

## MANAGEMENT'S DISCUSSION AND ANALYSIS

*This Management's Discussion and Analysis of the results of operations and financial condition for the years ended December 31, 2008 and December 31, 2007 was prepared as at February 12, 2009 and should be read in conjunction with the Consolidated Financial Statements of The Westaim Corporation for the years ended December 31, 2008 and December 31, 2007 and the accompanying notes thereto. Additional information relating to The Westaim Corporation, including its annual information form, is available on SEDAR at [www.sedar.com](http://www.sedar.com) and the Company's website (as hereinafter defined) at [www.westaim.com](http://www.westaim.com). All dollar amounts contained herein are denominated in Canadian dollars unless otherwise specified.*

### DESCRIPTION OF THE BUSINESS

The Westaim Corporation ("Westaim" or the "Company") is a holding company with a 75% investment in Nucryst Pharmaceuticals Corp. ("Nucryst"), a company that develops, manufactures and commercializes innovative medical products that fight infection and inflammation. The Company also owns iFire Technology Ltd. ("iFire"), a company that until late 2007 had been developing a novel flat panel display technology. The Company's strategy has been to develop the independent technical, operating and marketing and sales capabilities of its technology investments through the early years of product introduction and commercialization with the objective of taking these technologies public through initial public offerings. In December 2005, Nucryst completed an initial public offering of its common shares and its shares trade on the NASDAQ Stock Market and the Toronto Stock Exchange.

In the second quarter of 2007, the Company announced that it was undertaking a review of its business strategy and announced operational changes at iFire and organizational changes at the corporate offices of the Company. At iFire, staffing levels were initially reduced to a core team focused on advancing phosphor performance and reducing variability in luminance, life and uniformity. In November 2007, the Company announced that it was further reducing staff levels at iFire and would seek a buyer for the business, facilities and intellectual property associated with iFire's proprietary technology. Development efforts on iFire's technology were discontinued at that time. Corporate management and administrative staff levels in Fort Saskatchewan and Calgary were also reduced as part of the broader reorganization. In the first quarter of 2008, the Company determined that maximum value would be realized by selling the individual assets of iFire including buildings, equipment, and intellectual property. In December 2008, iFire sold its equipment for net proceeds after fees, costs and termination amounts of \$8.2 million and reported a gain of \$5.3 million. Subsequent to year end, the Company sold the intellectual property and other intangible assets relating to iFire for net proceeds of approximately \$1.1 million. The Company continues to seek a purchaser for iFire's land and building.

During 2008, the Board of Directors continued to review strategic alternatives to maximize value for shareholders and on October 3, 2008, the Company announced it had entered into a reorganization agreement under which the Company would acquire several closely held businesses that provide products and services in the western Canadian construction industry. The proposed reorganization was subject to certain conditions and to approval of the shareholders of the Company. Notice of the special meeting of shareholders to be held November 21, 2008, letter of transmittal, form of proxy and an information circular for the special meeting were mailed to shareholders on October 15, 2008. Conditions to the reorganization were not met and, as a consequence, on November 4, 2008 the reorganization agreement was terminated and the shareholders' meeting called for November 21, 2008 was cancelled.

On December 1, 2008, the Company requisitioned a special meeting of shareholders of Nucryst Pharmaceuticals Corp. to consider the reduction of the stated capital of Nucryst for the purpose of distributing US \$0.80 cash per common share to the shareholders of Nucryst. On December 19, 2008, Nucryst called a special meeting of shareholders to be held on February 12, 2009 and at the special meeting, shareholders approved the return of capital totaling approximately US \$14.7 million to be distributed to shareholders on February 25, 2009. The return of

## DESCRIPTION OF THE BUSINESS (continued)

capital will reduce Westaim's consolidated cash position by approximately \$4.6 million representing the amount to be paid to Nucrust's minority shareholders.

The Company is continuing to review strategic alternatives and will examine all possible options for its longer-term structure as it considers new investment opportunities to grow the value of the Company.

## CONSOLIDATED RESULTS

### OVERVIEW

For the year ended December 31, 2008, the Company reported a net loss of \$10.2 million compared to a net loss of \$58.0 million in 2007. The loss from continuing operations was \$1.7 million in 2008, compared to a loss of \$2.8 million in 2007. The reduction in the loss from continuing operations resulted from lower corporate costs at Westaim in 2008, lower losses related to Westaim's investment in Canadian asset-backed commercial paper ("ABCP"), and a \$7.3 million favourable variance in foreign exchange gains. These favourable variances were partially offset by a gain on the sale of capital assets of \$8.7 million and by \$10.1 million in milestone revenue at Nucrust, both reported in 2007. Revenues from continuing operations for the year ended December 31, 2008 were \$22.4 million compared to \$31.8 million in 2007. The reduction reflects the \$10.1 million milestone revenue earned by Nucrust in 2007.

The loss from discontinued operations of \$8.5 million for the year ended December 31, 2008 compared to a loss of \$55.2 million in 2007 relates to the discontinuance of operations at iFire in 2007 and includes a write-down of capital assets and intangible assets of \$7.4 million in 2008 compared to a write-down of \$22.1 million in 2007. Loss from discontinued operations in 2008 also includes a gain on the sale of capital assets held for sale of \$5.3 million.

The basic and diluted net loss per common share was \$0.11 in 2008 compared to \$0.62 in 2007. The basic and diluted net loss per common share from continuing operations was \$0.02 in 2008 and \$0.03 in 2007. The basic weighted average number of common shares outstanding was 94.2 million and 94.1 million in 2008 and 2007 respectively.

Continuing operations primarily reflect corporate costs and the results of the Company's operating subsidiary, Nucrust. A comparison of operating costs from continuing operations in 2008 compared to 2007 is as follows:

(\$millions)	2008	% of Revenue	2007	% of Revenue*
Manufacturing	\$ 12.6	56%	\$ 14.6	67%
Research and development	4.6	20%	6.4	29%
General and administrative	9.7	43%	9.3	43%
Depreciation and amortization	1.9	8%	2.1	10%
Corporate costs	5.1	23%	10.9	50%
	\$ 33.9		\$ 43.3	

\* revenue excludes Nucrust milestone revenue of \$10.1 million earned in 2007.

Manufacturing costs relates to the production of Acticoat™ wound care products by Nucrust and the reduction in costs is primarily the result of production efficiencies implemented in 2008 and slightly lower sales volumes. The decrease in research and development expenses reflects significantly lower spending at Nucrust in 2008 as a result of fewer and more focused research and development programs. The increase in general and administrative costs reflects the cost of shutting down Nucrust's operations in Wakefield, Massachusetts.

## CONSOLIDATED RESULTS

### *OVERVIEW (continued)*

Corporate costs decreased by \$5.8 million to \$5.1 million in 2008 primarily due to the one-time corporate restructuring costs of \$4.9 million incurred in 2007.

Foreign exchange gains were \$3.5 million in 2008 compared to a loss of \$3.8 million in 2007. The 2008 gain reflects the impact of the weakening Canadian dollar on U.S. dollar denominated working capital balances during the year primarily at Nucrust and the 2007 loss reflects the strengthening Canadian dollar during that year. The Canadian dollar to U.S. dollar December 31 exchange rates were as follows: 2008 – 1.225; 2007 – 0.0988; and 2006 – 1.1653. Interest income of \$0.7 million in 2008 was \$1.1 million lower than 2007, resulting from lower average interest rates in 2008 compared to 2007. In addition, the Company recorded interest income on its investments in ABCP in 2007 until the \$33 billion market for third party ABCP became illiquid in August 2007. Losses related to the Company's investment in ABCP totaled \$1.7 million in 2008 compared to \$5.1 million in 2007. These losses are more fully discussed under "*Liquidity and Capital Resources*" below.

In 2008, the Company reported a dilution gain of \$6.0 million and a gain on sale of investments of \$0.5 million related to the divestiture of former non-core subsidiaries. These transactions are discussed in Note 4 to the Company's audited consolidated financial statements for the year ended December 31, 2008. A gain on sale of investment of \$2.6 million was reported in 2007 relating to the sale of shares of a former subsidiary in the fourth quarter. Earlier in 2007, this former subsidiary had issued shares to private investors which resulted in the Company reporting a dilution gain of \$4.5 million.

In 2007, the Company also reported an \$8.6 million gain on sale of its Fort Saskatchewan real estate and a \$1.2 million write-down of capital assets at Nucrust.

Non-controlling interest reflects the proportionate share of Nucrust's results allocated to minority shareholders. The Company's interest in Nucrust was 74.7% at December 31, 2008 compared to 74.5% at December 31, 2007.

Discontinued operations are discussed more fully below under "*Discontinued Operations*" and in Note 3 to the audited consolidated financial statements of the Company for the year ended December 31, 2008.

Net income in the fourth quarter of 2008 was \$2.7 million compared to a net loss of \$26.8 million in 2007. Loss from continuing operations in the fourth quarter of 2008 was \$1.2 million compared to income of \$1.2 million reported in 2007. Operating results in the fourth quarter of 2007 reflects higher earnings in Nucrust driven by US \$5.0 million milestone revenue and gain on sale of investments of \$2.6 million, offset by write-downs and losses relating to ABCP totaling \$2.1 million. Income from discontinued operations in the fourth quarter of 2008 of \$4.0 million includes a gain on the sale of equipment of \$5.3 million while the loss in the fourth quarter of 2007 of \$28.0 million includes a \$22.1 million write-down of iFire's capital assets.

## **OPERATIONS**

### *Performance Measures*

The Company uses financial and technical performance measures to track corporate performance. The Company and its subsidiaries develop comprehensive long-range plans and annual plans with a view to maximizing long-term shareholder value. Success of each business segment is measured on its ability to achieve performance milestones within a specified timeframe. These milestones generally relate to specific operational and research related targets and are reviewed and updated on a regular basis during the year. Financial milestones are also set and measured. Financial performance may relate to sales activity for commercial products or the achievement of results within operating expense and capital budget targets.

## CONSOLIDATED RESULTS

### *OPERATIONS (continued)*

#### *Subsidiaries*

The Company has one operating business segment – Nucryst. Until late 2007, the Company's operations were organized into two business segments – Nucryst and iFire.

#### ◆ *Nucryst Operations*

Nucryst develops, manufactures and commercializes innovative medical products that fight infection and inflammation. Nucryst's patented technology enables it to convert silver's microcrystalline structure into an atomically disordered nanocrystalline coating which Nucryst believes enhances silver's natural antimicrobial properties. In addition, Nucryst's nanocrystalline silver has exhibited potent anti-inflammatory properties in pre-clinical studies.

In December 2005, Nucryst completed its initial public offering of 4.5 million common shares. Westaim owned 74.7% of Nucryst's common shares at December 31, 2008. Westaim's return on its investment in Nucryst is dependent on a number of factors beyond its control. See "Risks and Uncertainties".

*Wound Care Products* – Acticoat™ Burn Dressings and Acticoat™ 7 Dressings, targeting the burn and chronic wound markets, were developed and sold by Nucryst until May 2001 when a series of agreements were completed with Smith & Nephew plc ("Smith & Nephew") under which Smith & Nephew acquired an exclusive global license to Nucryst's SILCRYST™ antimicrobial coating technology, together with Nucryst's U.S. and Canadian Acticoat™ burn dressing business, the Acticoat™ trademark, various regulatory approvals and certain manufacturing equipment that Nucryst leased back. Nucryst continues to manufacture Acticoat™ products exclusively for Smith & Nephew and, until September 30, 2007, received reimbursement for all manufacturing costs plus royalty payments and milestone payments based on Smith & Nephew's global sales. On September 30, 2007, Nucryst signed amended agreements with Smith & Nephew, further discussed below. All payments under the agreements with Smith & Nephew are made to Nucryst in US dollars.

Nucryst's license to Smith & Nephew grants Smith & Nephew the exclusive worldwide right to market, distribute and sell Acticoat™ products using Nucryst's SILCRYST™ coatings for use on non-minor dermal wounds or burns in humans (the "Field") including improvements to those products, and any new products developed with Smith & Nephew using Nucryst's SILCRYST™ coatings or powders in the Field. This exclusive right does not apply to other types of products outside the Field that Nucryst may develop using its technology, such as pharmaceutical products. The license and development agreement expires in May 2026, although it may be terminated earlier by either party if the other party fails to cure a material breach of the agreement, suspends its operations or ceases to carry on business or files for bankruptcy or takes other similar actions. There are currently six product families with SILCRYST™ coatings manufactured by Nucryst for Smith & Nephew at its Fort Saskatchewan plant: Acticoat™ Burn, Acticoat™ 7, Acticoat™ Absorbent, Acticoat™ Moisture Control, Acticoat™ Site, and Acticoat™ Post-Op. In the fourth quarter of 2008, Nucryst announced that Health Canada granted marketing approval for a new SILCRYST™ product, Acticoat™ Flex Barrier Dressing. This product will simplify the dressing of wounds for difficult to protect articulating regions such as knee or elbow joints with its unique elastic design that contours to body surfaces. Approvals from other countries for Acticoat™ Flex are anticipated in 2009, including a U.S. Food and Drug Administration ("FDA") 510(k) clearance. Smith & Nephew has indicated that it expects to launch the Acticoat™ Flex product in North America and Europe during 2009.

*Agreements with Smith & Nephew* – On September 30, 2007, Nucryst signed amended agreements with Smith & Nephew for the manufacture and sale of Acticoat™ products. Until September 30, 2007, Nucryst's revenues under its agreements with Smith & Nephew consisted of manufacturing cost reimbursements, royalties, payments upon the achievement of specified milestones and reimbursement for costs incurred in connection with the development or

## CONSOLIDATED RESULTS

### *OPERATIONS (continued)*

improvement of SILCRYST™ products covered by the agreements with Smith & Nephew. Manufacturing costs were recorded both as offsetting revenue and expense items in the consolidated statement of operations upon shipment to Smith & Nephew. Effective September 30, 2007, the method of calculating manufacturing cost reimbursement and development cost reimbursement changed. Nucryst continues to earn royalty revenues based upon Smith & Nephew's sales of Acticoat™ products to its customers. Royalty revenue varies in proportion to increases or decreases in Smith & Nephew's sales of its Acticoat™ products. Nucryst also continues to receive milestone payments upon Smith & Nephew's achievement of specified sales thresholds of Acticoat™ products and upon the achievement of specified regulatory events. To the end of 2008, Nucryst had earned US \$29.0 million of a potential US \$56.5 million in milestone payments.

The material ongoing changes to the agreements effective September 2007, are as follows:

- Under the previous agreements, the price paid by Smith & Nephew for Acticoat™ products was Nucryst's fully allocated cost of goods sold including equipment depreciation. The costing mechanism has been amended effective January 1, 2007 to a fixed overhead charge plus direct costs incurred in manufacturing Acticoat™ products.
- The overhead charge payable by Smith & Nephew in 2007 through 2009 has been fixed at a minimum floor amount equal to the 2007 overhead charge. This floor amount is payable by Smith & Nephew regardless of the actual volume of Acticoat™ products ordered by Smith & Nephew. Nucryst may use any actual overhead cost savings achieved by Nucryst until 2009 to offset an annual manufacturing cost rebate in the amount of US \$4.5 million that Nucryst has agreed to make to Smith & Nephew in 2007 through 2009. In 2010, the parties expect to establish new fixed prices after taking into account the cost savings achieved by Nucryst in the previous three years.
- A non-compete clause has been deleted from the original agreements to allow Smith & Nephew to broaden its wound care dressings product line to include other forms of silver. In exchange, Smith & Nephew's exclusive license has been limited to existing Acticoat™ products and such new wound care or burn products that the parties agree to develop together using Nucryst's Silcryst™ technology.
- New wound care and burn products developed alone by Nucryst that contain Nucryst's nanocrystalline silver technology will be initially offered to Smith & Nephew. If Smith & Nephew declines to commercialize any of these products, Nucryst will be free to pursue other commercialization options.
- Nucryst will contribute its own internal development costs towards the joint development of new products with Smith & Nephew up to a maximum amount per year equivalent to 1.5% of Smith & Nephew's sales of Acticoat™ products in the year. This replaces a system whereby Smith & Nephew reimbursed Nucryst for all of its product development costs. Nucryst did not receive any reimbursement for development costs in 2008.

*New Product Development* – Nucryst is continuing pre-clinical research efforts to develop a topical cream containing its nanocrystalline silver powder, referred to as NPI 32101, as a 510(k) prescription topical device for the treatment of dermatological conditions. Clinical studies have shown the cream to be stable, cosmetically acceptable and in invitro testing to have broad spectrum antimicrobial activity. In July 2007, the FDA granted Nucryst 510(k) clearance for a prescription topical cream containing NPI 32101 as a broad-spectrum antimicrobial barrier cream to organisms including *Pseudomonas aeruginosa*, *Staphylococcus aureus*, including strains resistant to methicillin – or MRSA. Nucryst is actively exploring commercialization options through partnering opportunities and the potential market for this new product will be largely dependent on the distribution channel alternatives determined by a marketing partner.

In the third quarter of 2007, Nucryst filed a 510(k) submission to the FDA to expand the claims and indications for its barrier cream in the relief of the signs and symptoms of dermatoses. Nucryst has received a request from the FDA for additional information regarding this submission and Nucryst has requested an extension of time regarding its response to the FDA as it reviews commercial alternatives for the barrier cream. While these additional claims

## CONSOLIDATED RESULTS

### *OPERATIONS (continued)*

and indications would expand the potential market for the barrier cream, the application for this expansion was withdrawn without prejudice until the barrier cream is marketed under the initial 510(k) clearance.

With the closure of the Wakefield, Massachusetts research center, Nucryst has decreased its pharmaceutical development capabilities and does not expect to incur significant costs around its existing pharmaceutical programs. Nucryst remains focused on looking for development opportunities with third parties in various clinical areas, but does not expect to develop additional pharmaceutical applications for NPI 32101 without development partners.

#### ◆ *Nucryst Financial Results*

Nucryst's operating loss for the year ended December 31, 2008 was \$6.4 million compared to a loss of \$0.6 million in 2007.

The financial results of Nucryst are summarized as follows:

(\$millions)	2008	2007
Wound care product revenue	\$ 27.2	\$ 26.3
Manufacturing cost rebate	(4.8)	(4.6)
Milestone revenue	–	10.1
Total revenue	\$ 22.4	\$ 31.8
Manufacturing costs <sup>(1)</sup>	\$ 13.7	\$ 15.9
Wound care gross margin excluding milestone revenue	\$ 8.7	\$ 5.8
Operating loss	\$ (6.4)	\$ (0.6)

<sup>(1)</sup> Manufacturing costs include related depreciation

*Revenue* – Wound care product revenue reflects licensing royalties and manufacturing revenue relating to Acticoat™ products sold by and produced for Smith & Nephew. Total revenue for the year ended December 31, 2008 was \$22.4 million compared to \$31.8 million for the year ended December 31, 2007. Product related revenues, before manufacturing cost rebates and milestone revenue, were \$27.2 million in 2008 compared to \$26.3 million in 2007, an increase of \$0.9 million or 3.4%. In general, revenues were impacted by a decrease in product revenue related to lower shipments to Smith & Nephew offset by higher fixed overhead recoveries on products shipped. Nucryst recovers an agreed amount of fixed overhead from Smith & Nephew regardless of the volume of product shipped. In 2007, Nucryst earned \$10.1 million in milestone revenue resulting from the amendments to the Smith & Nephew and from the achievement of a specified sales threshold.

*Manufacturing Costs* – Manufacturing costs, including related depreciation, for the year ended December 31, 2008 were \$13.7 million compared to \$15.9 million for the year ended December 31, 2007. The reduction is primarily due to the combined effect of manufacturing cost savings realized in 2008 through the implementation of efficiencies in Nucryst's manufacturing processes and a 5% decline in units shipped. Nucryst realized reductions in manufacturing and overhead costs through lower employee levels and manufacturing process improvements. Nucryst plans to continue to manage its manufacturing costs to achieve further cost reductions in 2009.

*Gross Margin* – Gross margin excluding milestone revenue for the year ended December 31, 2008 was \$8.7 million compared to \$5.8 million for the year ended December 31, 2007. This improvement in gross margin, excluding milestone revenue, is primarily the result of lower manufacturing costs and fixed overhead cost savings. Pursuant to the revised agreements with Smith & Nephew, Nucryst is required to pay a US \$4.5 million manufacturing cost rebate in 2007, 2008 and 2009. These rebates will continue to impact Nucryst's gross margin in

## CONSOLIDATED RESULTS

### *OPERATIONS (continued)*

those years to the extent that Nucryst is unable to realize and maintain manufacturing overhead cost reductions sufficient to offset these rebates.

Research and development costs at Nucryst of \$4.6 million in 2008 were \$1.8 million lower than in 2007 primarily attributable to the reduction in research and development staff levels and the curtailment of pharmaceutical research.

General and administrative costs for the year ended December 31, 2008 were \$9.7 million compared to \$9.3 million for the year ended December 31, 2007. The increase of \$0.4 million is attributable primarily to costs associated with the fourth quarter closure of the Wakefield, Massachusetts facility and higher professional fees, partially offset by a decrease in general and administrative costs at the Fort Saskatchewan facility, lower royalty costs, and a decline in stock option compensation expense recognized in the year. Nucryst continues to review its general and administrative costs and expects that the changes it has implemented and expects to implement in 2009 will further reduce its general and administrative costs in 2009.

A \$0.2 million capital asset write-off of leasehold improvements was reported in 2008 as a result of the closure of Nucryst's Wakefield, Massachusetts facility.

Capital spending at Nucryst totaled \$1.2 million in 2008 compared to \$2.1 million in 2007 and in both years related primarily to projects in Fort Saskatchewan, Alberta. Capital spending is expected to be lower in 2009 than 2008. Nucryst's research activities were consolidated in Fort Saskatchewan, Alberta in late 2008 with the closure of Nucryst's Wakefield facility. Nucryst's manufacturing operations are located in Fort Saskatchewan, Alberta and it also maintains an office in Princeton, New Jersey.

### ◆ *Nucryst Outlook*

The overall combined impact of the amendments to the Smith & Nephew agreements discussed above could have a material adverse effect on Nucryst's quarterly financial results in subsequent periods depending on the timing of payments made to and received from Smith & Nephew, Smith & Nephew's sales of Acticoat™ products, the achievement of cost savings by Nucryst, and the receipt by Nucryst of further milestone payments. In the longer term, Nucryst expects the amendments to the agreements to further facilitate its ongoing efforts to expand Nucryst's business opportunities while enabling it to continue to support Smith & Nephew to realize the future growth potential of the Acticoat™ products. The markets for Acticoat™ wound care products continue to be highly competitive as new silver products enter the market.

Outside of its Smith & Nephew agreements, Nucryst is continuing efforts to extend its nanocrystalline silver technology to develop pharmaceutical products and other medical devices to combat infection and inflammation. Nucryst is exploring commercialization avenues for a topical barrier cream containing NPI 32101 as well as discussing other product applications for its coating technology outside of wound care.

In addition to its efforts to expand its revenue base, Nucryst has been reviewing its overall operations and reducing the level of expenditures, particularly in certain development areas. In the fourth quarter of 2008, Nucryst closed its Wakefield, Massachusetts research center and relocated its corporate headquarters to Princeton, New Jersey. Nucryst remains focused on looking for development opportunities with third parties in various clinical areas, but does not expect to develop additional pharmaceuticals applications for NPI 32101 without commercial partners. Nucryst does not expect to earn milestone revenue in 2009.

Nucryst's cash position will be reduced by the return of capital to shareholders approved on February 12, 2009 and payable on February 25, 2009. Nucryst's cash balance at December 31, 2008 of \$28.8 million will be reduced by approximately \$18.0 million or 62%. This reduced cash balance is still sufficient to allow Nucryst to execute its 2009 business plan.

## CONSOLIDATED RESULTS

### *OPERATIONS (continued)*

Nucryst may be impacted by the current global worldwide recession. Nucryst is reliant on the ability of Smith & Nephew to continue to market its products and the global recession may result in both a reduction in sales volumes and pressure on product pricing. The nature of Nucryst's wound care products, however, is that they are in demand by burn victims and sufferers of chronic wounds regardless of economic circumstances. As noted in the "Liquidity and Capital Resources" section on page 9, Nucryst is taking steps to ensure its long-term viability in light of current economic circumstances.

### *Discontinued Operations*

*iFire* – iFire, based in Toronto, Ontario, had been developing a proprietary flat panel display with solid state, thick-film dielectric electroluminescent ("TDEL") technology and with primary application in the large screen television market. Significant performance improvements achieved by incumbent flat panel TV manufacturers and more demanding specification improvement targets for iFire caused the forecast product development timeline to extend past the timeframe originally expected by the Company. As a result, on November 13, 2007, the Company decided to discontinue further development of iFire's TDEL technology and to seek a buyer for the iFire assets. iFire's financial results, balance sheet and cash flows are therefore reported as discontinued operations in the Company's 2008 audited consolidated financial statements. iFire's operations in 2008 focused on selling its equipment and intellectual property.

*iFire Financial Results* – The loss at iFire for the year ended December 31, 2008 was \$8.5 million compared to \$55.2 million in 2007.

Operating costs at iFire were substantially reduced in 2008 as a result of staff reductions that were undertaken in the second half of 2007 and the first half of 2008. Operating costs were \$6.4 million in 2008 compared to \$33.1 million in 2007. Included in these amounts are restructuring costs primarily relating to staff reductions of \$2.8 million in 2008 compared to \$3.9 million in 2007. All expected future costs relating to staff reductions amounting to \$0.9 million have been fully accrued at December 31, 2008. Depreciation of capital assets was discontinued in November 2007 when iFire was classified as a discontinued operation for accounting purposes. As a result, no depreciation or amortization expense was recorded in 2008 compared to an expense of \$13.6 million in 2007.

Generally accepted accounting principles require that assets held for sale be recorded in the financial statements at the lesser of cost or net realizable value. The Company assessed the net realizable value of iFire's assets at December 31, 2007 and concluded that a write-down of \$22.1 million was required. Additional write-downs of \$7.1 million were reported in the first quarter of 2008. In the fourth quarter of 2008, iFire sold its equipment to an overseas buyer for net proceeds after fees, costs, taxes and termination amounts of \$8.2 million and reported a gain on the sale of these assets of \$5.3 million. In 2008, iFire entered into an agreement to sell its intellectual property and other intangible assets. This sale was subject to several conditions, including iFire obtaining certain consents and approvals. The proceeds related to intellectual property will be less than the book value of the intangible assets available for sale and as a result these assets were further written down by \$0.3 million in the fourth quarter of 2008. This transaction was completed in January 2009 for net proceeds of approximately \$1.1 million. No material gain or loss is expected to be reported on this transaction. The Company's manufacturing building used by iFire in Toronto, Ontario remains for sale and has a book value of \$1.0 million.

*iFire Outlook* – iFire's operations in 2009 will be limited to overseeing the delivery of its assets to the purchaser and to seek a buyer or tenants for the iFire owned and leased buildings. All employees are expected to be terminated by the end of the first quarter of 2009 and future operating costs will be limited to lease obligations and facility operating costs until the buildings can be sold or sublet. Staff levels have been reduced from 141 at December 31, 2006 to 25 at December 31, 2007 to 9 at December 31, 2008.

## CONSOLIDATED RESULTS

### *OPERATIONS (continued)*

Details of the financial impact of discontinued operations are disclosed in Note 3 to the Company's 2008 audited consolidated financial statements.

## LIQUIDITY AND CAPITAL RESOURCES

The Company's business plans are developed to ensure that research and development and operating costs do not overextend the Company's financial resources. The Company's 2009 consolidated business plan indicates that Nucrust will have sufficient cash and cash equivalents to fund its operations in 2009 and the Company will have sufficient cash and cash equivalents to fund the reduced activities at iFire and the Company's corporate operations in 2009.

At December 31, 2008, the Company had consolidated cash and cash equivalents of \$46.8 million compared to \$31.0 million at December 31, 2007. The Company's improvement in liquidity of \$15.8 million resulted from the following items:

The Westaim Corporation – Increase in cash in 2008	
	(\$millions)
Net proceeds on the sale of iFire equipment	\$ 8.2
iFire operations and severance costs	(5.7)
Net proceeds on divestiture of non-core subsidiaries	6.3
Nucrust operations ( <i>discussed below</i> )	9.8
Nucrust capital expenditures	(1.2)
Other operations	(1.6)
Increase in cash	\$ 15.8

At December 31, 2008, Nucrust had cash and cash equivalents of \$28.8 million compared to \$17.8 million at December 31, 2007. These funds are not accessible to the Company. The Company had \$18.0 million at December 31, 2008 compared to \$13.2 million at December 31, 2007 to fund its own operations and the operations of iFire.

Nucrust's \$11.0 million improvement in its cash position primarily reflects net cash from operations of \$9.8 million mainly as the result of the collection of US \$5.0 million in milestone revenue accrued in the fourth quarter of 2007 and improvements in non-cash working capital.

As part of the Company's strategic plan to maximize the value of its assets, on December 1, 2008 the Company requisitioned a special meeting of the shareholders of Nucrust to consider the return of capital to Nucrust shareholders of approximately US \$14.7 million or US \$0.80 per share. This meeting was held on February 12, 2009 and the shareholders approved the return of capital to be distributed on February 25, 2009. This will result in a net reduction of approximately \$4.6 million of consolidated cash with the payment of approximately US \$3.7 million to Nucrust's minority shareholders. Nucrust's cash position will be reduced by approximately \$18.0 million while the Company's corporate cash position will increase by approximately \$13.4 million.

As the result of reduced activity and staff reductions, the Company's corporate costs were significantly less than 2007. All expected staff reduction costs have been accrued at December 31, 2008. These accruals, which total \$2.7 million are expected to be paid over the course of 2009.

## LIQUIDITY AND CAPITAL RESOURCES (continued)

No capital expenditures are expected at iFire and no major capital expenditures are planned for Nucryst in 2009.

The Company has no debt. In 2008, the Company entered into a credit arrangement with a major financial institution. The credit agreement, which was extended in January 2009 until March 31, 2009, allows the Company to borrow up to \$6.3 million and is secured by ABCP with a face value of \$6.3 million. It is expected that this facility will be replaced by a \$4.7 million facility with an initial three year term in the first quarter of 2009.

### *Asset-backed commercial paper*

In the third quarter of 2007, global financial markets experienced an unprecedented credit and liquidity crisis. Dominion Bond Rating Service ("DBRS") placed ABCP "Under Review with Developing Implications" following an announcement in August 2007 that a consortium representing banks, asset providers and major investors had agreed in principle to a long-term proposal and interim agreement regarding ABCP (the "Montreal Proposal"). Under this proposal, the affected ABCP would be converted into term floating rate notes.

On September 6, 2007, a Pan Canadian Committee (the "Committee") was formed to oversee the proposed restructuring process of the ABCP and on December 23, 2007, the Committee approved an agreement in principle to restructure the ABCP issued by 20 trusts covered by the Montreal Proposal, which includes the investments held by the Company. On March 17, 2008, a court order was obtained through which the restructuring of the ABCP would occur under the protection of the Companies Creditors Arrangement Act ("CCAA"). The restructuring was voted upon and approved on April 25, 2008 on the basis of all ABCP investments being a single class for the purpose of voting and on June 25, 2008 a court order sanctioning the restructuring of the ABCP was made pursuant to the CCAA. On August 18, 2008, the Court of Appeal for Ontario upheld the sanction order and on September 19, 2008, the Supreme Court of Canada denied leave to appeal the Court of Appeal for Ontario's decision. Subsequent to this dismissal, the Committee announced that the process of tendering existing ABCP securities in exchange for new restructured notes had begun.

Under the restructuring plan, all of the ABCP are being exchanged for longer dated notes that match the maturity of the underlying reference assets in the proposed structure. The restructuring also pools certain series of ABCP which are supported in whole or in part by underlying synthetic assets. Under this arrangement, there are three distinct restructuring solutions for (1) Traditional-ABCP which is supported solely by traditional securitized assets, (2) Synthetic-ABCP which is supported by synthetic assets, or a combination of synthetic and traditional securitized assets, and (3) Ineligible-ABCP supported primarily by U.S. sub-prime mortgage assets.

At September 30, 2007, the Company held ABCP with a book value of \$14.1 million which reflected a face value of \$17.1 million and a reduction in fair value of \$3.0 million recorded in the third quarter of 2007. In the fourth quarter of 2007, the Company sold 50% of its holdings in ABCP with a face value of \$8.5 million and a book value of \$7.0 million for proceeds of \$6.0 million. This sale resulted in a loss on the sale of the ABCP of \$1.0 million.

On March 20, 2008, the Committee issued an Information Statement containing details about the proposed restructuring. Based on this and other public information it was estimated that, of the \$8.5 million of ABCP which the Company held at December 31, 2008 and December 31, 2007:

- \$0.6 million is represented by traditional securitized assets and the Company will, on restructuring, receive replacement Traditional Asset Tracking long-term floating rate notes.
- \$7.7 million is represented by a combination of leveraged collateralized debt, synthetic assets and traditional securitized assets and the Company will, on restructuring, receive replacement senior Class A-1 and Class A-2 and subordinated Class B and Class C long-term floating rate notes. The Company expected to receive replacement notes with par values as follows:
  - Class A-1: \$5.7 million
  - Class A-2: \$1.5 million
  - Class B and C: \$0.5 million

## LIQUIDITY AND CAPITAL RESOURCES (continued)

- \$0.2 million is represented by assets that have an exposure to U.S. mortgages and sub-prime mortgages. On restructuring, the Company will receive Ineligible Asset Tracking long-term floating rate notes.

The Company has classified its ABCP as long-term investments held-for-trading. The ABCP in which the Company has invested has not traded in an active market since mid-August 2007 and there are currently no market quotations available. The Company has estimated the fair value of its investments in ABCP considering the best available public information regarding market conditions and other factors that a market participant would consider for such investments. In accordance with generally accepted accounting principles, when the market for a financial instrument is not active, the fair value should be estimated using an appropriate valuation technique. The assumptions used in determining the estimated fair value reflect the details included in the Information Statement issued by the Committee and the risks associated with the long-term floating rate notes. The Company has used a probability-weighted discounted cash flow approach to value its ABCP investments at December 31, 2008 and December 31, 2007 which considered expected interest rates, fixed/floating interest rate swaps, credit spreads, estimated restructuring fees and estimated renegotiated maturity dates. The assumptions used in this model include: average risk free interest rate of 2.5%; weighted average discount rate of 11.3%; and average maturity of long-term notes of 8.1 years.

The Company was required to use management estimates when calculating this fair value. Interest and discount rates vary by each of the different replacement long-term floating rate notes to be issued as they have different credit ratings and risks. Interest and discount rates also vary by the different probable cash flow scenarios that have been modeled. Discount rates have been estimated using Government of Canada benchmark rates plus expected spreads for similarly rated instruments with similar maturities and structure. An increase in the estimated discount rates of 1 percent would reduce the estimated fair value of the Company's investment in ABCP by approximately \$0.3 million. Maturities vary by different replacement long-term floating rate notes as a result of the expected maturity of the underlying assets. As a result of this valuation, the Company has determined the estimated fair value of the investment in ABCP to be \$4.3 million at December 31, 2008.

This represents a reduction in the estimated fair value of \$1.7 million from December 31, 2007 primarily as a result of worsening credit markets. The total reduction in the fair value of ABCP amounts to \$4.3 million at December 31, 2008, of which \$2.6 million was recorded in 2007. The decrease in fair value in 2008 was primarily due to the deterioration in the credit market, reductions in the DBRS credit ratings and increases in liquidity premiums resulting in higher discount rates.

Based on management's assumptions, the fair value of the Company's holdings of ABCP could range from \$3.9 million to \$4.4 million. Continuing uncertainties regarding the value of the assets which underlie the ABCP, the amount and timing of cash flows and the outcome of the restructuring process could give rise to a change in the fair value of the Company's investment in the ABCP which would impact the Company's results from operations. The Company has sufficient other cash resources and credit facilities to satisfy its financial obligations as they come due over the next twelve months.

On January 21, 2009, the Committee announced the successful implementation of the restructuring plan and that interest payments in respect of interest accrued since the original liquidity disruption in August 2007 to August 31, 2008 (net of restructuring costs) would be made in two installments based on the ABCP note type. Upon the restructuring, the Company received replacement notes ("New Notes") as follows which reflect the descriptions reported above. The reduction in face value from \$8.5 million to \$8.4 million is primarily related to realized losses on certain underlying investments and restructuring costs incurred in the restructuring process.

## LIQUIDITY AND CAPITAL RESOURCES (continued)

Notes	Maturity Date	Interest Rate <sup>(2)</sup>	Face Amount (\$millions)
MAV II Class A-1	July 15, 2056 <sup>(1)</sup>	BA – 0.5%	\$ 5.7
MAV II Class A-2	July 15, 2056 <sup>(1)</sup>	BA – 0.5%	1.4
MAV II Class B	July 15, 2056 <sup>(1)</sup>	BA – 0.5%	0.2
MAV II Class C	July 15, 2056 <sup>(1)</sup>	BA + 20%	0.2
MAV III Various	December 13, 2027 to July 15, 2056	not finalized <sup>(3)</sup>	0.8
Other	–	–	0.1
			<b>\$ 8.4</b>

(1) Maturity date reflects legal maturity date. Latest maturity date of underlying assets is December 20, 2016.

(2) BA rate is Canadian dollars Bankers Acceptance interest rate with a maturity of 90 days.

(3) Interest rates for MAV III notes have not been finalized.

The MAV II Class A-1 and MAV II Class A-2 notes were assigned an investment grade rating of “A” by the DBRS in January 2009. The MAV II Class B and MAV II Class C notes and MAV III notes have not been rated by the DBRS. Accounting for the exchange of the notes will include settlement of the original notes and recognition of the New Notes. The New Notes will be measured at fair value on initial recognition. The New Notes will be classified as held-for-trading under the Company’s Financial Instruments policy which will require them to be fair valued at each period end with changes in fair value included in the consolidated statement of operations in the period in which they arise. Until an active market develops for the New Notes, the fair value will be determined using a discounted cash flow approach based on the maximum use of inputs observed from market conditions on subsequent reporting dates. The fair values may change materially in subsequent periods. As part of the note exchange, the Company received a payment of \$0.2 million which was its share of the accumulated interest in the conduit trusts from August 2007 to August 2008. This interest as well as estimated unpaid interest to December 31, 2008 has been included in the Company’s fair value calculation at December 31, 2008.

The illiquidity of the ABCP will not have an impact on the Company’s ability to complete its 2009 business plan. The Company’s accounting for ABCP is discussed more fully in note 7 to the Company’s 2008 audited consolidated financial statements.

## CURRENT GLOBAL ECONOMIC UNCERTAINTY

### *Overview*

The current global economic uncertainty has not had a significant impact on the Company compared to many other Canadian public companies as a result of the Company’s strong balance sheet. At December 31, 2008, the Company, excluding Nucrust, had \$18.0 million in cash and cash equivalents and no debt. These funds are invested in Government of Canada Treasury Bills or Bankers Acceptances of Schedule A Canadian Chartered Banks. The Company’s cash position will improve with receipt of approximately \$13.4 million in March 2009 from the Nucrust return of capital discussed above. The Company’s 75% investment in Nucrust could be affected by adverse changes in the equity markets or by changes in Nucrust’s operations over which the Company has no control.

As noted in the “*Description of Business*” section, the Board of Directors is actively reviewing strategic alternatives with the objective of realizing maximum shareholder value. At the same time, recognizing that the Company has no ongoing sources of revenue, operating costs have been further reduced through the reduction of staff and the consolidation of corporate facilities. As a result, corporate costs in 2009 are expected to be significantly lower than the \$5.1 million reported in 2008.

## **CURRENT GLOBAL ECONOMIC UNCERTAINTY (continued)**

In addition to its cash position, the Company has land and buildings in Toronto which the Company believes has value in excess of their book value of \$1.0 million.

The Company's investment in ABCP has been written down by 50% from its face value of \$8.5 million to an estimated fair value of \$4.3 million. With the completion of the ABCP restructuring in the first quarter of 2009, the Company will continue to monitor the market value of these assets but has no immediate plans or need to liquidate this investment.

The Company has commitments with respect to employee severance obligations and long-term Board and management compensation that at December 31, 2008 totaled \$3.5 million. The Company has a long-term site restoration provision of \$6.6 million which is only payable in the event that site remediation takes place on industrial sites formerly owned by the Company. Known remediation costs in the amount of \$0.3 million are expected to be paid in 2009 against which equal indemnification payments are expected to be recovered from the previous owner of these industrial sites, with the effect that the net cash cost to the Company is expected to be nominal.

### ***Operations***

Nucryst's operations may be negatively impacted by the current economic slowdown. It is possible that worldwide demand for its SILCRYST™ wound care products will slow and that competition and price pressures will increase in the coming year. Nucryst's products, however, may not be as negatively impacted as other consumer products as they are used by hospitals and medical practitioners whose clients have specific medical needs.

Nucryst is reliant on Smith & Nephew as it is Nucryst's only customer for its SILCRYST™ products. A deterioration in Smith & Nephew's financial condition could negatively impact Nucryst. Nucryst's liquidity is not expected to be affected by write-offs of accounts receivable as all of its sales are to Smith & Nephew and no write-offs have been reported in prior years. Nucryst has one specific contractual financial obligation in 2009 in the form of a US \$4.5 million payment to Smith & Nephew discussed under "*Nucryst Operations*" above.

Nucryst has been proactive in reducing its overhead costs by closing its office and laboratory facilities in Wakefield, Massachusetts and reducing operating staff at its production facility in Fort Saskatchewan, Alberta. In addition, Nucryst has been successful in reducing unit production costs and these benefits are expected to continue to be realized in 2009.

The return of capital in March 2009 will reduce Nucryst's cash balance by approximately \$18.0 million. Nucryst management believes that Nucryst will continue to have sufficient cash resources to operate successfully beyond 2009.

## **DIVIDENDS**

No dividends were paid in 2008 or 2007. The Company's current policy is to retain its cash reserves to finance operations.

## **CRITICAL ACCOUNTING POLICIES**

The Company's consolidated financial statements are prepared in accordance with Canadian generally accepted accounting principles ("GAAP") and reported in Canadian dollars. The Company's accounting policies are disclosed in note 2 to the Company's 2008 audited consolidated financial statements.

## **CRITICAL ACCOUNTING POLICIES (continued)**

The Company has established detailed policies and control procedures that are intended to ensure that management judgments and estimates are well controlled, independently reviewed and consistently applied from period to period. The following are key policies that may impact the Company's financial condition and results from operations and that require significant judgments by management. Management believes that its estimates for determining the valuation of the Company's assets and liabilities are appropriate.

*Revenue Recognition* – The Company recognizes revenue from direct sales to third parties when persuasive evidence of an arrangement exists, delivery has occurred, the price to the buyer is fixed or determinable, and collection is reasonably assured. The Company's revenues earned under license agreements consist primarily of product revenue, royalties and payments upon the achievement of specific milestones. For products manufactured under license, revenue is recorded at the date of shipment. Royalty revenue is earned based on a percentage of sales revenue earned by the licensee on its sales to third parties. Revenue relating to the achievement of milestones under licensing agreements is recognized when the milestone event has occurred. Manufacturing cost rebates paid annually are recorded as a reduction to revenue evenly throughout the year. Nucryst may also derive revenue from research activities and this revenue is recognized as services are performed.

*Research and Development Costs* – Development costs are capitalized once the Company has determined that commercialization criteria concerning the product or process have been met. The Company reviews the progress of research and development initiatives on a regular basis and has determined that, in 2008 and 2007, no development costs should be deferred and amortized.

*Site Restoration Costs* – Future site restoration costs have been estimated by qualified employees or contractors of the Company taking into consideration the anticipated method and extent of the remediation consistent with regulatory requirements, industry practices, current technology and possible uses of the site. Provision details are based on cost estimates provided by independent consultants. Significant judgment is required in the determination of these provisions and the Company takes a conservative approach in not accruing potential recoveries from third parties where indemnifications are in place. It is the Company's view that where remediation costs will be incurred many years into the future, third party recoveries cannot be estimated with certainty. Revisions to cost estimates and the recovery of actual remediation costs could result in material changes to the provision in future periods. Also see "Environmental Matters".

*Income Taxes* – The provision for income taxes is calculated based on the expected tax treatment of transactions recorded in the consolidated financial statements. In determining the provision for income taxes and, in particular, any future tax asset, the Company interprets tax legislation in a variety of jurisdictions and makes assumptions about the timing and certainty of the reversal of the future tax assets. Changes to these interpretations could have a material effect on income tax provisions in future periods.

*Stock Based Compensation* – GAAP requires that the fair value method of accounting for stock options must be recognized in the consolidated financial statements.

*Variable Interest Entities ("VIEs")* – VIEs include entities where the equity invested is considered insufficient to finance the entity's activities. Under GAAP, the Company is required to consolidate VIEs if the investments held in these entities and/or the relationships with them result in the Company being exposed to a majority of their expected losses, being able to benefit from a majority of their expected residual returns, or both, based on a calculation outlined by the standard setters. The Company currently does not have any VIEs.

*Financial Instruments* – All financial assets and liabilities are accounted for using one of five available accounting models, being held-to-maturity, available-for-sale, held-for-trading, loans and receivables and other liabilities. All financial instruments classified as available-for-sale, held-for-trading, and derivative financial instruments meeting certain recognition criteria, are carried at fair value. Changes in the fair value of financial instruments designated as held-for-trading and recognized derivative financial instruments are charged or credited to the statement of

## CRITICAL ACCOUNTING POLICIES (continued)

operations for the current period, while changes in the fair value of financial instruments designated as available-for sale are charged or credited to other comprehensive income and charged or credited to the statement of operations when the instrument is sold. All other financial assets and liabilities are accounted for at amortized cost depending upon the nature of the instrument. Financial assets and liabilities designated as held-to-maturity are initially recognized at their fair values, with any resulting premium or discount from the fair value being amortized to income or expense using the effective interest method. After their initial fair value measurement, they are measured at amortized cost using the effective interest method. Transaction costs related to the acquisition of financial instruments held-for-trading are expensed as incurred. Transaction costs with respect to instruments not classified as held-for-trading are recognized as an adjustment to the cost of the underlying instruments, when they are recognized, and amortized using the effective interest method.

The following is a summary of the accounting model the Company has elected to apply to each of its significant categories of financial instruments:

Cash and cash equivalents	held-for-trading
Short-term investments	held-for-trading
Long-term investments	available-for-sale
Long-term investments - ABCP	held-for-trading
Accounts receivable	loans and receivables
Accounts payable and accrued liabilities	other liabilities
Long-term debt	other liabilities

Derivative instruments are recorded at fair value unless exempted from derivative treatment as normal purchases and sales. All changes in their fair value are recorded in income unless cash flow hedge accounting is used, in which case, changes in fair value are recorded in other comprehensive income (loss).

## RECENTLY ADOPTED AND PENDING ACCOUNTING PRONOUNCEMENTS

### *Recently adopted and pending accounting pronouncements*

Effective January 1, 2008, the Company adopted two new CICA standards, Section 3862 "Financial Instruments – Disclosures" and Section 3863 "Financial Instruments – Presentation" which replaced Section 3861 "Financial Instruments – Disclosure and Presentation". The new Disclosure standard increases the emphasis on the risks associated with both recognized and unrecognized financial instruments and how these risks are managed. The new presentation standard carries forward the former presentation requirements. The Company determined that the implementation of these new standards did not have any impact on the Company's financial position or results of operations. The disclosures related to these sections are reported in note 16 to the Company's 2008 consolidated financial statements.

Effective January 1, 2008, the Company adopted CICA Section 3031 "Inventories". This Section relates to the accounting for inventories and revises and enhances the requirements for assigning costs to inventories. The Company determined that the implementation of this Section did not have any material impact on its consolidated financial statements.

In November 2006, the CICA issued new Handbook Section 1535 "Capital Disclosures", effective for annual and interim periods beginning on or after October 1, 2007. This Section establishes standards for disclosing information about an entity's capital and how it is managed in order that a user of the financial statements may evaluate the entity's objectives, policies and processes for managing capital. The Company's capital disclosures are reported in note 17 to the Company's 2008 consolidated financial statements.

## **RECENTLY ADOPTED AND PENDING ACCOUNTING PRONOUNCEMENTS (continued)**

### ***Future accounting pronouncements***

In February 2008, the CICA issued new Handbook Section 3064 “Goodwill and Intangible Assets”, replacing Handbook Section 3062 “Goodwill and Other Intangible Assets” and Handbook Section 3450 “Research and Development Costs”. The new section will be applicable to financial statements relating to fiscal years beginning on or after October 1, 2008. Accordingly, the Company will adopt the new standards for its fiscal year beginning January 1, 2009. This section establishes standards for the recognition, measurement, presentation and disclosure of goodwill subsequent to its initial recognition and of intangible assets by profit-oriented enterprises. Standards concerning goodwill are unchanged from the standards included in the previous Handbook Section 3062. The Company has determined that the adoption of this new section will not have a material impact on its consolidated financial statements.

### ***International financial reporting standards***

In 2006, the Canadian Accounting Standards Board (“AcSB”) published a new strategic plan that will significantly affect financial reporting requirements for Canadian companies. The AcSB strategic plan outlines the convergence of Canadian GAAP and International Financial Reporting Standards (“IFRS”) over an expected five year transitional period. In February 2008, the AcSB announced that January 1, 2011 is the changeover date for publicly-listed companies to use IFRS, replacing Canadian GAAP, affecting interim and annual financial statements relating to fiscal years after this time. The transition date of January 1, 2011 will require the restatement for comparative purposes of amounts reported by the Company for the year ended December 31, 2010. The Company is currently assessing the impact of the convergence of Canadian GAAP with IFRS on results of operations, financial position and disclosures. A high level analysis has been completed to identify areas affected by the change. The Company will provide disclosures of the key elements of its plan and progress on this transaction as the information becomes available during the transition period.

To transition to IFRS, the Company must apply “IFRS 1 – First Time Adoption of IFRS” which sets out the rules for first time adoption. In general, IFRS 1 requires an entity to comply with each IFRS effective at the reporting date for the entity’s first IFRS financial statements as if the Company had always reported under IFRS. This requires that an entity apply IFRS to its opening IFRS balance sheet as at January 1, 2010.

Management continues to assess the impact that IFRS will have on the Company including accounting policies, financial reporting and information technology. The nature and extent of the project may be significantly impacted by changes in the strategic direction of the Company.

## **RISKS AND UNCERTAINTIES**

### ***Westaim may be unable to develop commercially viable products.***

Some of the Company’s products, such as Nucryst’s potential wound care products, are still in the development stage. The Company will continue to incur research and development costs before any of these products are commercially viable, and there is no assurance that any of its products will ever reach this stage or that the products will achieve the level of market penetration expected. Some or all of the technological obstacles that will need to be overcome in order to make these products commercially viable may prove to be insurmountable.

## **RISKS AND UNCERTAINTIES (continued)**

***If Westaim or its subsidiaries fail to raise the capital necessary to fund its operations, they may be unable to advance the development and commercialization of their technologies.***

A commitment of substantial resources by the Company, its subsidiaries and its collaborators to conduct research and development into new products will be required to successfully commercialize products under development. The Company or its subsidiaries may not be able to raise additional capital at the time it is needed to complete product development. Additional capital may be required to fund operations, continue the research and development of product candidates and commercialize products. If the Company or its subsidiaries are unable to raise additional funds when required, it may be necessary to delay, reduce or eliminate some or all of their development programs.

***Westaim's success is dependent upon its ability to form partnerships to develop and sell its products.***

The Company's and its subsidiaries' ability to successfully develop, manufacture and market their current and proposed products will depend, to a large extent, on their ability to form partnerships or joint ventures with established corporations or other collaborators. Except as described elsewhere in this document, the Company and its subsidiaries have not yet entered into any material partnerships or joint ventures for the development or marketing of these products, nor will they necessarily be able to do so in the future. The Company and its subsidiaries may be unable to find suitable partners or form a partnership or joint venture on terms that are beneficial. If the Company and its subsidiaries do enter into a partnership or joint venture, they may suffer losses if the partner becomes insolvent or otherwise fails to meet its obligations.

***Westaim's products may become technologically obsolete.***

The Company and its subsidiaries compete, and intend to compete, in markets that are characterized by rapid adaptation to technological change. These markets include, but are not limited to, the medical devices and pharmaceuticals markets. The current and future products of the Company and its subsidiaries may be quickly rendered obsolete and unmarketable. The Company and its subsidiaries will need to continually develop new products and enhance existing products to keep pace with evolving technologies, customer preferences and industry standards.

***Westaim is developing products for highly competitive markets.***

The Company and its subsidiaries face, and will face, competition from a number of other companies including major domestic and international companies which have substantially greater financial, technical, marketing, sales, distribution and other resources. Many of these competitors may also have greater name or brand recognition. Competitors may produce more technologically-advanced products, at a lower cost, than the Company or its subsidiaries are capable of producing. Competition may cause the Company or its subsidiaries to lose market share and may reduce profit margins on any products that it is able to sell.

***Westaim may be unable to protect its intellectual property.***

In order to succeed, the Company and its subsidiaries will need to prevent their intellectual property from being misappropriated by third parties. To protect their intellectual property, the Company and its subsidiaries rely primarily on their confidentiality agreements, physical security at research and manufacturing facilities, as well as the copyright, trade secret, trademark and patent laws of Canada, the United States, and other countries in which the Company and its subsidiaries conduct, or will conduct, business. The laws of other countries may not protect intellectual property rights to the same extent as the laws of Canada and the United States and, in any event, the methods that the Company and its subsidiaries have chosen may fail to adequately prevent misappropriation of their intellectual property.

## **RISKS AND UNCERTAINTIES (continued)**

The Company and its subsidiaries cannot provide assurance that they will succeed in obtaining new patents; that they will be able to enforce existing patents against third parties; or that existing patents will not be successfully challenged by third parties. Even if the Company and its subsidiaries are able to prevent the misappropriation of intellectual property, others may independently and legally develop technologies that are substantially equivalent or superior.

### ***Westaim may become involved in expensive intellectual property, product liability or other litigation.***

The Company and its subsidiaries may be required to commence litigation to enforce their intellectual property rights. Others may claim that the Company or its subsidiaries have infringed upon their intellectual property rights and commence litigation.

Some of the Company's and its subsidiaries' existing and proposed products, such as Nucryst's medical devices and pharmaceuticals, are part of a class of product that is particularly vulnerable to product liability litigation for a number of reasons:

- These types of products are extremely complex and the Company and its subsidiaries may fail to discover product faults, despite their best efforts to do so;
- These types of products will interact with very complex biological and man-made systems and may interact with these systems in harmful ways that the Company and its subsidiaries were unable to anticipate, despite their best efforts to do so; and
- Because these products may be used by a large number of people, if these products do cause harm, the Company or its subsidiaries may be exposed to a large number of claims for damages.

The Company and its subsidiaries have tried to protect themselves against product liability litigation by including limitation of liability provisions in some of their sales agreements. There is no assurance, however, that existing or future limitation of liability provisions will be sufficient to protect the Company and its subsidiaries in all circumstances, nor can assurance be provided that any of these provisions will be held to be enforceable by the Courts.

The Company believes that it has obtained sufficient product liability insurance coverage to protect it against claims. However, the wording of its insurance policies may exclude some claims. Furthermore, the Company cannot provide assurance that its insurance limits will be sufficient, nor can it ensure that it will be able to acquire satisfactory insurance in the future.

The Company may also be subject to other litigation as a result of entering into agreements or terminating agreements in the course of normal operations or actual or proposed reorganizations or strategic alliances. Any such litigation, if successful, could have an adverse effect on the Company and its results of operations.

### ***Westaim may be unable to retain the required highly skilled people.***

The Company's technology businesses are dependent upon the talents and knowledge of certain key individuals in each of the businesses. The marketplace for people with these skills is highly competitive, and the Company may not be able to retain a sufficient number of people with the skills that it requires. The Company provides competitive remuneration and incentives for the retention of key personnel.

### ***Westaim is subject to certain risks because of the international character of its business.***

The Company estimates that sales to international customers accounted for over 90% of its consolidated net sales in the fiscal year ended December 31, 2008 and the Company anticipates that international sales will continue to represent a material portion of consolidated net sales in the future. International sales are subject to inherent risks,

## **RISKS AND UNCERTAINTIES (continued)**

including variations in local economies, fluctuating exchange rates, greater difficulty in the collection of accounts receivable, changes in tariffs and other trade barriers, adverse foreign tax consequences and burdens of complying with a variety of foreign laws. The Company may also encounter exchange rate risk in the event international sales are denominated in a currency other than Canadian dollars.

The Company's financial results are reported in Canadian dollars. A significant portion of the Company's revenue and expenses, as well as accounts payable, accounts receivable and other balance sheet items, are frequently denominated in currencies other than the Canadian dollar, primarily in United States dollars. Fluctuations in the exchange rate between these other currencies and the Canadian dollar could reduce the Company's reported revenue, increase the Company's costs or give rise to a charge related to foreign currency translation, all of which could adversely affect operating results.

### ***Westaim's investment in third party asset-backed commercial paper may be overstated.***

The Company has estimated the fair value of its investment in ABCP. There is currently no market for ABCP and in accordance with GAAP the Company has made assumptions to calculate the estimated fair value of the ABCP. There is no assurance that the estimated fair value reported approximates the actual value that will be realized.

### ***Westaim's success is dependent on the success of Nucryst.***

Westaim's shareholdings in Nucryst represent a substantial portion of Westaim's assets. Nucryst completed its initial public offering in December 2005 and although Westaim continues to hold a majority interest in Nucryst, Westaim now has a limited ability to control the operations of Nucryst and the associated costs, which could adversely affect Westaim's financial performance. Westaim's return on its investment in Nucryst will depend upon a number of factors that may be beyond Westaim's control, including the risk factors set forth above that relate to Nucryst. In addition, Nucryst is subject to several additional risks including, but not limited to the following:

- Nucryst is dependent on its relationship with Smith & Nephew and Smith & Nephew's performance under contractual agreements. Smith & Nephew is currently Nucryst's only customer;
- Nucryst has a history of net losses and negative cash flow from operations; this will likely continue in the future and Nucryst's cash resources may not be adequate to accomplish its objectives;
- A global recession could negatively affect the demand for Nucryst's products sold to Smith & Nephew which could negatively affect Nucryst's liquidity and the recorded value of Nucryst's accounts receivable, inventory and capital assets;
- Nucryst's proposed products will require regulatory approval before Nucryst is allowed to sell them. The regulatory approval process will be lengthy and expensive and Nucryst will have the burden of proving that its products are safe and effective. Even if regulatory approval is obtained, such approval could cause Nucryst's products to become prohibitively expensive. There is no assurance that Nucryst will ever obtain regulatory approval to sell any of its proposed products, or that the conditions imposed by regulators will be satisfactory to Nucryst. Regulatory requirements imposed on Nucryst's products could limit Nucryst's ability to test, manufacture and commercialize its products; and
- Nucryst's ability to commercialize its medical products successfully will depend in part on the extent to which reimbursement for the cost of such products and related treatments will be available from government health administration authorities, private health insurers and other organizations and there can be no assurance that adequate third party coverage will be available for Nucryst to realize an appropriate return on its investment in product development.
- Nucryst's tax pools are subject to review and potential disallowance, in whole or in part, by the Canada Revenue Agency ("CRA") in Canada and the Internal Revenue Service in the United States upon audit of Nucryst's federal income tax returns, and Nucryst cannot predict the results of any such review. In 2005, the CRA commenced an examination of Nucryst's Canadian income tax returns for 2001 and 2002 and in December 2007, Nucryst received correspondence from the CRA proposing certain transfer pricing adjustments

## **RISKS AND UNCERTAINTIES (continued)**

with respect to income allocations between Nucryst's Canadian and U.S. entities for those years. Any reassessments to be issued by the CRA, on an aggregate basis, could result in a material effect on Nucryst's consolidated financial statements, although at this time, the potential impact cannot be reasonably estimated.

A failure on the part of Nucryst to properly manage the above risks, or any of the other risks it is subject to, will have an adverse impact on the value of Westaim's investment in Nucryst.

## **VOLATILITY OF SHARE PRICE**

Market prices for securities of companies developing new technologies are generally volatile. Factors such as announcements of technological innovations, new commercial products, patents, the development of proprietary rights, results of clinical trials, regulatory actions, publications, quarterly financial results, the Company's financial position, public concern over the safety of biotechnology and nanotechnology, future sales of shares by the Company or by our current shareholders, and other factors, could have a significant effect on the market price and volatility of the Company's common shares.

The price of the common shares may be volatile even though there have been no material changes in the Company's business or finances. In the past, securities class action litigation has often been brought against companies that experience volatility in the market price of their securities. Moreover, market prices for stocks of technology companies frequently reach levels that bear no relationship to the operating performance of such companies. These market prices generally are not sustainable and are subject to wide variations. Whether or not meritorious, litigation brought against the Company could result in substantial costs, divert management's attention and resources and harm the Company's financial condition and results of operations.

## **ENVIRONMENTAL MATTERS**

Nucryst's operations are subject to extensive federal, state, provincial and municipal environmental statutes, regulations and policies, including those promulgated by the Occupational Safety and Health Administration, the EPA, Environment Canada, Alberta Environment, the Department of Health Services, and the Air Quality Management District, that govern activities and operations that may have adverse environmental effects such as discharges to air and water, as well as handling and disposal practices for solid and hazardous wastes. Some of these statutes and regulations impose strict liability for the costs of cleaning up, and for damages resulting from sites of spills, disposals, or other releases of contaminants, hazardous substances and other materials and for the investigation and remediation of environmental contamination at properties leased or operated by Nucryst and at off-site locations where Nucryst has arranged for the disposal of hazardous substances.

Nucryst has not been required to make material expenditures to comply with current environmental statutes, regulations and policies.

The Company's provision for site restoration at December 31, 2008 and 2007 amounted to \$6.6 million. The provision relates primarily to site restoration costs associated with soil and groundwater reclamation and remediation costs. The Company expects to spend only nominal amounts in future years unless a plant site formerly owned by the Company is decommissioned.

## MARKET FOR SECURITIES

The common shares of The Westaim Corporation are listed on The Toronto Stock Exchange ("TSX") under the symbol "WED" and until October 18, 2007 were also listed on NASDAQ. On April 10, 2007, the Company received notice from NASDAQ that, for 30 consecutive business days, the bid price of the Company's common stock listed on NASDAQ had closed below US \$1.00, which is in contravention of NASDAQ's Marketplace Rules. The Company was given 180 calendar days to regain compliance by achieving a bid price at or above US \$1.00 per share for a minimum of ten consecutive days. The Company did not regain compliance with the bid price requirement. Effective October 18, 2007, the Company's shares were delisted from the NASDAQ national market and suspended from trading. Over the previous 12 months, more than 80% of the Company's trading by volume had occurred on the TSX.

On October 20, 2008, the Company announced its intention to deregister and terminate its reporting obligations associated with its previous NASDAQ listing under section 12(g) and 15(d) of the *U.S. Securities and Exchange Act of 1934*, as amended, and filed a Form 15-F with the Securities Exchange Commission ("SEC") which immediately suspended the Company's United States reporting obligations. These reporting obligations were formally terminated in January 2009 after a 90 day waiting period. The deregistration and termination had no effect on the Company's common shares or on its shareholders as the Company continues to trade on the TSX.

## OUTSTANDING SHARE DATA

The Company's authorized share capital consists of an unlimited number of common shares, preferred A shares and preferred B shares. As at December 31, 2008 and February 12, 2009, there were 94,214,632 common shares outstanding. There were no preferred shares outstanding at December 31, 2008 and February 12, 2009.

The Company maintains an employee and director stock option plan under which the Company may grant options for up to 10,955,445 shares of common stock of the Company at an exercise price equal to the closing market price of the Company's stock for the trading day immediately preceding the date of grant. As at December 31, 2008 and February 12, 2009, there were 4,098,597 options outstanding.

## CONTRACTUAL COMMITMENTS

(\$000)	Payments due by Period				
	Total	Less than 1 Year	1 – 3 Years	3 – 5 Years	More than 5 Years
As at December 31, 2008					
Capital lease obligations	\$ –	\$ –	\$ –	\$ –	\$ –
Operating lease obligations	8,568	1,713	3,462	2,205	1,188
Contractual obligations	5,786	5,786	–	–	–
Supplier purchase obligations <sup>(1)</sup>	1,261	1,261	–	–	–
Other long-term liabilities reflected on the Company's consolidated balance sheet	–	–	–	–	–
	\$ 15,615	\$ 8,760	\$ 3,462	\$ 2,205	\$ 1,188

<sup>(1)</sup> Included in supplier purchase obligations are commitments for capital expenditures totaling \$41 and agreements to purchase goods or services that are enforceable and legally binding on the Company and that specify all significant terms.

## DISCLOSURE CONTROLS AND PROCEDURES (“DC & P”)

DC & P are designed to provide reasonable assurance that information required to be disclosed by the Company in reports filed with or submitted to various securities regulators is recorded, processed, summarized and reported within the time periods specified. This information is gathered and reported to the Company’s management, including the Chief Executive Officer (“CEO”) and Chief Financial Officer (“CFO”), so that timely decisions can be made regarding disclosure.

The Company’s management, under the supervision of, and with the participation of, the CEO and CFO, have designed and evaluated the Company’s DC & P, as required in Canada by “National Instrument – 52-109, Certification of Disclosure in Issuers’ Annual and Interim Filings”. Based on this evaluation, the CEO and CFO have concluded that, as of December 31, 2008, the Company’s DC & P were effective.

## INTERNAL CONTROL OVER FINANCIAL REPORTING (“ICFR”)

Designing, establishing and maintaining adequate ICFR is the responsibility of the Company’s management. ICFR is a process designed by, or under the supervision of, senior management, and effected by the Board of Directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and preparation of the Company’s consolidated financial statements in accordance with GAAP. Management is responsible for establishing and maintaining ICFR and has designed such controls to ensure that the required objectives of these internal controls have been met. Management uses the Internal Control – Integrated Framework to evaluate the effectiveness of internal control over financial reporting, which is a recognized and suitable framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company continually reviews and enhances its systems of controls and procedures. However, because of the inherent limitations in all control systems, management acknowledges that ICFR will not prevent or detect all misstatements due to error or fraud.

As of December 31, 2008, the CEO and the CFO of the Company have evaluated the effectiveness of the Company’s ICFR. Based on those evaluations, the CEO and CFO have concluded that as at December 31, 2008, the controls and procedures were operating effectively. There are no material weaknesses that have been identified by management in this regard.

## SELECTED CONSOLIDATED FINANCIAL INFORMATION

The following table sets forth certain financial information for the Company for 2006 to 2008:

(\$000, except per share data)	Year ended Dec. 31, 2008	Year ended Dec. 31, 2007	Year ended Dec. 31, 2006
Revenue from continuing operations	\$ 22,397	\$ 31,830	\$ 27,591
Loss from continuing operations <sup>(1)</sup>	(1,735)	(2,830)	(12,861)
Loss per common share from continuing operations – basic and diluted	(0.02)	(0.03)	(0.14)
Net loss	(10,235)	(58,033)	(50,557)
Net loss per common share – basic and diluted	(0.11)	(0.62)	(0.54)
Total assets	77,277	83,387	148,339
Total long-term debt	–	–	8,000
Dividends declared	–	–	–

<sup>(1)</sup> As disclosed in Note 3 to the audited consolidated financial statements, and discussed in this MD&A, the iFire business segment has been accounted for as a discontinued operation in 2008, 2007 and 2006.

## QUARTERLY INFORMATION

	Q1	Q2	Q3	Q4
(\$000, except per share data)	2008	2008	2008	2008
Revenue from continuing operations	\$ 5,209	\$ 4,754	\$ 5,466	\$ 6,969
Income (loss) from continuing operations	3,227	(1,887)	(1,851)	(1,224)
Income (loss) per common share from continuing operations – basic and diluted	0.03	(0.02)	(0.02)	(0.01)
Net (loss) income	(6,857)	(3,002)	(3,122)	2,746
Net (loss) income per common share – basic and diluted	(0.07)	(0.03)	(0.03)	0.03

  

	Q1	Q2	Q3	Q4
(\$000, except per share data)	2007	2007	2007	2007
Revenue from continuing operations	\$ 6,131	\$ 6,686	\$ 7,839	\$ 11,174
Income (loss) from continuing operations	1,898	2,875	(8,772)	1,169
Income (loss) per common share from continuing operations – basic and diluted	0.02	0.03	(0.09)	0.01
Net loss	(6,700)	(7,388)	(17,138)	(26,807)
Net loss per common share – basic and diluted	(0.07)	(0.08)	(0.18)	(0.28)

The net loss in the first quarter of 2008 includes a dilution gain of \$6.0 million. This was offset by a write-down of capital assets at iFire of \$7.1 million included in discontinued operations. The net loss in the third quarter of 2008 includes a write-down of \$0.9 million in the value of the Company's investment in ABCP. The net income in the fourth quarter of 2008 includes a \$5.3 million gain on the sale of capital assets at iFire included in discontinued operations partially offset by an additional \$0.9 million write-down in the value of ABCP.

The net loss in the first quarter of 2007 was impacted by a dilution gain of \$4.5 million. The net loss in the second quarter of 2007 was impacted by the gain on sale of capital assets of \$8.6 million, partially offset by \$4.3 million in reorganization costs, including severance. The net loss in the third quarter of 2007 was impacted by restructuring costs of \$2.3 million and increased depreciation expense of \$2.2 million. In addition, the third quarter of 2007 was impacted by a \$3.0 million write-down in the value of the Company's investment in ABCP. Revenues in the third quarter of 2007 were impacted by a \$5.0 million milestone payment offset by a \$4.5 million manufacturing cost rebate. Net income in the fourth quarter of 2007 was impacted by milestone revenue of US \$5.0 million and gain on sale of an investment of \$2.6 million offset by losses relating to ABCP of \$2.1 million. Discontinued operations in the fourth quarter of 2007 were impacted by a \$22.1 million write-down in the value of capital assets at iFire.

### Forward Looking Statements

*Certain portions of this Management's Discussion and Analysis, as well as other public statements by Westaim, contain forward-looking statements. In particular, the words "strategy", "may", "will", "continue", "developed", "objective", "potential", "exploring", "could", "expect", "expected", "expects", "indicates", and words and expressions of similar import, are intended to identify forward-looking statements. Such forward-looking statements include but are not limited to statements concerning the expectation that Nucryst and Smith & Nephew will establish new fixed prices in 2010; Nucryst's exploration of commercialization options through partnering opportunities; estimates and assumptions regarding the value of the Company's investment in asset-backed commercial paper; computation of values expected to be received upon exercise of stock options; commercialization strategies, alternatives and objectives; technology development and investment strategies; strategic alternatives to maximize value for shareholders; the market potential of new Nucryst products and the effect thereon of distribution channel decisions and evaluations; the development of new products using NPI 32101; Nucryst's expectation that it will not develop additional pharmaceutical applications for NPI 32101 without commercial or development partners; statements relating to Nucryst's payment of manufacturing cost rebates to Smith & Nephew and the impact of such payments on Nucryst's gross margin; Nucryst's expectations regarding reduction of general and administrative expenses in 2009; expectations regarding lower capital spending in 2009; the potential material adverse effects of amendments to Nucryst's agreements with Smith & Nephew on Nucryst's quarterly financial results in subsequent periods; Nucryst's expectation that amendments to its agreements with Smith & Nephew will facilitate its ongoing efforts to expand its business opportunities and to support Smith & Nephew to realize the future growth potential of Acticoat™ products; statements regarding Nucryst having sufficient cash to*

execute its 2009 business plan; the potential for Nucryst to be impacted by a global recession, including reductions in sales volumes, pressure on product pricing, slowing of demand for its wound care products, increasing competition and price pressures, and the possibility that Nucryst's products may not be as negatively impacted as other consumer products; that proceeds relating to sale of iFire's intellectual property will be less than the book value of such assets, and that no material gain or loss is expected to be reported on the transaction; statements regarding iFire's operations in 2009 being limited to delivery of assets to purchasers and seeking purchasers; statements regarding termination of iFire employees and iFire's operating costs; expectations and assumptions relating to the Company's 2009 business plan, including Nucryst having sufficient cash and cash equivalents to fund its operations and new product development beyond 2009 and the Company having sufficient cash and cash equivalents to fund the Company's corporate operations including iFire activities; anticipated changes to the cash position of Nucryst and of the Company as a result of the return of capital from Nucryst to Westaim; expectations relating to capital expenditures and capital commitments; expectations regarding the Company's credit facility; affect of adverse changes in equity markets or Nucryst's operations; expectations regarding lower corporate costs in 2009; the Company's belief regarding the value of its land and buildings in Toronto; statements respecting expected remediation costs and indemnification payments, and resulting nominal net cash cost to the Company of remediation; the possibility that a deterioration in Smith & Nephew's financial condition could negatively impact Nucryst; the expectation that Nucryst's liquidity is not expected to be affected by write-offs of accounts receivable since all of its sales are to Smith & Nephew and no write-offs have been reported in prior years; management's belief that its estimates for determining the valuation of the Company's assets and liabilities are appropriate; the Company's view that where remediation costs will be incurred many years into the future, third party recoveries cannot be estimated with certainty and that revisions to cost estimates and the recovery of actual remediation costs could result in material changes to the provision in future periods; that changes to interpretations of tax legislation could have a material effect on income tax provisions in future periods; the Company's determination that the adoption of new accounting standards will not have a material impact on its consolidated financial statements; the statements made in the sections on Risks and Uncertainties, Volatility of Share Price, and Environmental Matters; These statements are based on current expectations that are subject to risks, uncertainties and assumptions and the Company can give no assurance that these expectations are correct. The Company's actual results could differ materially from those anticipated by forward-looking statements for various reasons generally beyond our control, including but not limited to: (i) market and competing technology developments which might affect the ability or willingness of potential iFire partners or purchasers of any of iFire's assets or business to manufacture and market products based on iFire's technology; (ii) cost estimates based upon assumptions which may prove to be unrealistic; (iii) delays or problems in receiving regulatory approvals for Nucryst's products, including from the FDA; (iv) the degree to which Smith & Nephew plc succeeds in selling Acticoat™ products; (v) unexpected obstacles or complexities associated with developing iFire or Nucryst technology, manufacturing processes and new applications; (vi) patent and technical hurdles which might inhibit or delay the ability of Nucryst to develop or commercialize technologies or products; (vii) general economic, market, financing, regulatory and industry developments and conditions in the industries that the Company and Nucryst serve, which among other things might affect the demand for electronic materials and pharmaceutical products or the ability to raise new capital or affect potential partner ability to contribute financially; (viii) the activities of our competitors and technological developments that diminish the attractiveness of our products; and (ix) other risk factors set forth in the Company's Annual Report or Annual Information Form. 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.