



For immediate release

Westaim announces 2004 year-end results

CALGARY, ALBERTA – February 17, 2005 – The Westaim Corporation announced today that for the year ended December 31, 2004, it recorded a net loss of \$25.2 million, or 30 cents per share compared to a net loss of \$35.4 million, or 45 cents per share, in the previous year.

For the three months ended December 31, 2004, the Company posted a net loss of \$10.6 million, or 11 cents per share, on revenues of \$6.1 million compared to a net loss of \$17.9 million, or 23 cents per share, on revenues of \$3.6 million in the same period in the previous year.

The divisional loss from continuing operations for 2004 was \$23.0 million, compared to a loss of \$23.4 million in 2003. This loss primarily reflects the planned level of investment towards research and development in NUCRYST Pharmaceuticals and iFire Technology, Westaim's technology divisions.

In 2004, results included income from discontinued operations of \$3.6 million compared to income from discontinued operations of \$2.4 million in the same period of 2003. The net income from discontinued operations in 2004 included a \$5.4 million gain on the sale of the Company's Ambeon operating division. Ambeon was sold on January 29, 2004 for net proceeds of \$33.4 million.

At December 31, 2004, Westaim had \$101.1 million in cash and short term investments, compared to \$68.1 million at December 31, 2003.

In the third quarter, The Westaim Corporation closed an equity financing offering for total gross proceeds of \$50 million further adding to its strong cash position. The financing involved an offering of 14,705,883 Westaim common shares bought by a syndicate of underwriters led by GMP Securities Ltd. and including CIBC World Markets Inc., Haywood Securities Inc. and Paradigm Capital Inc. Four members of Westaim's Board of Directors personally purchased \$16.5 million worth of shares under the offering.

"Both NUCRYST and iFire Technology met or exceeded their expectations in 2004," said Barry M. Heck, President & CEO of Westaim. "NUCRYST generated record earnings and completed its first human trials for a new atopic dermatitis drug. iFire made the first public display of its 34-inch prototype display and began the first phase of commercialization with construction of the pilot plant that will validate the TDEL technology performance capabilities and help prove its projected 30 to 50 percent manufacturing cost advantage over existing flat panel display technologies."

Review of Operations:

iFire Technology

In May 2004, iFire demonstrated its high-definition thick-film dielectric electroluminescent (TDEL) 34-inch prototype television display for the first time to an audience of flat panel scientists and industry peers at the annual Society for Information Display (SID) conference held in Seattle, Washington. The 34-inch color display is the largest flat panel ever produced using inorganic electroluminescent technology.

In 2004, iFire began the expansion of its research and development facility to include pilot manufacturing of mid-30-inch sized flat panel displays using its proprietary TDEL technology. Construction of the pilot production facility is anticipated to be completed in the mid-2005 timeframe.

NUCRYST Pharmaceuticals

NUCRYST's profitable wound care division continued to grow in 2004 with revenue of \$31.9 million, compared to \$16.2 million in 2003. The division generated a profit of \$20.0 million in 2004 compared to

\$7.8 million in 2003. NUCRYST's agreement with Smith & Nephew plc for the global sales and distribution of Acticoat™ dressings for serious wounds, including burns and chronic wounds, includes up to US\$56.5 million in milestone payments that can be earned upon the achievement of sales and regulatory milestones. The results for 2004 include US\$10 million in milestone payments, with one US\$5 million payment achieved ahead of schedule in the third quarter of 2004. To date, NUCRYST has earned US\$14 million in milestone payments as a result of strong global sales of Acticoat™ dressings.

NUCRYST has begun a \$7 million expansion of its production facility in Fort Saskatchewan, Canada to meet anticipated demand from Smith & Nephew for its Acticoat™ family of dressings. The expansion will include new production equipment, overall facility expansion and a new cleanroom control environment. NUCRYST anticipates that the facility expansion will be completed by the end of 2005.

In September 2004, NUCRYST received positive and encouraging results from its first Phase 2a clinical trials for its drug candidate, topical NPI 32101. The product will potentially be used to treat atopic dermatitis, a form of eczema. The purpose of the study was to evaluate the safety and effectiveness of topical NPI 32101 in improving the signs and symptoms of atopic dermatitis. The results were an important validation of NUCRYST's proprietary technology as a pharmaceutical agent and demonstrated that topical NPI 32101 has the potential to be a well-tolerated and effective drug for the treatment of atopic dermatitis. Based on the results, NUCRYST will continue human clinical trials for topical NPI32101.

NUCRYST has begun pre-clinical research on other antimicrobial and/or anti-inflammatory drug opportunities for its patented Rx nanocrystals. Infection and inflammation are issues in many therapeutic areas and demand exists for effective pharmaceuticals and medical devices and products for the treatment of these common afflictions.

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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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 but not limited to financial considerations and those predicting the development or upgrading of facilities and equipment, partner discussions and negotiations, product development, product commercialization, manufacturing costs, cost advantages, construction timeframes, earning of milestone payments, anticipated product demand, potential product use, potential product effectiveness, and production and capital costs. The Company disclaims any intention or obligation 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 Statements of Operations and Consolidated Statements of Deficit
(unaudited)

| (thousands of dollars except per share data) | Three Months Ended December 31, 2004 | Three Months Ended December 31, 2003 (Restated - note 7) | Twelve Months Ended December 31, 2004 | Twelve Months Ended December 31, 2003 (Restated - note 7) |
|---|---|--|--|---|
| Revenue | \$ 6,096 | \$ 3,594 | \$ 32,241 | \$ 17,285 |
| Costs | | | | |
| Manufacturing | 2,660 | 1,834 | 8,679 | 5,948 |
| Selling, general and administrative | 1,548 | 1,040 | 5,342 | 3,817 |
| Research and development (note 9) | 8,648 | 8,239 | 35,489 | 25,871 |
| Depreciation and amortization | 1,352 | 1,549 | 5,722 | 5,001 |
| Divisional loss | (8,112) | (9,068) | (22,991) | (23,352) |
| Corporate costs | (2,224) | (3,250) | (7,396) | (9,550) |
| Interest income and foreign exchange | 39 | 216 | 1,799 | 653 |
| Loss on disposal of assets | (69) | (314) | (22) | (723) |
| Loss from continuing operations before income taxes | (10,366) | (12,416) | (28,610) | (32,972) |
| Income tax expense | | | | |
| Current | (33) | (35) | (121) | (130) |
| Future | - | (4,543) | - | (4,698) |
| | (33) | (4,578) | (121) | (4,828) |
| Loss from continuing operations | (10,399) | (16,994) | (28,731) | (37,800) |
| (Loss) income from discontinued operations net of income taxes (note 3) | (201) | (920) | 3,554 | 2,360 |
| Net loss for the period | \$ (10,600) | \$ (17,914) | \$ (25,177) | \$ (35,440) |
| | | | | |
| Loss per common share (note 8) | | | | |
| Continuing operations - basic and diluted | \$ (0.11) | \$ (0.22) | \$ (0.34) | \$ (0.48) |
| Net loss - basic and diluted | (0.11) | (0.23) | (0.30) | (0.45) |
| | | | | |
| Weighted average number of outstanding common shares (thousands) | 92,828 | 78,073 | 84,094 | 78,045 |
| | | | | |
| Deficit at beginning of period | \$ (265,961) | \$ (232,142) | \$ (251,384) | \$ (215,317) |
| Change in accounting policy (note 7) | - | (1,328) | - | (627) |
| Deficit at beginning of period restated | (265,961) | (233,470) | (251,384) | (215,944) |
| Net loss | (10,600) | (17,914) | (25,177) | (35,440) |
| Deficit at end of period | \$ (276,561) | \$ (251,384) | \$ (276,561) | \$ (251,384) |

THE WESTAIM CORPORATION
Consolidated Balance Sheets
(unaudited)

| (thousands of dollars) | December 31 2004 | December 31 2003 (Restated - note 7) |
|--|---------------------|--|
| ASSETS | | |
| Current | | |
| Cash and cash equivalents | \$ 89,139 | \$ 44,694 |
| Short-term investments | 12,000 | 23,443 |
| Accounts receivable | 6,712 | 4,960 |
| Inventories | 3,605 | 2,610 |
| Future income taxes | - | 1,032 |
| Other | 538 | 659 |
| Current assets available for sale (note 3) | - | 30,369 |
| | 111,994 | 107,767 |
| Other receivable (note 3) | 1,800 | - |
| Capital assets (note 4) | 46,776 | 28,783 |
| Capital assets available for sale (note 3) | 5,500 | 5,500 |
| Intangible assets | 5,693 | 2,356 |
| Investments | 500 | 500 |
| | \$ 172,263 | \$ 144,906 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| Current | | |
| Accounts payable and accrued liabilities | \$ 12,963 | \$ 10,015 |
| Accounts payable and accrued liabilities available for sale (note 3) | - | 3,509 |
| | 12,963 | 13,524 |
| Long-term debt (note 5) | 4,795 | - |
| Provision for site restoration | 6,708 | 7,564 |
| | 24,466 | 21,088 |
| Shareholders' equity | | |
| Capital stock (note 6) | 421,233 | 373,230 |
| Contributed surplus (note 7) | 3,125 | 1,972 |
| Deficit | (276,561) | (251,384) |
| | 147,797 | 123,818 |
| | \$ 172,263 | \$ 144,906 |

THE WESTAIM CORPORATION
Consolidated Cash Flow Statements
(unaudited)

| (thousands of dollars) | Three Months Ended December 31, 2004 | Three Months Ended December 31, 2003 (Restated - note 7) | Twelve Months Ended December 31, 2004 | Twelve Months Ended December 31, 2003 (Restated - note 7) |
|--|---|--|--|---|
| Operating Activities | | | | |
| Loss from continuing operations | \$ (10,399) | \$ (16,994) | \$ (28,731) | \$ (37,800) |
| Items not affecting cash | | | | |
| Depreciation and amortization | 1,352 | 1,549 | 5,722 | 5,001 |
| Future income taxes | - | 4,543 | - | 4,698 |
| Loss on disposal of assets | 69 | 314 | 22 | 723 |
| Provision for site restoration | 327 | - | 327 | - |
| Deferred licensing revenue | - | - | - | (565) |
| Stock compensation expense | 612 | 241 | 1,210 | 942 |
| Cash used in continuing operations before non-cash working capital changes | (8,039) | (10,347) | (21,450) | (27,001) |
| Changes in continuing operations non-cash working capital | | | | |
| Accounts receivable | 3,845 | 1,422 | (756) | 225 |
| Inventories | 110 | (122) | (1,017) | (446) |
| Other | 180 | 359 | 121 | 136 |
| Accounts payable and accrued liabilities | (6,225) | 2,214 | 2,829 | 2,574 |
| Site restoration expenditures net of recoveries | (100) | 10 | (1,183) | (185) |
| Cash used in continuing operations | (10,229) | (6,464) | (21,456) | (24,697) |
| Cash (used in) provided from discontinued operations | (111) | 1,575 | (1,785) | 3,209 |
| Total cash used in operating activities | (10,340) | (4,889) | (23,241) | (21,488) |
| Investing activities | | | | |
| Capital expenditures - continuing operations | (7,528) | (1,959) | (23,432) | (10,383) |
| Capital expenditures - discontinued operations | - | (533) | - | (1,745) |
| Redemption and sale of short-term investments | 75,683 | 13,471 | 149,151 | 53,332 |
| Purchase of short-term investments | - | (5,000) | (137,708) | (51,525) |
| Intangible assets - continuing operations | (3,276) | (155) | (3,686) | (725) |
| Intangible assets - discontinued operations | - | (49) | - | (234) |
| Proceeds on sale of assets | - | 62 | 61 | 1,308 |
| Proceeds on sale of discontinued operations (note 3) | - | - | 30,559 | - |
| Cash provided from (used in) investing activities | 64,879 | 5,837 | 14,945 | (9,972) |
| Financing activities | | | | |
| Proceeds from long-term debt (note 5) | 4,795 | - | 4,795 | - |
| Issuance of common shares (note 6) | - | - | 47,946 | 102 |
| Cash provided from financing activities | 4,795 | - | 52,741 | 102 |
| Net increase (decrease) in cash and cash equivalents | 59,334 | 948 | 44,445 | (31,358) |
| Cash and cash equivalents at beginning of period | 29,805 | 43,746 | 44,694 | 76,052 |
| Cash and cash equivalents at end of period | \$ 89,139 | \$ 44,694 | \$ 89,139 | \$ 44,694 |

The Westaim Corporation
Notes to Interim Consolidated Financial Statements for the Year Ended December 31, 2004 (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 except as discussed in Notes 2 and 7. These interim consolidated financial statements do not include all disclosures that would be included in the Company's annual audited financial statements. All amounts are expressed in thousands of dollars except per share data.

Note 2 – Changes in Accounting Policies

Effective January 1, 2004, the Company adopted revisions to Section 3870 of the Handbook of the Institute of Chartered Accountants ("CICA") with respect to the accounting and disclosure of stock-based compensation. The impact of implementation of these new rules is discussed in Note 7.

Effective January 1, 2004, the Company adopted CICA Handbook Section 3110 "Asset Retirement Obligations" which addresses the financial accounting and reporting obligations associated with the retirement of tangible, long-lived assets and their associated net retirement costs. Under the new Section, an asset retirement obligation is recognized at its fair value in the period in which it is incurred. Asset retirement costs are capitalized as part of the carrying amount of the long-lived asset and a related amortization expense is recognized in future periods. Implementation of CICA 3110 did not have an impact on the Company's results from operations or its financial position. The assets subject to these new rules have been sold or written down to nominal value. For accounting purposes, the total estimated costs of site restoration relating to these assets have been accrued.

Effective January 1, 2003, the Company adopted on a prospective basis new CICA 3475 "Disposal of Long-lived Assets and Discontinued Operations". Long-lived assets to be disposed of by sale are classified as held for sale in the period in which a formal plan of disposal has been approved, the assets are available for immediate sale and are actively being marketed, and it is expected that the sale will occur within one year. Long-lived assets to be abandoned are classified as held and used until they are disposed of. Long-lived assets classified as held for sale are carried at the lower of their carrying amount and fair value net of estimated disposition costs. Losses are recognized immediately where carrying value exceeds fair value and gains are recognized at the time of sale. The results of discontinued operations are reported separately, including gains or losses related to the disposal of long-lived assets held for sale or disposal. Future losses associated with an exit or disposal activity are recognized in the period in which the liability is incurred.

Note 3 – Discontinued Operations

Ambeon

On January 29, 2004, the Company sold substantially all of the assets and liabilities related to the Ambeon business segment, including its wholly owned subsidiary Neomet Limited, for proceeds of \$33,359 (net of transaction costs of \$911), of which, \$2,800 is held in escrow. Of this amount held in escrow, \$1,000 is included in accounts receivable at December 31, 2004 and was received in the first quarter of 2005 and \$1,800 is recorded as a long-term other receivable. The remaining escrow balance is in respect of general representations and warranties relating to the sale transaction and will be released as conditions are met in 2005 and 2006. The net gain on the sale of Ambeon of \$5,436 is net of future income tax expense of \$1,032. The results of Ambeon's operations in 2003 were accounted for on a discontinued basis and the related net assets were classified as available for sale at December 31, 2003.

In accordance with CICA 3475, the Company determined that the net proceeds would exceed the net book value of the Ambeon business segment as at December 31, 2003 and no adjustment to the carrying value of Ambeon was required. The gain on the sale of Ambeon was reported in the first quarter of 2004 and any costs incurred in subsequent periods relating to discontinued operations are reported in the period in which they occur.

The prior year's operating results, cash flows and balance sheets for this business segment are presented separately as discontinued operations in these consolidated financial statements.

Note 3 – Discontinued Operations (continued)

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

| | December 31, 2004 | December 31, 2003 |
|---|-------------------|-------------------|
| Cash | \$ – | \$ 411 |
| Accounts receivable | – | 5,438 |
| Inventories | – | 10,812 |
| Other assets | – | 1 |
| Deferred charges | – | 625 |
| Capital assets available for sale | – | 13,082 |
| Current assets available for sale | \$ – | \$ 30,369 |
| Accounts payable and accrued liabilities available for sale | \$ – | \$ (3,509) |
| Accounts payable and accrued liabilities | \$ (452) | \$ – |

Results from Ambeon discontinued operations:

| | Three Months ended | | Year ended | |
|-------------------------|--------------------|--------------|--------------|--------------|
| | Dec. 31 2004 | Dec. 31 2003 | Dec. 31 2004 | Dec. 31 2003 |
| Revenues | | | | |
| Ambeon business segment | \$ – | \$ 6,960 | \$ – | \$30,114 |

| | Three Months ended | | Year ended | |
|--|--------------------|-----------------|-----------------|-----------------|
| | Dec. 31 2004 | Dec. 31 2003 | Dec. 31 2004 | Dec. 31 2003 |
| Income (expense) | | | | |
| Ambeon business segment operations net of income taxes | \$ – | \$ (277) | \$ – | \$ 3,003 |
| Gain on sale of Ambeon | \$ – | \$ – | \$ 5,436 | \$ – |
| Costs related to disposition | \$ (201) | \$ (643) | \$ (1,882) | \$ (643) |
| Net (loss) income from discontinued operations | \$ (201) | \$ (920) | \$ 3,554 | \$ 2,360 |

Net (loss) income from discontinued operations is after deduction of depreciation of \$Nil for the year ended December 31, 2004 (2003 – \$1,738). Current tax expense included in net income from discontinued operations for the year ended December 31, 2004 amounted to \$Nil (2003 – \$27).

Net income per common share from discontinued operations was \$Nil for the three months ended December 31, 2004 (2003 – \$Nil) and \$0.04 for the year ended December 31, 2004 (2003 – \$0.03).

Coinage Division and Ethylene Coatings Business

In 2002, the Board of Directors of the Company approved the closing of the Coinage Division and the shutdown of the Ethylene Coatings business. Accordingly, the results from operations of these businesses and all anticipated losses of these businesses were recorded in 2002.

Amounts included in the consolidated balance sheets relating to the Coinage Division and Ethylene Coatings business discontinued operations are as follows:

| | December 31, 2004 | December 31, 2003 |
|---|-------------------|-------------------|
| Accounts receivable | \$ – | \$ 4 |
| Accounts payable and accrued liabilities | (767) | (1,281) |
| Net working capital | \$ (767) | \$ (1,277) |
| Long-term capital assets available for sale | \$ 5,500 | \$ 5,500 |

The Westaim Corporation
Notes to Interim Consolidated Financial Statements for the Year Ended December 31, 2004 (unaudited)
(thousands of dollars)

Note 4 – Capital Assets

In the third quarter of 2004, the Company commenced two major capital projects. iFire Technologies Inc. ("iFire") is constructing a pilot manufacturing plant at its Toronto location for flat panel displays and Nucryst Pharmaceuticals Corp. ("Nucryst") began an expansion of its wound care production facility in Fort Saskatchewan, Alberta. As a result, as at December 31, 2004, capital assets include construction in progress in the amount of \$22,093 which is not being depreciated.

Related to these projects, the Company has outstanding purchase commitments amounting to approximately \$17,987 as at December 31, 2004.

Note 5 – Long-Term Debt

On January 30, 2004, iFire entered into a Japanese Yen 1,080,000,000 loan agreement with Dai Nippon Printing Co., Ltd. ("DNP") whereby DNP is partially financing certain new equipment being used to upgrade iFire's Toronto facility. The loan is being drawn down in 2004 and 2005, carries an interest rate of 1.70%, and is repayable in full in Japanese Yen on June 30, 2006. The loan is secured by the equipment financed under the agreement.

As at December 31, 2004, the outstanding loan balance amounted to Yen 408,166,000 (CAD \$4,782). The liability reported at December 31, 2004 includes interest expense accrued for the current year of \$13 which is payable at the end of the loan term.

Note 6 – Capital Stock

Changes in the Company's common shares outstanding for the three months and year ended December 31, 2004 are as follows:

| common shares (000) | Three Months ended December 31, 2004 | | Year ended December 31, 2004 | |
|--------------------------------|---|----------------|---------------------------------|----------------|
| | Number | Stated Capital | Number | Stated Capital |
| Balance at beginning of period | 92,828 | \$421,233 | 78,073 | \$ 373,230 |
| Employee share purchase plan | – | – | 29 | 135 |
| Share offering | – | – | 14,706 | 47,801 |
| Stock options exercised | – | – | 20 | 67 |
| Balance at end of period | 92,828 | \$421,233 | 92,828 | \$ 421,233 |

For the year ended December 31, 2004, 28,785 common shares were issued with respect to the Company's employee share purchase plan at a weighted average issue price of \$3.24. The fair value of these rights to acquire common shares of \$42 was reclassified from contributed surplus to share capital.

In the first quarter of 2004, 20,000 options were exercised at an average price of \$2.59 and \$15 (2003 – \$Nil) relating to the fair value of these options was reclassified from contributed surplus to share capital.

On August 4, 2004, the Company completed a \$50,000 common share offering. A total of 14,705,883 new common shares were issued at a price of \$3.40. Four members of the Company's Board of Directors purchased 4,852,942 shares under the offering. Net proceeds, after fees and expenses, amounted to \$47,801.

Note 7 – Stock-based Compensation Plans

Effective January 1, 2004, the Company adopted revisions to Section 3870 of the CICA Handbook with respect to the accounting and disclosure of stock-based compensation. The revised Section 3870 requires that the fair value of stock options be recorded in the financial statements. The Company has elected to apply the provisions retroactively with restatement of prior years. As a result, as at January 1, 2003, the cumulative compensation cost of options issued in 2002 amounting to \$627 has been charged to deficit with a corresponding increase to contributed surplus. Quarterly results for 2003 have been restated to reflect the expense related to options issued in 2002 and 2003. For the three months ending December 31, 2004,

Note 7 – Stock-based Compensation Plans (continued)

costs includes compensation expense of \$611 (2003 – \$241) relating to stock options with an offsetting increase to contributed surplus. For the year ended December 31, 2004, costs includes compensation expense of \$1,210 (2003 – \$942) relating to stock options.

Employee and Director Stock Options

Changes in the Company's stock option plans for the three months and year ended December 31, 2004 and December 31, 2003 are as follows:

| common share stock options (000) | Three Months ended | | Year ended | |
|------------------------------------|--------------------|-----------------|-----------------|-----------------|
| | Dec. 31 2004 | Dec. 31 2003 | Dec. 31 2004 | Dec. 31 2003 |
| Outstanding at beginning of period | 4,575 | 5,833 | 5,833 | 5,666 |
| Granted | 85 | – | 498 | 428 |
| Exercised | – | – | (20) | – |
| Cancelled | – | – | (1,651) | (261) |
| Outstanding at end of period | 4,660 | 5,833 | 4,660 | 5,833 |

In the three months ended December 31, 2004, the Company issued 84,500 (2003 – Nil) options for common shares of the Company at a weighted average exercise price of \$3.14. During the year ended December 31, 2004, the Company issued 497,500 options (2003 – 427,800) at a weighted average exercise price of \$3.61 (2003 – \$1.87).

The fair value of each option grant by the Company and its subsidiaries is estimated using the Black-Scholes option pricing model assuming no dividends are paid on common shares, a risk-free interest rate of 4.80% (2003 – 5.05%), an average life of 7.0 years and a volatility of 58.47% (2003 – 59.89%). 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.

The Company maintains a Deferred Share Unit Plan ("DSUs") for the non-executive Directors of the Company. DSUs are issued at the market value of the Company's shares at the date of grant and vest upon death or retirement of the Director. Directors may elect to receive additional DSUs in lieu of fees, which are issued at 90% of the market value of the Company's shares at the date of grant. As at December 31, 2004, a liability of \$954 (December 31, 2003 – \$782) was accrued with respect to issued DSUs. The Company also maintains a Restricted Share Unit Plan for the Executive Officers of the Company. These units vest over three years and are payable when fully vested in common shares or in cash at the weighted average trading price at the date of exercise. The liability with respect to these units is accrued over the vesting period and amounted to \$139 at December 31, 2004 (December 31, 2003 – \$Nil).

Note 8 – 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.

Note 9 – Research and Development Funding Agreements

In 2001, iFire, entered into a research and development contribution agreement with the Government of Canada through Technology Partnerships Canada ("TPC"). Under this agreement, TPC agreed to contribute 28.371% of eligible research and development costs and related capital expenditures incurred by iFire to a maximum of \$30,000.

Contributions were recorded as a reduction of the cost of the applicable capital asset or credited to the statement of operations of iFire as determined by the nature of the expenditure being funded. The final contribution claims were recorded in the quarter ended September 30, 2003 and the final payment received in the fourth quarter of 2003. Contribution claims totaling \$5,997 were recorded in the first nine months of 2003. Of this amount, \$5,204 was credited to research and development expense and \$793 was credited to capital assets.

Note 10 – Guarantees

In the normal course of operations, the Company has issued letters of credit in the amounts of US\$1,060 which expire on March 31, 2005. In Canadian dollars, these guarantees amounted to approximately \$1,276 as at December 31, 2004.

The Westaim Corporation
Notes to Interim Consolidated Financial Statements for the Year Ended December 31, 2004 (unaudited)
(thousands of dollars)

Note 10 – Guarantees (continued)

In the normal course of operations, the Company may provide indemnification to counterparties that would require the Company to compensate them for costs incurred as a result of litigation claims or statutory sanctions that may be suffered by the counterparty as a consequence of the transaction. The terms of these indemnification agreements will vary based upon the contract. Management does not expect the potential amount of these counterparty payments to have a material effect on the Company's financial position or operating results. The Company has agreements to indemnify its Officers and Directors for certain events or occurrences while the Officer or Director is or was serving at the Company's request in such capacity. The maximum potential amount of future payments is unlimited. However, the Company maintains Director and Officer liability insurance that limits its exposure and enables the Company to recover a portion of any future amounts paid.

In addition, the Company has provided indemnifications to third parties with respect to future site restoration costs to be incurred on properties previously owned by the Company. These estimated costs have been included in the provision for site restoration.

Note 11 – Segmented Information – Continuing Operations

| | Three Months ended | | Year ended | |
|---------------------------------|--------------------|-------------------|--------------------|--------------------|
| | Dec. 31 2004 | Dec. 31 2003 | Dec. 31 2004 | Dec. 31 2003 |
| Revenue | | | | |
| Nucryst Pharmaceuticals | \$ 6,042 | \$ 3,457 | \$ 31,907 | \$ 16,212 |
| iFire Technology | – | – | – | 911 |
| Other | 54 | 137 | 334 | 162 |
| | <u>\$ 6,096</u> | <u>\$ 3,594</u> | <u>\$ 32,241</u> | <u>\$ 17,285</u> |
| Divisional Income (Loss) | | | | |
| Nucryst Pharmaceuticals | \$ (301) | \$ (2,318) | \$ 6,079 | \$ (2,014) |
| iFire Technology | (7,286) | (6,185) | (27,884) | (20,054) |
| Other | (525) | (565) | (1,186) | (1,284) |
| | <u>\$ (8,112)</u> | <u>\$ (9,068)</u> | <u>\$ (22,991)</u> | <u>\$ (23,352)</u> |

In 2004, iFire repurchased the 2.5% common share interest held by a minority shareholder for nominal consideration.

Note 12 – 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 13 – Subsequent Events

a) In January 2005, the Company completed a series of transactions whereby two inactive wholly owned subsidiary companies participated in a Plan of Arrangement with two widely held publicly traded companies. This resulted in the reorganization of the participating companies into a single company and the dilution of the Company's investment to approximately 6.0%. The Company's pro rata interest in the book value of the recapitalized companies amounted to approximately \$2,200. Subsequently, the company created under the Plan of Arrangement was listed on the Toronto Stock Exchange.

The inactive subsidiaries were previously carried at nominal value and this transaction will result in the Company recording a dilution gain of approximately \$2,200 in discontinued operations in the first quarter of 2005.

b) On February 10, 2005, the Company sold this investment for net proceeds of approximately \$11,500 and will record an additional gain on the sale of investments of approximately \$9,300 in the first quarter of 2005.

Note 14 – Comparative Figures

Certain 2003 figures have been reclassified to conform to the presentation of the current year.