, develops and commercializes medical devices and pharmaceutical products based on its nanocrystalline silver technology; and iFire Technology, which has developed a revolutionary low-cost flat panel display. Westaim's common shares are listed on Nasdaq under the symbol WEDX and on The Toronto Stock Exchange under the trading symbol WED.

-30-

For more information contact:

The Westaim Corporation

(403) 234-3103

[info@westaim.com](mailto:info@westaim.com)

[www.westaim.com](http://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**

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

(thousands of dollars)	Quarter Ended December 31, 2002	Quarter Ended December 31, 2001	Twelve Months Ended December 31, 2002	Twelve Months Ended December 31, 2001
Revenue	\$ 13,709	\$ 12,458	\$ 49,063	\$ 50,267
Costs				
Manufacturing	7,042	8,069	24,787	25,551
Selling, general and administrative	2,695	2,617	8,454	11,711
Research and development (note 8)	6,651	4,262	25,692	16,924
Depreciation and amortization	1,483	1,437	5,849	5,551
Divisional loss	(4,162)	(3,927)	(15,719)	(9,470)
Corporate	(1,723)	(1,876)	(6,686)	(7,750)
Interest income	348	1,710	2,206	7,727
Gain on sale of assets (note 9)	-	-	-	20,122
Equity loss	(237)	(4,719)	(3,410)	(18,687)
Loss from continuing operations before income taxes	(5,774)	(8,812)	(23,609)	(8,058)
Income tax expense				
Current	92	111	(98)	(75)
Future	(614)	(235)	(6,388)	(295)
	(522)	(124)	(6,486)	(370)
Loss from continuing operations	(6,296)	(8,936)	(30,095)	(8,428)
Loss from discontinued operations net of income taxes (note 3)	(3,149)	(44,818)	(19,667)	(59,031)
Net loss for the period	\$ (9,445)	\$ (53,754)	\$ (49,762)	\$ (67,459)
Loss per common share (note 7)				
Continuing operations - basic and diluted	\$ (0.08)	\$ (0.11)	\$ (0.39)	\$ (0.11)
Net loss - basic and diluted	(0.12)	(0.69)	(0.64)	(0.87)
Weighted average number of outstanding common shares (thousands)	78,033	77,787	77,924	77,741
Deficit at beginning of period	\$ (205,872)	\$ (110,222)	\$ (163,976)	\$ (96,517)
Change in accounting policy (note 2,6)	-	-	(1,579)	-
As restated	(205,872)	(110,222)	(165,555)	(96,517)
Net loss	(9,445)	(53,754)	(49,762)	(67,459)
Deficit at end of period	\$ (215,317)	\$ (163,976)	\$ (215,317)	\$ (163,976)

**THE WESTAIM CORPORATION**Consolidated Balance Sheet  
(unaudited)

(thousands of dollars)	December 31 2002	December 31 2001
<b>ASSETS</b>		
Current		
Cash and cash equivalents	\$ 77,631	\$ 138,373
Short-term investments	25,250	-
Accounts receivable	14,114	18,152
Inventories	13,939	18,510
Other	858	929
	131,792	175,964
Capital assets	45,265	44,833
Deferred charges	2,461	2,085
Future income taxes	5,730	12,115
Investments	500	3,182
	\$ 185,748	\$ 238,179
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current		
Accounts payable and accrued liabilities	\$ 19,220	\$ 17,943
Provision for site restoration	7,749	7,175
Deferred licensing revenue	565	4,439
	27,534	29,557
Shareholders' equity		
Capital stock (note 5)	373,128	372,598
Contributed surplus (note 5)	403	-
Deficit	(215,317)	(163,976)
	158,214	208,622
	\$ 185,748	\$ 238,179

**THE WESTAIM CORPORATION**  
Consolidated Cash Flow Statement  
(unaudited)

(thousands of dollars)	Quarter Ended December 31, 2002	Quarter Ended December 31, 2001	Twelve Months Ended December 31, 2002	Twelve Months Ended December 31, 2001
<b>Operating Activities</b>				
Loss from continuing operations	\$ (6,296)	\$ (8,936)	\$ (30,095)	\$ (8,428)
Items not affecting cash				
Depreciation and amortization	1,483	1,437	5,849	5,551
Writedown of carrying value of assets	421	-	421	-
Provision for site restoration costs	92	-	1,120	3,070
Future income taxes	611	235	6,385	295
Gain on sale of assets (note 9)	-	-	-	(20,122)
Deferred licensing revenue	(1,068)	(1,065)	(4,270)	(4,272)
Equity loss on investments	237	4,719	3,410	18,687
Other (note 5)	-	(74)	1,100	194
Cash used in continuing operations before non-cash working capital changes	(4,520)	(3,684)	(16,080)	(5,025)
Changes in continuing operations non-cash working capital				
Accounts receivable	3,250	4,146	629	6,899
Inventories	3,880	(4,966)	3,279	(5,535)
Other	189	600	(52)	(949)
Accounts payable and accrued liabilities	(2,279)	(2,329)	(2,953)	(5,782)
Site restoration expenditures	(121)	(137)	(546)	(585)
Deferred licensing revenue	-	-	397	386
Cash (used in) provided from continuing operations	399	(6,370)	(15,326)	(10,591)
Cash (used in) provided from discontinued operations	(808)	575	(10,627)	15,683
<b>Total cash (used in) provided from operating activities</b>	<b>(409)</b>	<b>(5,795)</b>	<b>(25,953)</b>	<b>5,092</b>
<b>Investing activities</b>				
Capital expenditures - continuing operations	(1,483)	(1,936)	(7,218)	(5,675)
Capital expenditures - discontinued operations	(11)	(299)	(478)	(2,144)
Short-term investments	(10,132)	13,508	(25,250)	-
Deferred charges	(179)	(88)	(948)	(629)
Investments	96	(3,010)	(728)	(6,384)
Proceeds on sale of assets (note 9)	-	-	-	23,127
Cash (used in) provided from investing activities	(11,709)	8,175	(34,622)	8,295
<b>Financing activities</b>				
Issuance of common shares	-	-	151	467
Repurchase of common shares (note 5)	-	-	(318)	-
Cash (used in) provided from financing activities	-	-	(167)	467
Net increase (decrease) in cash and cash equivalents	(12,118)	2,380	(60,742)	13,854
Cash and cash equivalents at beginning of period	89,749	135,993	138,373	124,519
<b>Cash and cash equivalents at end of period</b>	<b>\$ 77,631</b>	<b>\$ 138,373</b>	<b>\$ 77,631</b>	<b>\$ 138,373</b>

**The Westaim Corporation**  
**Notes to Interim Consolidated Financial Statements for the year ended December 31, 2002 (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 consolidated financial statements as at December 31, 2001 except as reported in Note 2.

**Note 2 – Change in Accounting Policy – Stock-based Compensation Plans**

Effective January 1, 2002 the Company and its subsidiaries adopted Section 3870 of the Handbook of the Canadian Institute of Chartered Accountants (CICA) with respect to the accounting and disclosure of stock-based compensation, which recommends that awards to employees be valued using a fair value method of accounting. These new rules also require that companies account for stock appreciation rights ("SARs") and similar awards to be settled in cash or other assets, by measuring compensation expense on an ongoing basis, as the amount by which the quoted market price exceeds the exercise price at each measurement date.

The Company has elected to account for stock options by measuring compensation expense as the excess, if any, of the quoted market value of the stock at the date of grant over the exercise price. For stock options in subsidiary companies, compensation expense is measured as the excess, if any, of the fair value of the subsidiary's stock at the date of grant over the exercise price.

Under CICA 3870, companies that elect a method other than the fair value method of accounting are required to disclose pro forma net income and earnings per share information, using a pricing model such as the Black-Scholes model, as if the fair value method of accounting had been used. These new rules do not apply to pre-existing awards except for those awards that call for settlement in cash or other assets.

**Note 3 – Discontinued Operations**

On May 28, 2002 the Board of Directors of the Company approved the closing of the Coinage division and the selling of the Ethylene Coatings business. Accordingly, the results from operations of these businesses, including the estimated cost of shutdown for the Coinage division and disposition or shutdown of the Ethylene Coatings business, have been accounted for on a discontinued basis. The Coinage division was shut down in July 2002. It is expected that the Ethylene Coatings business will be shutdown in the first quarter of 2003.

As a result, the Company recorded a loss from discontinued operations of \$16,518 in the second quarter of 2002 and an additional loss of \$3,149 in the fourth quarter of 2002 for a total loss of \$19,667, of which \$7,526 remains in accounts payable and accrued liabilities as at December 31, 2002.

Amounts included in the consolidated balance sheets relating to discontinued operations are as follows:

	December 31, 2002	December 31, 2001
Accounts receivable	\$ 2,178	\$ 5,587
Inventories	353	1,645
Other assets	32	154
Accounts payable and accrued liabilities	(10,383)	(8,283)
Net working capital	\$ (7,820)	\$ (897)
Capital assets	\$ 8,478	\$ 9,468

The results of discontinued operations are summarized as follows:

	Quarter Ended		Year Ended	
	Dec. 31 2002	Dec.31 2001	Dec. 31 2002	Dec. 31 2001
Revenues to May 28, 2002	\$ –	\$ 2,286	\$ 6,454	\$ 18,616
Revenues subsequent to May 28, 2002 and estimated future revenues	–	–	3,829	–
Total revenue from discontinued operations	\$ –	\$ 2,286	\$ 10,283	\$ 18,616
Divisional losses to May 28, 2002	\$ –	\$(10,131)	\$ (3,908)	\$(24,344)
Divisional losses subsequent to May 28, 2002 and estimated future divisional losses	(1,733)	–	(6,676)	–
Costs relating to shutdown and disposition	(1,416)	–	(9,083)	–
Write down of carrying value of assets (Note 4)	–	(34,687)	–	(34,687)
Net loss from discontinued operations	\$ (3,149)	\$(44,818)	\$(19,667)	\$(59,031)

The net loss from discontinued operations is after deduction of depreciation of \$174 for the quarter ended December 31, 2002 (2001 – \$900) and \$636 for the year ended December 31, 2002 (2001 – \$3,427). The net loss for the year ended December 31, 2002 also includes provisions for workforce reduction and other shutdown and asset disposal costs totaling \$9,083. No material gain or loss is anticipated from the sale of the Ethylene Coatings business and all expected future losses from this business were included in the net loss from discontinued operations recorded during 2002.

Net loss per common share from discontinued operations was \$(0.04) per share for the three months ended December 31, 2002 (2001 – \$(0.57)) and \$(0.25) per share for the year ended December 31, 2002 (2001 – \$(0.76)). No tax provisions were recorded with respect to these businesses during these periods.

**Note 4 – Write Down in Carrying Value of Assets**

In late 2001, as a result of projected operating losses arising from uncertainty regarding the ability to secure future coin blank and other coinage-related contracts, the Company assessed the recoverability of the tangible and intangible assets related to the Coinage operating segment. Profitability in prior years resulted from contracts from certain customers at significant volumes that are no longer available. The Company projected that the undiscounted future net cash flows from use of these assets, together with the residual value of these assets, to be less than their carrying amounts.

Due to a significant downturn in the global ethylene industry, as well as changes to the manufacturing process resulting in surplus manufacturing equipment, in late 2001 the Company assessed the recoverability of the tangible and intangible assets related to the Ethylene Coatings business and projected that the undiscounted future net cash flows from the use of these assets, together with their residual values, to be less than their carrying amounts.

Accordingly, in the fourth quarter of 2001, the Company recorded a provision for asset impairment totaling \$34,687, of which \$27,651 related to property, plant and equipment and \$7,036 related to other assets. The provision relating to other assets includes \$2,497 in spare parts associated with the property, plant and equipment and a \$4,000 reduction in future income tax assets. These businesses have been accounted for as discontinued operations in 2002 (Note 3).

# The Westaim Corporation

## Notes to Interim Consolidated Financial Statements for the year ended December 31, 2002 (unaudited)

(thousands of dollars)

### Note 4 (Continued)

Estimates of such undiscounted future net cash flows, together with residual values, are subject to significant uncertainties and assumptions. Actual results could, therefore, vary significantly from such estimates.

### Note 5 – Capital Stock

As at December 31, 2002 the Company had outstanding 78,032,787 common shares and 5,665,599 options convertible into common shares (December 31, 2001 – 77,786,915 common shares and 5,245,399 options).

In June 2002, the Company filed a normal course issuer bid which entitles the Company to acquire up to 3,889,000 common shares between June 19, 2002 and June 18, 2003. The purchases are made on the open market at the time of any particular purchase.

No shares were acquired during the fourth quarter 2002. For the 12 months ended December 31, 2002 the Company has repurchased 150,500 shares at an average price of \$2.12 for an aggregate consideration of \$318. The amount by which the average carrying value exceeded the cost of reacquiring the shares, amounting to \$403, has been credited to contributed surplus.

During the third quarter of 2002, the Company issued 72,843 shares under its Employee Share Purchase Plan at an average price of \$2.08.

During the second quarter of 2002, the Company issued 323,529 shares as compensation expense of \$1,100.

### Note 6 – Stock-based Compensation Plans

Effective January 1, 2002, the CICA recommends that stock-based compensation be accounted for using a fair value methodology. As permitted under the new rules, the Company and its subsidiaries have elected to measure compensation expense as the difference, if any, between the quoted market value or fair value of the stock at the date of grant and the exercise price at the date of grant. The exercise price of options granted by the Company and its subsidiaries is not less than the market value at the date of grant and, consequently, no compensation expense has been recorded.

In the fourth quarter of 2002, the Company issued 30,000 options for common shares of the Company at a weighted average exercise price of \$1.52. For the year ended December 31, 2002, the Company issued 420,200 options for common shares of the Company at a weighted average exercise price of \$5.22. If compensation costs for options for common shares of the Company and for common shares of subsidiaries issued on or after January 1, 2002 had been determined based on the fair value methodology, using the Black-Scholes option pricing model, the Company's net loss and loss per share would have been increased to the pro forma amounts indicated below:

	Quarter Ended	Year Ended
(thousands of dollars)	Dec. 31, 2002	Dec. 31, 2002
Net loss applicable to common shareholders as reported	\$ (9,445)	\$ (49,762)
Pro forma net loss applicable to common shareholders	(9,610)	(50,389)
Loss per common share as reported (basic and diluted)	(0.12)	(0.64)
Pro forma loss per common share (basic and diluted)	(0.13)	(0.65)

The fair value of each option grant by the Company and its subsidiaries was estimated using the Black-Scholes option pricing model assuming no dividends are paid on common shares, a risk-free interest rate of 5.18%, an average life of 7.0 years and a volatility of 59.5%. The amounts computed according to the Black-Scholes pricing model may not be indicative of the actual values realized upon the exercise of these options by the holders.

Stock Appreciation Rights – Effective January 1, 2002 net changes in the value of SARs, measured as the amount by which quoted market prices or fair value exceeds the exercise price at the measurement date, is recognized as compensation expense over the SAR's vesting period and offset to accounts payable and accrued liabilities. The cumulative liability as at January 1, 2002, amounting to \$1,579, was charged to deficit with a corresponding increase to accounts payable and accrued liabilities. As at December 31, 2002 the liability has been reduced to \$Nil as the market value of the subsidiaries' SARs is less than their exercise price.

### Note 7 – Earnings per Share

The Company uses the treasury stock method to calculate 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 Company'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:

	Quarter Ended		Year Ended	
(thousands of shares)	Dec. 31 2002	Dec. 31 2001	Dec. 31 2002	Dec. 31 2001
Weighted average number of common shares outstanding – basic earnings per share	78,033	77,787	77,924	77,741
Effect of dilutive securities	–	1,244	17	3,033
Weighted average number of common shares outstanding – diluted earnings per share	78,033	79,031	77,941	80,774

### Note 8 – 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.

Contributions are 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. Contribution claims totaling \$9,063 (2001 – \$14,490) have been recorded during the year. Of this amount, \$8,061 (2001 – \$12,894) has been credited to research and development expense and \$1,002 (2001 – \$1,596) has been credited to capital assets. As at December 31, 2002 the Company has recorded a receivable of \$2,080 (2001 – \$4,444) for contribution claims relating to expenditures in 2002.

### Note 9 – Nucryst Pharmaceuticals Agreement with Smith & Nephew plc

On May 8, 2001, the Company's subsidiary, Nucryst Pharmaceuticals Corp. ("Nucryst"), entered into a series of agreements relating to its Acticoat™ burn dressing and wound care products with Smith & Nephew plc ("Smith & Nephew"). Under these agreements, Nucryst sold its North American burn dressing business and entered into an exclusive global licensing agreement for the sale and marketing of Acticoat™ burn and wound care dressings. Nucryst 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 are working together to develop new wound care products and to obtain additional regulatory approvals. Nucryst continues to manufacture Acticoat™ products for Smith & Nephew under a long term manufacturing agreement. In 2001, the Company recorded a gain on the sale of the North American burn dressings business of \$20,122.

**The Westaim Corporation****Notes to Interim Consolidated Financial Statements for the year ended December 31, 2002 (unaudited)**

(thousands of dollars)

**Note 10 – Segmented Information – Continuing Operations**

(thousands of dollars)	Quarter Ended		Year Ended	
	Dec. 31 2002	Dec. 31 2001	Dec. 31 2002	Dec. 31 2001
<b>Revenue</b>				
Ambeon	\$ 10,146	\$ 9,047	\$ 36,449	\$ 36,160
Nucrust Pharmaceuticals	2,496	2,345	8,344	9,835
iFire Technology	1,067	1,066	4,270	4,272
	<u>\$ 13,709</u>	<u>\$ 12,458</u>	<u>\$ 49,063</u>	<u>\$ 50,267</u>
<b>Divisional Earnings (Loss)</b>				
Ambeon	\$ 2,497	\$ 1,813	\$ 9,026	\$ 7,729
Nucrust Pharmaceuticals	(1,897)	(2,681)	(6,985)	(6,220)
iFire Technology	(4,544)	(2,855)	(16,915)	(10,052)
Other	(218)	(204)	(845)	(927)
	<u>\$ (4,162)</u>	<u>\$ (3,927)</u>	<u>\$ (15,719)</u>	<u>\$ (9,470)</u>

**Note 11 – Comparative Figures**

Certain 2001 figures have been reclassified to conform to the presentation of the current year.