

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, 2005 and December 31, 2004 was prepared as at February 9, 2006 and should be read in conjunction with the Consolidated Financial Statements of The Westaim Corporation for the years ended December 31, 2005 and December 31, 2004 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 and the Company's website (as hereinafter defined) at www.westaim.com. All dollar amounts contained herein are denominated in Canadian dollars unless otherwise specified.

DESCRIPTION OF THE BUSINESS

The Westaim Corporation (the "Company") develops, commercializes and launches high potential technologies into certain fast growing sectors of the economy. The Company's business opportunities include iFire Technology Corp. ("iFire"), a company with a novel flat panel display technology and Nucryst Pharmaceuticals Corp. ("Nucryst"), a company that develops, manufactures and commercializes innovative medical products that fight infection and inflammation.

The Company's strategy is 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 now trade on the Nasdaq National Market and the Toronto Stock Exchange. Management recognizes that, in circumstances where it lacks technical or marketing expertise or the necessary capital to complete development of a product, it may be in the Company's best interests to pursue commercialization through joint venture arrangements, strategic alliances, licensing, or selling its technology.

CONSOLIDATED RESULTS

OVERVIEW

For the year ended December 31, 2005, the Company reported net income of \$9.3 million compared to a net loss of \$25.2 million in 2004. The loss from continuing operations was \$5.5 million in 2005, which included a \$30.1 million gain on issuance of the shares of Nucryst, compared to a loss from continuing operations of \$28.7 million in 2004. In 2005, the Company reported income from discontinued operations of \$14.8 million, including a one-time \$11.3 million gain on the sale of inactive subsidiaries, compared to \$3.6 million in 2004. Revenues from continuing operations for the year ended December 31, 2005 were \$28.6 million compared to \$31.9 million in 2004.

The basic and diluted net income per common share was \$0.10 in 2005 compared to a net loss of \$0.30 in 2004. The basic and diluted net loss per common share from continuing operations was \$0.06 in 2005 and \$0.34 in 2004. The basic weighted average number of common shares outstanding was 92.9 million and 84.1 million in 2005 and 2004 respectively.

Continuing operations reflect the results of the Company's subsidiaries, Nucryst and iFire. Revenues decreased \$3.3 million in 2005 reflecting lower milestone revenue from Nucryst, partially offset by higher royalty payments and manufacturing revenue earned from Nucryst's wound care products.

CONSOLIDATED RESULTS

OVERVIEW (continued)

A comparison of operating costs from continuing operations in 2005 compared to 2004 is as follows:

(\$millions)	2005	% of Revenue*	2004	% of Revenue*
Manufacturing	\$ 10.8	47.6%	\$ 8.5	44.9%
General and administrative	4.1	18.1%	5.2	27.5%
Research and development	36.5	161.0%	35.5	187.8%
Depreciation and amortization	7.3	32.2%	5.7	30.2%
	\$ 58.7		\$ 54.9	

*revenues exclude Nucrust milestone revenue of \$5.9 million in 2005 and \$13.0 million in 2004

The increase in manufacturing costs primarily reflects higher production volumes of Acticoat™ wound care products at Nucrust. Manufacturing costs measured as a percent of revenue, before milestone payments, have increased by 2.7 percentage points due to an increasing proportion of higher cost products being manufactured and to initial start-up inefficiencies related to the addition of increased manufacturing capacity at Nucrust in the second half of 2005. The decrease in general and administrative costs primarily reflects the cost of strategic analysis of future pharmaceutical applications for Nucrust's nanocrystalline silver technology incurred in 2004. The increase in research and development expenses reflects slightly higher spending at iFire compared to 2004, partially offset by reduced expenditures relating to development of pharmaceutical products at Nucrust. All eligible research and development expenditures in Canada qualify for a 20% tax credit that can be utilized when the Company reaches a taxable position. No development costs were capitalized in 2005 and 2004. Depreciation increased by \$1.6 million, or 28%, reflecting the completion of major capital projects at both Nucrust and iFire in 2005.

Corporate expenses for the year ended December 31, 2005 were \$8.2 million, up from \$7.4 million in 2004. The increase is primarily due to accrued expenses related to long term stock-based incentive programs reflecting the appreciation in the Company's share price during 2005.

The foreign exchange gain in 2005 was \$0.4 million compared to a foreign exchange loss of \$0.6 million in 2004. The 2005 results benefited from favourable foreign exchange rates related to U.S. denominated working capital balances and Yen denominated long-term debt.

Interest income of \$2.1 million in 2005 is \$0.3 million less than 2004, reflecting lower average cash balances partially offset by slightly higher average interest rates.

The write down of assets of \$0.6 million reflects write downs and losses on the disposal of research and development equipment no longer in use at iFire as a result of the transition to pilot manufacturing.

The Company recorded a \$30.1 million gain on issuance of shares of a subsidiary as a result of Nucrust's initial public offering in December 2005. The gain records the Company's pro rata benefit from the net proceeds of this offering which is discussed more fully below under "Operations – Continuing Operations – Nucrust Operations".

The gain on the sale of investments of \$1.1 million in 2005 resulted from the sale of one of the Company's portfolio investments in the fourth quarter of 2005.

Income from discontinued operations net of income taxes for the year ended December 31, 2005 was \$14.8 million compared to \$3.6 million in 2004. The increase reflects a \$11.3 million gain on the sale of inactive subsidiaries and a \$1.9 million gain on the sale of capital assets available for sale. The 2004 income from discontinued operations

CONSOLIDATED RESULTS

OVERVIEW (continued)

related primarily to the sale of the Company's Ambeon division in January 2004. Discontinued operations are discussed more fully below under "*Discontinued Operations*" and in Note 4 to the audited consolidated financial statements of the Company for the year ended December 31, 2005.

Net income in the fourth quarter of 2005 was \$22.0 million, including the \$30.1 million gain on issuance of the shares of Nucryst, compared to a net loss of \$10.6 million in 2004. The loss from continuing operations in the fourth quarter of 2005, before the gain on issuance of Nucryst shares, was \$10.6 million compared to a loss of \$10.4 million in 2004.

Income from discontinued operations in the fourth quarter of 2005 was \$2.5 million compared to a loss of \$0.2 million in the same period in 2004. The increase was primarily the result of a \$1.9 million gain on sale of capital assets available for sale.

OPERATIONS

Performance Measures

As a developer of new technologies, the Company uses financial and technical performance measures to track corporate performance. The Company develops comprehensive long-range plans and annual plans for each business segment with a view to maximizing long-term shareholder value. The success of each business unit is measured on its ability to achieve performance milestones within a specified timeframe. These milestones generally relate to specific research and development targets. Given the uncertainty surrounding developing new technologies, these milestones 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.

Continuing Operations

The Company's business plans, and related measurements of performance against plan, are designed to ensure that the Company's capital and human resources are focused on maximizing return on investment. The Company's operations are organized into two high-potential emerging technology businesses – iFire and Nucryst. The Company's primary strategy is to invest in the independent technical, research, operating, and marketing and sales capabilities of each of its technology investments, through the early years of product development, introduction and commercialization.

◆ *iFire Operations*

iFire, based in Toronto, Ontario, has developed a proprietary flat panel display with solid state, thick-film dielectric electroluminescent ("TDEL") technology with primary application in the fast-growing large screen television market. For 30 to 40-inch screens, the Company believes that in high-volume production, iFire™ displays will have a 30% to 40% cost advantage over other flat panel technologies due to TDEL's simpler structure, less complex manufacturing methods and fewer processing steps compared with liquid crystal displays ("LCD") and plasma display panels ("PDP"). Unlike other flat panel technologies, the iFire™ displays do not contain gases (as with PDP), liquids (as with LCD) or vacuum (as with the cathode ray tube), making them inherently rugged and less susceptible to shock, vibration and breakage. TDEL technology's solid state structure and thick-film manufacturing process also make an iFire™ display less sensitive to cleanroom contamination that is associated with PDP and LCD, which the Company believes will result in lower capital investment, higher manufacturing yield and reduced

CONSOLIDATED RESULTS

OPERATIONS (continued)

production costs. In addition, the iFire™ technology in large scale commercially produced displays is expected to feature full colour, rapid video response, unrestricted viewing angles and a wide operating temperature range.

In 2005, iFire continued to achieve strategic milestones toward proving the commercial viability of its technology as measured in scalability, colour, luminescence, lifetime and electronics. In late December 2005, iFire completed the \$46 million pilot production facility in Toronto which utilizes its simplified flat panel manufacturing process, Colour-By-Blue™. The pilot production facility is intended to produce engineering samples of high definition 34-inch flat panel display modules and to simulate manufacturing in a commercial environment. The pilot plant will provide information and experience to allow iFire to work with partners to construct and operate the first volume production facility. Although no partnership agreements have been finalized, initial planning for this first volume production facility is underway.

iFire has been working with Dai Nippon Printing Co., Ltd. ("DNP") of Japan since 2003 under a non-exclusive joint development agreement for commercial production of mid-30-inch screen size flat panel television modules. Under the terms of the agreement, DNP is utilizing its flat panel production line in Kashiwa, Japan for developing front-end manufacturing processes for iFire's TDEL technology, including the substrate preparation and the fabrication of the row electrodes and thick-film dielectric layer. DNP regularly delivers partially completed substrates to iFire for further manufacturing. To complete the panel, back-end processes such as the deposition of phosphors, column electrodes and colour correction layers, as well as electronics assembly, are performed by iFire at its pilot manufacturing facility in Toronto.

In 2004, iFire entered into a Yen 1.08 billion (approximately \$10.7 million) loan agreement with DNP to partially fund equipment purchased for iFire's pilot production facility in Toronto. The loan was drawn down during 2004 and 2005 and is repayable in full in Japanese Yen on June 30, 2006. At December 31, 2005, the loan outstanding amounted to 1,029,259,143 Yen (approximately \$10.2 million).

iFire has also been working with Sanyo Electric Company Ltd. ("Sanyo") since 2002 under a non-exclusive technology collaboration agreement in which Sanyo provides research and development expertise to iFire. As part of this agreement, Sanyo also provides funding to iFire for certain research and development projects. This funding is accounted for as a reduction in research and development expenses and amounted to \$1.2 million in 2005 and \$1.3 million in 2004 and has totaled \$3.8 million since inception. Total funding is expected to amount to \$4.9 million over 4 years.

◆ *iFire Financial Results*

The divisional loss at iFire for the year ended December 31, 2005 was \$31.8 million compared to \$27.9 million in 2004. The increase in 2005 is primarily the result of higher salaries and wages and higher depreciation and amortization expense. Approximately 50% of iFire's cash expenses arises from salaries and wages of research and development staff and related support staff. Depreciation and amortization expense increased to \$5.1 million in 2005 compared to \$3.5 million in 2004 as a result of additional equipment and patents. Depreciation of the pilot manufacturing plant began in December 2005 and, as a result, depreciation and amortization expense in 2006 will increase by approximately \$5.0 million in 2006 compared to 2005.

Capital spending amounted to \$24.1 million in 2005 compared to \$18.6 million in 2004. The increase is primarily related to the substantial completion of iFire's pilot manufacturing facility.

CONSOLIDATED RESULTS

OPERATIONS (continued)

◆ *iFire Outlook*

The 2006 outlook for iFire is for expenditures on research and development before depreciation to continue at levels moderately higher than 2005 reflecting the additional costs of operating the pilot manufacturing facility. With the substantial completion of the pilot manufacturing facility in 2005, iFire's capital expenditures for research and development are expected to be lower in 2006. iFire intends to pursue a strategy of developing relationships with major international electronics companies with a view to jointly exploiting the commercialization of large format display products and sharing in the future development and capital costs of a large scale manufacturing facility. iFire does not expect to have revenues until a large scale manufacturing facility is completed and financing requirements will not be determinable until a manufacturing partner is selected and specific terms of a joint manufacturing arrangement are negotiated.

◆ *Nucryst Operations*

Nucryst researches, develops, manufactures and commercializes wound care products and pharmaceutical 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 the company believes enhances silver's natural antimicrobial properties. In addition, Nucryst's nanocrystalline silver has exhibited potent anti-inflammatory properties in preclinical studies.

On December 29, 2005, Nucryst completed its initial public offering of 4.5 million common shares and Westaim now owns 75.3% of Nucryst's common shares. The net proceeds of this offering of US \$39.1 million before repayment of intercompany debt to the Company of US \$6.9 million will be used for capital expenditures, research and development, and general corporate purposes. 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 for wound dressing products, together with Nucryst's U.S. and Canada 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 receives reimbursement for manufacturing costs plus royalty payments and milestone payments based on Smith & Nephew's global sales. All payments under the agreement with Smith & Nephew are made to Nucryst in U.S. dollars. The two companies are collaborating to develop the technology for the introduction of new products for chronic and serious wounds.

The license Nucryst has granted to Smith & Nephew is exclusive, which means that Nucryst has agreed not to license the right to market, distribute or sell products with SILCRYST™ coatings for use on non-minor skin wounds and burns on humans to any other party. This exclusive right does not apply to other types of products that Nucryst may develop using its technology, such as the pharmaceutical products under development. Smith & Nephew has agreed to pursue the development and commercialization of products with SILCRYST™ coatings in the market for silver-based products for non-minor skin wounds and burns on humans. 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 four product families with SILCRYST™ coatings manufactured by Nucryst for Smith & Nephew at its Fort Saskatchewan plant: Acticoat™ Burn, Acticoat™ 7, Acticoat™ Absorbent and Acticoat™ Moisture Control which was introduced in 2005.

CONSOLIDATED RESULTS

OPERATIONS (continued)

Nucryst's revenues under its agreements with Smith & Nephew consist of manufacturing reimbursements, royalties, payments upon the achievement of specified milestones and reimbursement for costs incurred in connection with the development or improvement of SILCRYST™ products covered by the agreements with Smith & Nephew. Nucryst receives reimbursement for the full cost of manufacturing products sold to Smith & Nephew. Manufacturing costs are recorded both as offsetting revenue and expense items on the statement of operations upon shipment to Smith & Nephew. Nucryst earns royalty revenues based upon Smith & Nephew's sales of Acticoat™ products. Royalty revenue varies in proportion to increases or decreases in Smith & Nephew's sales of its Acticoat™ products. Nucryst also receives 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 2005, Nucryst had earned US \$19.0 million of a potential US \$56.5 million in milestone payments.

Pharmaceutical Products – Nucryst is developing pharmaceutical products to extend its nanocrystalline silver technology to the treatment of dermatological conditions. Nucryst is producing a nanocrystalline silver powder referred to as NPI 32101 for use as a pharmaceutical ingredient, or API. The lead pharmaceutical candidate is a topical cream containing NPI 32101 for the treatment of dermatological conditions, such as atopic dermatitis. Atopic dermatitis is an inflammatory skin disease often complicated by secondary infection. Nucryst is also conducting preclinical research for the use of NPI 32101 in the treatment of gastrointestinal conditions. The company believes its nanocrystalline silver technology may be used to create a variety of additional pharmaceutical products that can treat medical conditions characterized by both infection and inflammation.

In 2003, Nucryst filed an Investigational New Drug ("IND") application with the US Food and Drug Administration ("FDA") for its first dermatology drug, NPI 32101 topical cream and completed Phase 1 clinical studies. In 2004, Nucryst announced the results of the Phase 2a clinical study of NPI 32101 topical cream in patients with mild to moderate atopic dermatitis. This double-blind, randomized, placebo-controlled study in 224 adult patients involved 23 clinical sites across the United States.

Patients were treated twice daily for a six-week period with one of two concentrations of NPI 32101, 0.5% and 1.0%, in a cream formulation or with the vehicle alone. The purpose of the study was to evaluate the safety and effectiveness of topical NPI 32101 in improving the signs and symptoms of atopic dermatitis.

In 2005, a pharmacokinetic study in adults and a pediatric tolerance study provided Nucryst with further data indicating that its NPI 32101 topical cream is likely to be safe and well tolerated in both populations. In the pharmacokinetic study, Nucryst evaluated serum concentrations and urinary excretion of silver in 18 adult patients with atopic dermatitis and 18 matching healthy adult controls following four times daily application of 1% and 2% NPI 32101 cream for two weeks. Silver could not be detected in the serum of a majority of the subjects, and when silver was detected the concentrations were low. There was no correlation with the concentration of cream, area covered with cream or the presence or absence of disease. Similarly, urinary silver excretion was not related to these factors or to the detection of silver in the serum. Based on these observations, Nucryst believes that systemic exposure to silver in patients with atopic dermatitis treated with topical NPI 32101 is likely to be low.

In the pediatric tolerance study, Nucryst tested 30 children and adolescents with atopic dermatitis for tolerance to NPI 32101 topical cream in 1% and 2% dosage strengths applied twice daily for 2 weeks compared to the cream containing no silver. Nucryst did not observe any serious adverse events in any of these patients. Two patients in the placebo group and none in the NPI 32101-treated groups withdrew for adverse events. Treatment-related events were generally mild, transitory and were not related to the dose of silver applied. Treatment-related events

CONSOLIDATED RESULTS

OPERATIONS (continued)

were higher in the NPI 32101 group than in the placebo group, with 20%, 70% and 60% of patients experiencing at least one adverse event for administration site conditions for placebo, 1% and 2% groups, respectively.

Findings in the first Phase 2 clinical study provided Nucryst with important guidance to optimize the product, protocol and study design for future clinical trials. Nucryst used these observations to guide design of its second Phase 2 safety and efficacy clinical study. This second safety and efficacy Phase 2 clinical study is testing placebo, 1.0%, and 2.0% dosage strength creams in 345 children and adolescents with mild to moderate atopic dermatitis. The treatment period is 12 weeks, which is twice as long as the treatment period in the first Phase 2 safety and efficacy clinical study. A double-blind randomized study began enrolment in the fourth quarter of 2005 and involves 28 clinical sites across Canada and the United States. Results are expected by the end of 2006.

In addition to its clinical studies described above, Nucryst is continuing to conduct preclinical and non-clinical studies of its NPI 32101 topical cream in order to generate the carcinogenicity, toxicology and other data that will need to be submitted to the FDA as part of any New Drug Application ("NDA"). Phase 3 trials, which involve hundreds of patients in numerous clinical centres, are expected to take a year or more to complete and are expected to commence upon achieving successful results in Phase 2 studies. If favorable results are achieved in Phase 3, Nucryst anticipates submitting a New Drug Application to the FDA in the 2009 timeframe.

◆ *Nucryst Financial Results*

Nucryst's operating income for the year ended December 31, 2005 was \$1.6 million compared to income of \$6.1 million in 2004.

The financial results of Nucryst are summarized as follows:

	2005	2004	2003
Wound care product revenue	\$ 22.7	\$ 18.9	\$ 11.6
Milestone revenue	5.9	13.0	4.6
Total revenue	\$ 28.6	\$ 31.9	\$ 16.2
Manufacturing costs ⁽¹⁾	\$ 11.4	\$ 8.8	\$ 6.2
Wound care gross margin excluding milestone revenue	\$ 11.3	\$ 10.1	\$ 5.4
Nucryst operating income (loss)	\$ 1.6	\$ 6.1	\$ (2.0)

(1) Manufacturing costs include related depreciation and are net of intercompany charges

Revenue – Total revenue for the year ended December 31, 2005 was \$28.6 million compared to \$31.9 million for the year ended December 31, 2004. The decrease of \$3.3 million is attributable primarily to US \$10.0 million in milestone revenue being earned in 2004 compared to US \$5.0 million in the same period of 2005, which was offset in part by increased wound care product revenue in 2005. Wound care product revenue increased approximately 20% to \$22.7 million for the year ended December 31, 2005 compared to \$18.9 million in the same period of 2004. The \$3.8 million improvement in wound care product revenue reflects increased orders from, and sales by, Smith & Nephew as their sales of Acticoat™ products continue to grow. This improvement was partially offset by the impact of the strengthening Canadian dollar which resulted in lower revenues reported in Canadian dollars. Milestone revenues for the year ended December 31, 2005 earned for the achievement of predetermined Smith & Nephew sales thresholds of Acticoat™ products were US \$5.0 million compared to US \$10.0 million in the same period of 2004.

CONSOLIDATED RESULTS

OPERATIONS (continued)

Manufacturing Costs – Manufacturing costs, including related depreciation, for the year ended December 31, 2005 were \$11.4 million compared to \$8.8 million for the year ended December 31, 2004. The increase of \$2.6 million, or 30%, is attributable to higher production volumes of Acticoat™ wound care products driven by increased orders from Smith & Nephew to support its Acticoat™ sales growth.

Gross Margin – Gross margin excluding milestone revenue for the year ended December 31, 2005 was \$11.3 million compared to \$10.1 million for the year ended December 31, 2004. This reduction in gross margin excluding milestone revenue is primarily the result of an increase in volume of lower margin Acticoat™ products manufactured for, and sold by, Smith & Nephew in 2005 compared to 2004 and the introduction of new manufacturing capacity in 2005.

Research and development, and general and administrative costs of \$15.6 million for the year ended December 31, 2005 were \$1.4 million less than the \$17.0 million incurred in 2004. The decrease compared to 2004 is primarily attributable to the Phase 2 dermatological clinical study that was undertaken in 2004.

Capital spending totaled \$4.5 million in 2005 compared to \$3.2 million in 2004 and in both years related primarily to the addition of manufacturing capacity of Acticoat™ products in Fort Saskatchewan, Alberta. The success of the Acticoat™ product line has resulted in the need to further increase production capacity at Nucryst's Fort Saskatchewan facility. Nucryst is currently adding a production line to this facility which will be operational by early 2007. Nucryst has advised that the total cost of this capital project is expected to be approximately \$7.0 million. Nucryst anticipates that additional expansion may be required in 2007 to meet projected sales growth. Capital projects related to pharmaceutical development are expected to total approximately \$2.3 million in 2006. Nucryst's administration and pharmaceutical research activities are primarily based in Wakefield, Massachusetts, and manufacturing operations are located in Fort Saskatchewan, Alberta.

◆ *Nucryst Outlook*

The Company believes that the outlook for Nucryst is for continued year over year growth in licensing and manufacturing revenues as markets for Acticoat™ wound care products are expanded in the United States, Europe and other markets by Smith & Nephew. One US \$5.0 million milestone payment was received in 2005 and additional milestone payments are expected to be earned by Nucryst in future years. Research and development expenditures will increase in 2006 as Nucryst expands clinical and pre-clinical research into the pharmaceutical attributes of its noble metal nanocrystalline technology.

CONSOLIDATED RESULTS

OPERATIONS (continued)

Discontinued Operations

◆ *Sale of Subsidiaries*

In January 2005, the Company completed a series of transactions whereby two inactive wholly owned subsidiary companies participated in a Plan of Arrangement with two widely held publicly traded companies. This resulted in a reorganization of the participating companies into a single company and the dilution of the Company's investment to approximately 6.0%. The Company's pro rata interest in the book value of the recapitalized companies amounted to \$2.2 million. Subsequently, the company created under the Plan of Arrangement was listed on the Toronto Stock Exchange. The inactive subsidiaries were previously carried at nominal value and this transaction resulted in the Company recording a dilution gain of \$2.2 million in discontinued operations in the first quarter of 2005. In February 2005, the Company sold its investment in the publicly traded company for net proceeds of \$11.5 million and recorded an additional gain on sale of investments of \$9.3 million in the first quarter of 2005.

◆ *Ambeon*

On January 29, 2004, the Company sold its Ambeon division for net proceeds of \$33.4 million. The completion of the sale to a strategic buyer represented an opportunity to enhance the Company's value and to focus resources on the Company's two high potential technologies, iFire and Nucryst. Under Canadian Generally Accepted Accounting Principles ("GAAP") introduced in 2003, all expected future losses and estimated shutdown and asset disposal costs relating to discontinued operations are no longer accrued, but are to be reported in the period in which they occur. As a result, the gain from the sale of Ambeon of \$5.4 million was reported in the first quarter of 2004 and discontinued operations costs totaling \$1.9 million relating to the restructuring of the Company as a result of the sale of Ambeon were reported in the subsequent quarters in which they occurred.

In the second quarter of 2005, the Company sold the remaining operations and net assets relating to Ambeon for \$0.9 million. The gain on sale of this transaction, amounting to \$0.7 million, has been included in discontinued operations.

◆ *Ethylene Coatings business*

In February 2005, the land and building associated with the Company's former ethylene coatings business was sold. The closing date of this transaction was December 15, 2005 and the purchaser leased the facility during the interim period. The gain on sale of this asset amounting to \$1.9 million was recorded in the fourth quarter of 2005.

Details of the financial impact of discontinued operations are disclosed in Note 4 to the 2005 audited consolidated financial statements.

LIQUIDITY AND CAPITAL RESOURCES

The Company's business plans are developed to ensure research and development costs do not overextend the Company's financial resources. The Company's 2006 consolidated business plan indicates that Nucryst will have sufficient cash and short-term investments to fund its pharmaceutical product development and the Company will have sufficient cash and short-term investments to fund the flat screen commercialization plans at iFire. The Company has no material lines of credit or other available debt facilities.

LIQUIDITY AND CAPITAL RESOURCES *(continued)*

At December 31, 2005, the Company had cash, cash equivalents and short-term investments of \$119.6 million compared to \$101.1 million at December 31, 2004. This improvement in liquidity of \$18.5 million is primarily the result of financing initiatives discussed below, including the initial public offering of Nucryst in December 2005, additional draws on the DNP loan facility, issuance of convertible debentures by a wholly-owned subsidiary and proceeds from the sale of discontinued operations. These initiatives provided approximately \$81.0 million in cash to the Company. Cash used in continuing operations amounted to \$32.3 million compared to \$21.0 million in 2004, reflecting planned higher operating losses at Nucryst and iFire. Discontinued operations used \$0.5 million in 2005 compared to \$2.2 million in 2004.

In December 2005, Nucryst completed its initial public offering of 4,500,000 shares at US \$10.00 per share. Net proceeds after commissions and other costs amounted to US \$39.1 million. US \$6.9 million of the proceeds were used to repay a portion of Nucryst's indebtedness to the Company. The remaining proceeds are anticipated to be used by Nucryst to fund its capital projects and pharmaceutical development. At December 31, 2005, Nucryst had cash and short term investments of \$41.9 million. These funds are not accessible to the Company to fund the future operations and capital projects at iFire or its own operations.

Proceeds from the sale of discontinued operations included \$11.5 million for the sale of inactive subsidiaries; \$7.4 million from the sale of land and buildings; \$2.8 million from the collection of escrow funds relating to the sale of Ambeon in 2004, and \$0.9 million from the sale of the remaining Ambeon operations.

Capital expenditures for continuing operations of \$30.8 million in 2005 were \$7.3 million higher than the same period in 2004. As discussed earlier, the Company completed major capital projects in both iFire and Nucryst. In relation to ongoing projects, the Company has outstanding purchase commitments amounting to approximately \$2.5 million as at December 31, 2005 compared to \$18.0 million at December 31, 2004. Capital expenditures in 2006 could increase to as much as \$200 million if iFire determines it is beneficial to construct a large volume flat screen production facility on its own without a strategic partner.

The DNP loan at iFire of 1,029,259,143 Yen (\$10.2 million) at December 31, 2005, is payable in full on June 30, 2006. The Company has entered into forward transactions to hedge the foreign currency exposure of this loan. The Company will be required to pay any exchange losses on the date of settlement. The unrealized losses on these hedges amounted to approximately \$2.0 million at December 31, 2005.

DIVIDENDS

No dividends were paid in 2005 or 2004. The Company's current policy is to retain its cash reserves to finance capital projects and business growth.

CRITICAL ACCOUNTING POLICIES

The Company's consolidated financial statements are prepared in accordance with Canadian generally accepted accounting principles and reported in Canadian dollars. The Company's accounting policies are disclosed in Note 2 to the 2005 audited consolidated financial statements.

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.

CRITICAL ACCOUNTING POLICIES *(continued)*

Revenue Recognition – The Company recognizes revenue from the sale of products based upon Nucryst's licensing and supply agreements with Smith & Nephew in accordance with GAAP. The agreements provide for reimbursements of manufacturing costs and research and development costs, and for royalties and milestone payments. Nucryst recognizes manufacturing cost reimbursement as revenue upon shipment of product from its manufacturing facility and records royalty revenues upon the sale of products by Smith & Nephew to its customers. Nucryst is also eligible to earn additional royalties when specified gross margin thresholds have been achieved by Smith & Nephew. Additional royalties are recognized in the period of sale by Smith & Nephew to its customers. Milestone payments are recognized as revenue when Smith & Nephew achieves the agreed sales levels or receives the agreed regulatory approvals.

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 2005 and 2004, no development costs should be deferred and amortized.

Site Restoration Costs – Future site restoration costs have been estimated by qualified employees 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".

Effective January 1, 2004, the Company adopted Section 3110 "Asset Retirement Obligations" of the Canadian Institute of Chartered Accountants ("CICA") Handbook which addresses the financial accounting and reporting obligations associated with the retirement of tangible, long-lived assets and their associated net retirement costs.

Under the new Section, an asset retirement obligation is recognized at its fair value in the period in which it is incurred. Asset retirement costs are capitalized as part of the carrying amount of the long-lived asset and a related amortization expense is recognized in future periods. Implementation of CICA 3110 did not have an impact on the Company's results from operations or its financial position as the assets subject to these new rules have been sold or written down to nominal value.

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 – Canadian GAAP required that effective January 1, 2004, the fair value method of accounting for stock options must be recognized in the financial statements. It provided for alternate methods of implementation and the Company elected to apply the provisions retroactively with restatement of prior years. The Company determined that electing this method of applying the new rules had the most conservative impact on its financial results.

For US GAAP, the Company continues to measure compensation expense using the intrinsic value method for stock options granted to directors and employees and to provide pro forma disclosure of compensation expense for all

CRITICAL ACCOUNTING POLICIES *(continued)*

outstanding options issued by the Company as if the fair value methodology had been applied. In December 2004, the U.S. Financial Accounting Standards Board issued a new standard amending the accounting for stock-based compensation. The Standard requires the use of a fair-value-based method to measure and account for the stock based compensation. The requirements for this Standard will be effective beginning January 1, 2006. The adoption of this Standard will not have a material impact on the Company's operating results or financial position.

Variable Interest Entities – The Company adopted the CICA guidelines on the consolidation of variable interest entities ("VIEs") on January 1, 2005. VIEs include entities where the equity invested is considered insufficient to finance the entity's activities. Under this new guideline, 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 implementation of this guideline did not have an impact on the Company's operating results or financial position.

ENTERPRISE RISK MANAGEMENT

The Company invests in new technologies with the objective of providing leadership, strategy and capital to commercialize the technology as quickly as possible. There is significant risk that the technology may not be commercialized in a timely or cost-effective manner or that it may not be accepted by the marketplace. The Company reduces this risk by investing in multiple technologies and product lines but these risks could have a material adverse impact on the Company's business prospects, financial condition, and results from operations.

RISKS AND UNCERTAINTIES

Westaim may be unable to develop commercially viable products.

Some of the Company's products, such as iFire's flat panel television displays, are still in the developmental stage. The Company will likely continue to incur significant 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.

If Westaim fails to raise the capital necessary to fund its operations, it may be unable to advance the development and commercialization of its technologies.

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

The commercial potential of the Company's products depends upon certain issues regarding pricing and production costs.

The Company's ability to commercialize iFire's flat-screen technology successfully will depend in part on its ability to price iFire's products at a point that will generate consumer demand, while allowing for an adequate profit

RISKS AND UNCERTAINTIES *(continued)*

margin. The Company believes that iFire's product can be produced at costs lower than other flat-screen technologies but there is no assurance that there will be consumer demand for the iFire product or that competing products will not be developed and priced below the prices required by iFire to be profitable. There is no assurance that the Company's present cost estimates for its manufacturing facilities will be valid at the time that those facilities are constructed.

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 their 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, pharmaceuticals and flat-screen television monitor 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.

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.

RISKS AND UNCERTAINTIES *(continued)*

Westaim may become involved in expensive intellectual property or product liability 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. The Company believes that it and its subsidiaries will be subject to an increasing number of infringement claims as they begin to produce more products in more industries.

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.

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 net sales in the fiscal year ended December 31, 2005 and the Company anticipates that international sales will continue to represent a material portion of net sales in the future. International sales are subject to inherent risks, 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.

RISKS AND UNCERTAINTIES *(continued)*

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 retained 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 is currently its 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;
- Many of 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 or that, if approved, such approval could cause its 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 pharmaceutical 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.

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, 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

The Company's operations are subject to extensive federal, provincial and municipal environmental statutes and regulations, including those relating to air emissions, wastewater discharges, contaminated soil and groundwater, and the handling and disposal of hazardous substances and wastes.

The Company's operations in Toronto are conducted under an environmental operating approval from the Ontario Ministry of Environment. The Company's operations in Wakefield, Massachusetts are conducted under various state and federal permits.

The Company operates under a "best management practices program" called Safety and Environment Management Practices ("SEMP") which incorporates both an environmental management system and an occupational health and safety management system. This program is regularly reviewed and updated to keep pace with or stay ahead of regulatory changes and is internally audited every year.

The provision for site restoration at December 31, 2005 of \$6.8 million is comparable to the \$6.7 million provision at December 31, 2004. The provision relates primarily to site restoration costs associated with soil and groundwater reclamation and remediation costs. The Company spent \$0.1 million in 2005, and \$0.2 million was recovered from a third party. The Company expects to spend only nominal amounts in future years unless a plant site is decommissioned.

MARKET FOR SECURITIES

The common shares of The Westaim Corporation are listed on The Toronto Stock Exchange under the symbol "WED" and on NASDAQ under the symbol "WEDX".

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, 2005 and February 9, 2006, there were 92,900,649 common shares outstanding. There were no preferred shares outstanding at December 31, 2005 and February 9, 2006.

The Company maintains an employee and director stock option plan under which the Company may grant options for up to 10,750,000 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, 2005 and February 9, 2006, there were 5,049,600 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, 2005					
Long-term debt	\$ 16,312	\$ 10,312	\$ 6,000	\$ –	\$ –
Capital lease obligations	–	–	–	–	–
Operating lease obligations	2,173	763	1,086	202	122
Supplier purchase obligations ⁽¹⁾	9,375	9,375	–	–	–
Other long-term liabilities reflected on the Company's consolidated balance sheet	–	–	–	–	–
	\$ 27,860	\$ 20,450	\$ 7,086	\$ 202	\$ 122

(1) Included in supplier purchase obligations are commitments for capital expenditures totaling \$2.5 million 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

The Chief Executive Officer and Chief Financial Officer evaluated the effectiveness of the Company's disclosure controls and procedures (as defined in the rules of the Securities and Exchange Commission and the Canadian Securities Administrators) and concluded that the Company's disclosure controls and procedures were effective as of December 31, 2005 and in respect of the 2005 year end reporting period.

SELECTED CONSOLIDATED FINANCIAL INFORMATION

The following table sets forth certain financial information for the Company for 2003 to 2005:

(\$000, except per share data)	Year Ended Dec. 31, 2005	Year Ended Dec. 31, 2004	Year Ended Dec. 31, 2003
Revenue from continuing operations	\$ 28,560	\$ 31,907	\$ 17,123
Loss from continuing operations ⁽¹⁾	(5,508)	(28,734)	(37,849)
Loss per common share from continuing operations – basic and diluted	(0.06)	(0.34)	(0.48)
Net income (loss)	9,270	(25,177)	(35,440)
Net income (loss) per common share – basic and diluted	0.10	(0.30)	(0.45)
Total assets	212,461	172,263	144,906
Total long-term debt	16,312	4,795	–
Dividends declared	–	–	–

(1) As disclosed in Note 4 to the audited consolidated financial statements, and discussed in this MD&A, the Ambeon business segment has been accounted for as a discontinued operation in 2005, 2004 and 2003.

QUARTERLY INFORMATION

	Q1	Q2	Q3	Q4
(\$000, except per share data)	2005	2005	2005	2005
Revenue from continuing operations	\$ 4,977	\$ 5,708	\$12,268	\$ 5,607
(Loss) income from continuing operations	(8,858)	(11,003)	(5,130)	19,483
(Loss) income per common share from continuing operations – basic and diluted	(0.10)	(0.12)	(0.06)	0.21
Net income (loss)	2,532	(10,218)	(5,042)	21,998
Net income (loss) per common share – basic and diluted	0.03	(0.11)	(0.05)	0.24

Net income in the first quarter of 2005 includes a gain on the sale of inactive subsidiaries of \$9.3 million and a related dilution gain of \$2.2 million. Loss in the second quarter of 2005 includes a gain of \$0.7 million on the sale of the remaining operations and assets relating to Ambeon. Net income from continuing operations in the fourth quarter of 2005 includes a gain on the sale of investments of \$1.1 million and a gain on the issuance of shares of a subsidiary of \$30.1 million.

	Q1	Q2	Q3	Q4
(\$000, except per share data)	2004	2004	2004	2004
Revenue from continuing operations	\$10,565	\$ 4,799	\$10,501	\$ 6,042
Loss from continuing operations	(3,201)	(12,662)	(2,468)	(10,403)
Loss per common share from continuing operations – basic and diluted	(0.04)	(0.16)	(0.03)	(0.11)
Net income (loss)	1,008	(13,071)	(2,514)	(10,600)
Net income (loss) per common share – basic and diluted	0.01	(0.17)	(0.03)	(0.11)

The results of operations of the Ambeon business segment have been accounted for as discontinued operations.

The gain on sale of Ambeon of \$5.4 million was included in net income in the first quarter of 2004.

Revenue from continuing operations, loss from continuing operations, and net income (loss) were favourably impacted by the reporting of milestone revenues in Nucryst of US \$5.0 million in the third quarter of 2005, US \$5.0 million in the first quarter of 2004, and US \$5.0 million in the third quarter of 2004.

Forward Looking Statements

This Report contains forward-looking statements including the outlook for Nucryst and iFire. The words "may", "should", "would", "likely", "outlook", "believe", "anticipate", "estimate", "expect", "intend", "plan", "opportunities", "strategy", "develop", "objective", "collaborating", "project" 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 expected progress in the Company's technology businesses; potential tax credits and their utilization; the affect of sales activity or achievement of operating expense and capital budget targets on financial performance; the growth of the large screen TV market; expected cost advantages of iFire™ displays; the cost advantages and other advantages of iFire's manufacturing process compared to other technologies; the expected performance characteristics of iFire's displays; the uses and purposes of the iFire pilot plant and the information expected to be obtained from that plant; the anticipated timing of volume production of iFire™ displays; total funding expected to be obtained by iFire from Sanyo; anticipated depreciation expense in 2006 for iFire; the outlook for 2006 iFire expenditures; iFire's commercialization strategies; expectations for iFire manufacturing revenues and financing requirements; Nucryst collaborations with Smith & Nephew on new products; conclusions to be drawn from Nucryst product studies; Nucryst's beliefs in regard to the results of its study of the effects of its topical NPI 32101 product on patients with atopic dermatitis; estimates and expectations regarding the start and completion of clinical trials by Nucryst; the expected timing of the results from Nucryst's clinical studies of its products; the anticipated timing of the submission by Nucryst of New Drug Applications to the U.S. Food and Drug Administration; timing of operation of new Nucryst production facilities and the increase in production capacity as a result of such facilities; the cost of Nucryst capital projects; the need for further Nucryst facilities expansion to meet projected sales growth; projected cost of Nucryst capital projects in 2006; the outlook for Nucryst year over year growth in licensing and manufacturing revenues; expected timing of further milestone payments to Nucryst; increase in Nucryst research and development expenditures in 2006; expected Nucryst net operating losses in 2006; Nucryst's expectations of the time for which the net proceeds of its initial public offering will support its operations; the sufficiency of Westaim's cash and short term investments to fund its 2006 business plan; potential Westaim capital expenditures in 2006 if it decides to construct a large volume flat screen production facility without a strategic partner; Westaim's requirement to pay exchange losses with respect to the loan from DNP to iFire; opportunities and demand for Nucryst's present and future products; and Nucryst's sales, receipt of milestone payments, revenue and profitability. These statements are based on current expectations that are subject to risks and uncertainties, and the Company can give no assurance that these expectations are correct. Forward-looking statements are not guarantees of future performance, they involve significant risks, uncertainties and assumptions, and our actual results could differ materially from those anticipated by these forward-looking statements for various reasons generally beyond our control, including but not limited to: (i) unexpected obstacles in developing iFire or Nucryst technology, manufacturing processes and new applications; (ii) unforeseen complexities and delays associated with completing facility expansions, and with achieving timing targets for pilot manufacturing and the production of product quality displays and panels and the commercial introduction and sale of iFire products; (iii) patent and technical hurdles which might inhibit or delay the ability of iFire or Nucryst to develop or commercialize technologies or products; (iv) delays in receiving regulatory approvals, including from the FDA; (v) the degree to which Smith & Nephew succeeds in selling Acticoat™ products; (vi) general economic, market, financing, regulatory and industry developments and conditions in the industries that the Company serves, 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; (vii) the activities of our competitors and technological developments that diminish the attractiveness of our products; (viii) general industry and market conditions and growth rates; and (ix) the risks described above under "Risks and Uncertainties". The Company disclaims any intention or obligations to revise forward-looking statements whether as a result of new information, future developments or otherwise. All forward-looking statements are expressly qualified in their entirety by this cautionary statement.