



For immediate release

Westaim announces 2003 second quarter results

CALGARY, ALBERTA – August 6, 2003 – The Westaim Corporation announced today that for the second quarter ended June, 2003, it recorded a net loss of \$8.1 million, or 10 cents per share on revenue of \$9.7 million. In the same quarter last year, the company recorded a net loss of \$25.6 million, or 33 cents per share, on revenue of \$11.6 million. The 2002 results include a net loss from discontinued operations of \$14.2 million related to the closing of Westaim's non-core assets.

For the six months ended June 30, 2003, the company posted revenues of \$26.3 million and a net loss of \$9.0 million, or 12 cents per share. For the same period last year, Westaim had revenues of \$23.7 million and a net loss of \$34.0 million, or 44 cents per share.

At June 30, 2003, Westaim had \$84.5 million in cash and short-term investments, and no debt.

“Westaim has experienced significant progress over the first half of the year with both iFire Technology and NUCRYST Pharmaceuticals,” said Barry M. Heck, President & CEO of Westaim. “Both subsidiaries have made significant achievements in 2003. iFire's *Color by Blue* technology breakthrough is resulting in capital and production cost reductions. NUCRYST Pharmaceuticals is moving ahead with the human clinical trials necessary to gain FDA approval for a new class of eczema drug based on its nanocrystalline technology and sales from its medical device business continued to grow by approximately 50 percent year over year.”

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.

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The Westaim Corporation

Management's Discussion and Analysis

This interim Management's Discussion and Analysis should be read in conjunction with the Management's Discussion and Analysis included in the annual report of the Company for the year ended December 31, 2002.

Consolidated Results – Three months ended June 30, 2003

For the three months ended June 30, 2003 the Company reported a net loss of \$8.1 million compared to a net loss of \$25.6 million for the three months ended June 30, 2002. Revenues from continuing operations for the three months ended June 30, 2003 were \$9.7 million compared to \$11.6 million for the same period in 2002.

The 2002 results included a net loss from discontinued operations of \$14.2 million, non-cash equity losses from investments of \$1.5 million and future income tax expenses of \$3.0 million. Divisional losses were \$5.8 million for the three months ended June 30, 2003 compared to losses of \$5.2 million in 2002, primarily due to lower divisional earnings at Ambeon discussed below.

Operations

Westaim's operations are organized into two high-potential emerging technology businesses – iFire Technology Inc. and Nucryst Pharmaceuticals Corp.; and one industrial technology division – Ambeon.

In May, 2002, the Company announced its intention to close the Coinage division and to sell the assets or business of its ethylene coatings division. As a result, commencing in the second quarter of 2002, these businesses have been accounted for as discontinued operations.

iFire Technology – iFire's operating loss for the three months ended June 30, 2003 was \$4.8 million compared to an operating loss of \$4.6 million for the same period in 2002. Research and development expenditures were comparable to the prior year and funding contributions from Technology Partnerships Canada ("TPC") were \$2.0 million in the second quarter of 2003 compared to \$2.3 million in the second quarter of 2002. The final claim with respect to the TPC agreement of \$1.3 million is expected to be received in the third quarter of 2003, at which time iFire will have received the maximum contributions under the agreement of \$30.0 million. Research and development expenditures before TPC contributions are expected to continue at comparable levels during the remainder of the year.

Capital expenditures are expected to be in the range of \$6–8 million for the remainder of 2003.

Nucryst Pharmaceuticals – Nucryst's operating loss for the second quarter of 2003 was \$1.6 million compared to an operating loss of \$1.8 million in the second quarter of 2002. Sales of Acticoat™ dressings continue to be strong with product sales to end users continuing at year-over-year growth rates of approximately 50%. Sales revenue reflects licensing royalties, milestone payments and manufacturing revenue relating to Acticoat™ products sold by, and produced for, Smith & Nephew plc. Total revenues increased to \$2.7 million in the second quarter of 2003 from \$1.8 million in the same period in 2002.

The outlook for Nucryst is a continued increase in licensing and manufacturing revenues resulting from the growth in sales of Acticoat™ products by Smith & Nephew plc in the United States and Europe. Improvements in revenue are expected to be more than offset by research and development expenditures as Nucryst expands clinical and pre-clinical research into the pharmaceutical attributes of its nanocrystalline silver technology.

Ambeon – Westaim's Ambeon division develops, manufactures and markets coating solutions and products for customers in the aerospace, electronics, catalyst, and other markets. Ambeon's operating earnings in the second quarter of 2003 were \$0.9 million on revenue of \$7.0 million compared to earnings of \$1.6 million on revenue of \$8.8 million in the second quarter of 2002. Slight improvements in results from Ambeon's core products in the aerospace and electronics markets were offset by lower revenues and earnings from a materials supply contract which was

completed in the first quarter of 2003. These general year-over-year trends are expected to continue for the remainder of the year.

Discontinued Operations – In the first six months of 2003, no adjustments were made to the provisions recorded in 2002 for forecasted operating losses to the date of shutdown of the Coinage and ethylene coatings businesses. The net loss from discontinued operations for the three months ended June 30, 2002, relating to the Coinage and ethylene coatings businesses, of \$14.2 million included operating losses of \$4.4 million, forecasted operating losses to the date of shutdown or sale of the businesses of \$2.1 million, and provisions for workforce reductions, shutdown and asset disposal costs of \$7.7 million.

Cash proceeds from the disposition of assets relating to discontinued operations are expected to more than offset any future cash costs of the discontinued operations.

Consolidated Results – Six months ended June 30, 2003

For the six months ended June 30, 2003, the Company reported a net loss of \$9.0 million on sales from continuing operations of \$26.3 million, compared to a net loss of \$34.0 million on sales from continuing operations of \$23.7 million in the same period of 2002.

The higher net loss for the six months ended June 30, 2002 is primarily attributable to losses from discontinued operations of \$16.5 million in 2002, with no losses from discontinued operations reported in the same period in 2003. The loss from continuing operations for the six months ended June 30, 2003 was \$9.0 million compared to \$17.5 million in the same period in 2002. This improvement in loss from continuing operations is the result of \$4.6 million in milestone revenues reported by Nucryst in the first quarter of 2003 and a \$4.0 million year-over-year decrease in income tax expense primarily due to a reduction in the Company's future income tax asset in the first six months of 2002.

Liquidity and Capital Resources

At June 30, 2003, the Company had cash and short-term investments of \$84.5 million, a decrease of \$11.2 million compared to March 31, 2003 and \$18.3 million compared to December 31, 2002. The reduction in cash from December 31, 2002 is primarily due to cash used in continuing operations of \$10.7 million, capital expenditures of \$5.1 million, and cash used in discontinued operations of \$2.7 million.

Forward-looking Statements

This Report contains forward-looking statements including iFire's capital expenditures, Nucryst's licensing and manufacturing revenues and research and development expenditures, and the Company's proceeds from asset dispositions. 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 risk factors set forth in the Company's Form 40-F as filed with the U.S. Securities and Exchange Commission. The Company disclaims any intention or obligations to revise forward-looking statements whether as a result of new information, future developments or otherwise.

THE WESTAIM CORPORATION

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

(thousands of dollars)	Quarter Ended June 30, 2003	Quarter Ended June 30, 2002	Six Months Ended June 30, 2003	Six Months Ended June 30, 2002
Revenue	\$ 9,685	\$ 11,638	\$ 26,346	\$ 23,656
Costs				
Manufacturing	5,333	6,214	11,361	12,467
Selling, general and administrative	1,847	2,026	3,732	3,939
Research and development (note 7)	6,735	7,108	12,366	13,007
Depreciation and amortization	1,602	1,444	3,148	2,869
Divisional loss	(5,832)	(5,154)	(4,261)	(8,626)
Corporate	(1,590)	(2,136)	(3,771)	(3,751)
Interest and foreign exchange	(107)	321	(377)	1,131
Loss on disposal of assets	(364)	-	(364)	-
Equity loss	-	(1,464)	-	(1,977)
Loss from continuing operations before income taxes	(7,893)	(8,433)	(8,773)	(13,223)
Income tax expense				
Current	(115)	(5)	(164)	(130)
Future	(42)	(3,026)	(97)	(4,108)
	(157)	(3,031)	(261)	(4,238)
Loss from continuing operations	(8,050)	(11,464)	(9,034)	(17,461)
Loss from discontinued operations net of income taxes (note 3)	-	(14,153)	-	(16,518)
Net loss for the period	\$ (8,050)	\$ (25,617)	\$ (9,034)	\$ (33,979)
Loss per common share (note 6)				
Continuing operations - basic and diluted	\$ (0.10)	\$ (0.15)	\$ (0.12)	\$ (0.22)
Net loss - basic and diluted	(0.10)	(0.33)	(0.12)	(0.44)
Weighted average number of outstanding common shares (thousands)	78,033	77,808	78,033	77,797
Deficit at beginning of period	\$ (216,301)	\$ (173,917)	\$ (215,317)	\$ (163,976)
Change in accounting policy (note 2,5)	-	-	-	(1,579)
As restated	(216,301)	(173,917)	(215,317)	(165,555)
Net loss	(8,050)	(25,617)	(9,034)	(33,979)
Deficit at end of period	\$ (224,351)	\$ (199,534)	\$ (224,351)	\$ (199,534)

THE WESTAIM CORPORATIONConsolidated Balance Sheet
(unaudited)

	June 30	December 31
(thousands of dollars)	2003	2002
ASSETS		
Current		
Cash and cash equivalents	\$ 42,989	\$ 77,631
Short-term investments	41,548	25,250
Accounts receivable	13,219	14,114
Inventories	13,870	13,939
Other	637	858
	<u>112,263</u>	<u>131,792</u>
Capital assets	38,541	36,787
Capital assets held for sale	6,400	6,913
Deferred charges	2,615	2,461
Future income taxes	5,633	5,730
Investments	500	500
	<u>\$ 165,952</u>	<u>\$ 184,183</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Accounts payable and accrued liabilities	\$ 10,213	\$ 17,655
Provision for site restoration	6,559	7,749
Deferred licensing revenue	-	565
	<u>16,772</u>	<u>25,969</u>
Shareholders' equity		
Capital stock (note 4)	373,128	373,128
Contributed surplus (note 4)	403	403
Deficit	(224,351)	(215,317)
	<u>149,180</u>	<u>158,214</u>
	<u>\$ 165,952</u>	<u>\$ 184,183</u>

THE WESTAIM CORPORATION
Consolidated Cash Flow Statement
(unaudited)

(thousands of dollars)	Quarter Ended June 30, 2003	Quarter Ended June 30, 2002	Six Months Ended June 30, 2003	Six Months Ended June 30, 2002
Operating Activities				
Loss from continuing operations	\$ (8,050)	\$ (11,464)	\$ (9,034)	\$ (17,461)
Items not affecting cash				
Depreciation and amortization	1,602	1,444	3,148	2,869
Loss on disposal of assets	364	-	364	-
Provision for site restoration costs	-	-	-	1,033
Future income taxes	42	3,026	97	4,108
Deferred licensing revenue	-	(1,067)	(565)	(2,135)
Equity loss on investments	-	1,464	-	1,977
Other (note 4)	-	1,092	-	1,092
Cash used in continuing operations before non-cash working capital changes	(6,042)	(5,505)	(5,990)	(8,517)
Changes in continuing operations non-cash working capital				
Accounts receivable	(180)	(289)	(1,029)	1,944
Inventories	(206)	(344)	(230)	(1,289)
Other	143	(97)	189	(228)
Accounts payable and accrued liabilities	(374)	(584)	(2,479)	(4,152)
Site restoration expenditures	(1,135)	(93)	(1,190)	(123)
Deferred licensing revenue	-	-	-	397
Cash used in continuing operations	(7,794)	(6,912)	(10,729)	(11,968)
Cash used in discontinued operations	(1,589)	(3,266)	(2,708)	(6,959)
Total cash used in operating activities	(9,383)	(10,178)	(13,437)	(18,927)
Investing activities				
Capital expenditures - continuing operations	(2,102)	(1,764)	(5,076)	(3,910)
Capital expenditures - discontinued operations	-	(204)	(15)	(436)
Short-term investments	22,445	33,067	(16,298)	(34,150)
Deferred charges	(128)	(344)	(357)	(537)
Investments	-	-	-	(824)
Proceeds on sale of assets - discontinued operations	423	-	541	-
Cash provided from (used in) investing activities	20,638	30,755	(21,205)	(39,857)
Net increase (decrease) in cash and cash equivalents	11,255	20,577	(34,642)	(58,784)
Cash and cash equivalents at beginning of period	31,734	59,012	77,631	138,373
Cash and cash equivalents at end of period	\$ 42,989	\$ 79,589	\$ 42,989	\$ 79,589

The Westaim Corporation
Notes to Interim Consolidated Financial Statements for the six months ended June 30, 2003 (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. All amounts are expressed in thousands of dollars except the per share data.

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 shutdown of the ethylene coatings business, have been accounted for on a discontinued basis. Operations in the Coinage division were discontinued in July 2002 and operations in the ethylene coatings business were discontinued in February 2003.

All anticipated losses from operations and estimated shutdown costs were recorded in 2002. As a result, no losses from discontinued operations were reported in the first six months of 2003. Losses from discontinued operations amounted to \$16,518 for the first six months of 2002.

As at June 30, 2003, accounts payable and accrued liabilities included accruals related to discontinued operations provisions accrued in 2002 amounting to \$1,443 (December 31, 2002 – \$4,769).

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

	June 30, 2003	December 31, 2002
Accounts receivable	\$ 254	\$ 2,178
Inventories	54	353
Other assets	–	32
Accounts payable and accrued liabilities	(2,663)	(7,626)
Net working capital	\$ (2,355)	\$ (5,063)
Capital assets held for sale	\$ 6,400	\$ 6,913

The results of discontinued operations are summarized as follows:

	Quarter Ended		Six Months Ended	
	June 30 2003	June 30 2002	June 30 2003	June 30 2002
Revenues to May 28, 2002	\$ –	\$ 4,204	\$ –	\$ 6,454
Revenues subsequent to May 28, 2002 and estimated future revenues	–	3,829	–	3,829
Total revenue from discontinued operations	\$ –	\$ 8,033	\$ –	\$ 10,283
Divisional losses to May 28, 2002	\$ –	\$ (1,543)	\$ –	\$ (3,908)
Divisional losses subsequent to May 28, 2002 and estimated future divisional losses	–	(4,943)	–	(4,943)
Costs relating to shutdown and disposition	–	(7,667)	–	(7,667)
Net loss from discontinued operations	\$ –	\$ (14,153)	\$ –	\$ (16,518)

The net loss from discontinued operations is after deduction of depreciation of \$154 for the quarter ended June 30, 2002 and \$308 for the six months ended June 30, 2002. No material gain or loss is anticipated from the sale of the ethylene coatings facilities 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 \$0.18 for the three months ended June 30, 2002 and \$0.22 for the six months ended June 30, 2002. No tax provisions were recorded with respect to these businesses during these periods.

Note 4 – Capital Stock

As at June 30, 2003 and December 31, 2002, the Company had outstanding 78,032,787 common shares. As at June 30, 2003, the Company had outstanding 5,833,400 options convertible into common shares (December 31, 2002 – 5,665,599 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 first six months of 2003. During the second quarter of 2002, the Company issued 323,529 shares as compensation expense of \$1,100 and repurchased 2,800 shares through its normal course issuer bid for \$8.

Note 5 – 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 second quarter of 2003, the Company issued 52,800 options for common shares of the Company at a weighted average exercise price of \$2.41. In the second quarter of 2002, the Company issued 11,500 options for common shares of the Company at a weighted average exercise price of \$3.57. For the six months ended June 30, 2003, the Company has issued 427,800 options at a weighted average price of \$1.87 (2002 – 386,500 shares at a weighted average price of \$5.54). 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 Westaim Corporation

Notes to Interim Consolidated Financial Statements for the six months ended June 30, 2003 (unaudited)

(thousands of dollars)

Note 5 – Stock-based Compensation Plans (Continued)

the Black-Scholes option pricing model, the Company's net loss and loss per share would have increased to the pro forma amounts indicated below:

	Quarter Ended		Six Months Ended	
	June 30 2003	June 30 2002	June 30 2003	June 30 2002
Net loss applicable to common shareholders as reported	\$ (8,050)	\$ (25,617)	\$ (9,034)	\$ (33,979)
Pro forma net loss applicable to common shareholders	(8,280)	(25,790)	(9,491)	(34,255)
Loss per common share as reported (basic and diluted)	(0.10)	(0.33)	(0.12)	(0.44)
Pro forma loss per common share (basic and diluted)	(0.11)	(0.33)	(0.12)	(0.44)

The fair value of each option grant by the Company and its subsidiaries in 2003 was estimated using the Black-Scholes option pricing model assuming no dividends are paid on common shares, a risk-free interest rate of 5.1% (2002 – 5.2%), an average life of 7.0 years and a volatility of 59.8% (2002 – 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 the quoted market prices or fair value exceeds the exercise price at the measurement date, are 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 June 30, 2003 and December 31, 2002 the liability was \$Nil as the market value of the subsidiaries' SARs was less than their exercise price.

Note 6 – 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:

(thousands of shares)	Quarter Ended		Six Months Ended	
	June 30 2003	June 30 2002	June 30 2003	June 30 2002
Weighted average number of common shares outstanding – basic earnings per share	78,033	77,808	78,033	77,797
Effect of dilutive securities	100	202	71	554
Weighted average number of common shares outstanding – diluted earnings per share	78,133	78,010	71,104	78,351

Note 7 – 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 July 31, 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 \$5,208 have been recorded in the first six months of 2003 (2002 – \$4,683). Of this amount, \$4,162 (2002 – \$4,323) has

been credited to research and development expense and \$1,046 (2002 – \$360) has been credited to capital assets. As at June 30, 2003, the Company has recorded a receivable of \$5,317 (December 31, 2002 – \$2,080) for contribution claims relating to expenditures in 2003.

Note 8 – Guarantees

In 2003, the CICA issued Accounting Guideline 14 "Disclosure Guarantees" which recommends companies disclose the nature, amount and terms of obligations under guarantee. In the normal course of operations, the Company has issued letters of credit in the amounts of US\$1,060 and Japanese Yen 51,484 which expire on March 31, 2004 and July 31, 2003 respectively. In Canadian dollars, these guarantees amounted to approximately \$2,044 as at June 30, 2003.

Note 9 – Segmented Information – Continuing Operations

	Quarter Ended		Six Months Ended	
	June 30 2003	June 30 2002	June 30 2003	June 30 2002
Revenue				
Ambeon	\$ 7,002	\$ 8,764	\$ 16,025	\$ 17,602
Nucryst Pharmaceuticals	2,683	1,806	9,756	3,919
iFire Technology	–	1,068	565	2,135
	\$ 9,685	\$ 11,638	\$ 26,346	\$ 23,656
Divisional Earnings (Loss)				
Ambeon	\$ 860	\$ 1,583	\$ 3,297	\$ 3,827
Nucryst Pharmaceuticals	(1,635)	(1,827)	1,687	(3,558)
iFire Technology	(4,825)	(4,632)	(8,785)	(8,481)
Other	(232)	(278)	(460)	(414)
	\$ (5,832)	\$ (5,154)	\$ (4,261)	\$ (8,626)

Note 10 – Contingencies

The Company and its subsidiaries are party to legal proceedings in the ordinary course of their businesses. Management does not expect the outcome of any of these proceedings to have a material effect on the Company's financial position or operating results.

Note 11 – Comparative Figures

Certain 2002 figures have been reclassified to conform to the presentation of the current year.