



For immediate release

Westaim announces 2009 first quarter results

CALGARY, ALBERTA – May 11, 2009 – The Westaim Corporation announced today that for the quarter ended March 31, 2009, it recorded a net loss of \$2.7 million, or 3 cents per share, on revenues of \$5.2 million compared to a net loss of \$6.9 million, or 7 cents per share, on revenues of \$5.2 million in the previous year. The loss from continuing operations for the quarter ended March 31, 2009 was \$2.3 million compared to income of \$3.2 million for the same period in 2008.

At March 31, 2009, Westaim had \$40.2 million in consolidated cash and cash equivalents, compared to \$46.8 million at December 31, 2008. Westaim's cash position, excluding cash and cash equivalents held by its 75 per cent owned subsidiary NUCRYST Pharmaceuticals Corp., was \$29.6 million. In addition, Westaim held ABCP with a book value of \$4.0 million.

“Westaim is well positioned with strong cash and asset resources,” said Cameron MacDonald, President & CEO of Westaim. “We will look for opportunities to make the most of our investment resources and leverage our experience to increase shareholders' equity.”

Tomorrow, May 12, 2009, The Westaim Corporation is holding its Annual Meeting of Shareholders in Toronto, Canada at 10:00 a.m. EDT. The meeting will be webcast live and is available through the company website www.westaim.com. An archive of the webcast will be posted following the meeting.

The Westaim Corporation invests, directly and indirectly, through acquisitions, joint ventures and other arrangements, with the objective of providing its shareholders with capital appreciation and real wealth preservation. Westaim holds a 75 per cent interest in NUCRYST Pharmaceuticals Corp. (NASDAQ: NCST; TSX: NCS). Westaim's common shares are listed on The Toronto Stock Exchange under the trading symbol WED.

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This news release contains forward-looking statements. These statements are based on current expectations that are subject to risks and uncertainties, and Westaim can give no assurance that these expectations are correct. Various factors could cause actual results to differ materially from those projected in such statements, including but not limited to statements regarding Westaim's examination of possible new investment opportunities in an effort to enhance shareholder value. Westaim disclaims any intention or obligation to revise forward-looking statements whether as a result of new information, future developments or otherwise. Accordingly, readers are advised not to place undue reliance on forward-looking statements, and should not rely on this information at any date other than the date of this news release. All forward-looking statements are expressly qualified in their entirety by this cautionary statement.

THE WESTAIM CORPORATION**Financial Highlights**

(unaudited)

(thousands of dollars except per share data)

Consolidated Statements of Operations	Three Months Ended March 31	
	2009	2008
Revenue	\$ 5,174	\$ 5,209
(Loss) income from continuing operations	(2,339)	3,227
Net loss	(2,681)	(6,857)
Net (loss) income per common share - basic and diluted		
Continuing operations	(0.02)	0.03
Net loss	(0.03)	(0.07)
Weighted average number of common shares outstanding (thousands)	94,216	94,186

Segmented Information	Three Months Ended March 31	
	2009	2008
Revenue from continuing operations		
Nucryst Pharmaceuticals	\$ 5,174	\$ 5,209
(Loss) income from continuing operations		
Nucryst Pharmaceuticals	\$ (1,377)	\$ (2,238)
Other (including corporate costs)	(962)	5,465
(Loss) income from continuing operations	\$ (2,339)	\$ 3,227

Consolidated Balance Sheets	March 31, 2009	December 31, 2008
Cash and cash equivalents	\$ 40,159	\$ 46,768
Current assets	50,254	59,783
Other assets	16,818	17,494
Current liabilities	7,132	9,841
Shareholders' equity	47,830	50,002

The Westaim Corporation
Management's Discussion and Analysis
Three months ended March 31, 2009

This interim Management's Discussion and Analysis prepared as at May 7, 2009 should be read in conjunction with Management's Discussion and Analysis included in the annual report of the Company for the year ended December 31, 2008. Additional information relating to the Company can be found at www.westaim.com and www.sedar.com.

Description of the Business

The Westaim Corporation (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 was developing a novel flat panel display technology.

In November 2007, the Company announced that it 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 were also reduced as part of a 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 of \$8.2 million after fees, costs and termination amounts and reported a gain of \$5.3 million. In the first quarter of 2009, the Company sold the intellectual property and other intangible assets relating to iFire for net proceeds of \$1.1 million after fees, costs and termination amounts. The Company continues to seek a purchaser for iFire's land and building.

On December 1, 2008, the Company requisitioned a special meeting of shareholders of Nucryst 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 which was held on February 12, 2009 at which time the shareholders approved the return of capital totaling US \$14.7 million which was distributed to shareholders on February 25, 2009. The return of capital reduced Westaim's consolidated cash position by approximately \$4.6 million representing the amount paid to Nucryst's minority shareholders. The Company's non-consolidated cash position improved by \$13.7 million as a result of this return of capital.

On April 3, 2009, the Company announced that it plans to pursue strategic investment opportunities designed to maximize the value of the Company's strong balance sheet and non-cash resources. To implement this strategy, the Company entered into a management services agreement ("MSA") with Goodwood Management Inc. ("Goodwood"), an affiliate of Goodwood Inc., to manage the day-to-day affairs of the Company and to present strategic investment opportunities for the Board of Directors to consider.

Goodwood Inc., as portfolio manager to certain investment funds, exercises control or direction over an aggregate of 18,747,000 common shares of the Company, which represents approximately 19.9% of the issued and outstanding shares of the Company. The MSA is for an initial term of five years with automatic renewal every three years and provides that the Company will pay Goodwood an annual fee of 2% of the Company's consolidated net book value. In addition, Goodwood may earn incentive fees if the Company achieves pre-tax income above certain thresholds based on a percentage of its consolidated net book value.

Goodwood is required to provide certain services to the Company including the services of two directors, one of whom is also President and Chief Executive Officer, and a Chief Financial Officer.

Consolidated Results – Three Months ended March 31, 2009

For the three months ended March 31, 2009, the Company reported a consolidated net loss of \$2.7 million compared to a consolidated net loss of \$6.9 million for the three months ended March 31, 2008. Loss from continuing operations was \$2.3 million for the three months ended March 31, 2009 compared to income of \$3.2 million for the three months ended March 31, 2008. Revenues for the three months ended March 31, 2009 and 2008 were \$5.2 million. The loss from discontinued operations of \$0.3 million for the three months ended March 31, 2009 was \$9.8 million less than the loss of \$10.1 million for the three months ended March 31, 2008 as a result of the

Consolidated Results – Three Months ended March 31, 2009 (continued)

write-down of assets at iFire of \$7.1 million in the first quarter of 2008 and reduced activity in 2009. The consolidated net loss for the three months ended March 31, 2008 includes a dilution gain of \$6.0 million, discussed in note 3 to the interim consolidated financial statements for the three months ended March 31, 2009.

Operating costs for the first quarter of 2009 of \$8.4 million were \$1.1 million less than the \$9.5 million of operating costs incurred in the same period of 2008. This decrease is primarily related to lower manufacturing costs and reduced research and development spending at Nucryst.

Corporate costs for the three months ended March 31, 2009 were \$1.3 million, unchanged from the same period in 2008.

Interest income was \$0.1 million for the three months ended March 31, 2009, compared to \$0.2 million in the same period in 2008. This decrease reflects lower average interest rates.

Foreign exchange gains reflecting the weakening of the Canadian dollar in the first quarter of 2009 were \$0.5 million compared to \$0.7 million in the same period of 2008.

Operations

Operations reflect the results of the Company's Nucryst subsidiary. The results of iFire are reported under Discontinued Operations.

Nucryst Pharmaceuticals Corp. – Nucryst researches, develops and commercializes innovative medical products that fight infection and inflammation based on its noble metal nanocrystalline technology. Westaim owned 74.7% of Nucryst's common shares as at March 31, 2009 and December 31, 2008. Nucryst's operating loss for the first quarter of 2009 was \$1.9 million compared to \$2.9 million in the first quarter of 2008. Total product related revenue in the first quarter of 2009 was \$5.2 million, unchanged from the same period in 2008. Sales revenue reflects licensing royalties and manufacturing revenue relating to Acticoat™ products sold by, and produced for, Smith & Nephew plc ("Smith & Nephew"). Increased royalty revenues reflecting increased sales by Smith & Nephew were partially offset by lower product revenues resulting from lower product shipments to Smith & Nephew and the unfavourable foreign exchange on manufacturing cost rebates payable to Smith & Nephew.

The financial results of Nucryst for the first three months of 2009 compared to the first three months of 2008 are as follows:

(\$millions)	Three months ended March 31	
	2009	2008
Wound care product revenue	\$ 6.6	\$ 6.3
Manufacturing cost rebate	(1.4)	(1.1)
Total revenue	\$ 5.2	\$ 5.2
Manufacturing costs ⁽¹⁾	2.8	4.1
Wound care product gross margin	2.4	1.1
Nucryst operating loss	\$ (1.9)	\$ (2.9)

⁽¹⁾ Manufacturing costs include related depreciation

Wound Care Products - In September 2007, Nucryst signed amended agreements with Smith & Nephew for the manufacture and sale of Acticoat™ products.

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 was 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 to offset an annual manufacturing cost rebate in the

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Operations (continued)

amount of US \$4.5 million that Nucrust has agreed to make to Smith & Nephew beginning in 2007 through 2009.

A US \$1.1 million offset to revenue is accrued quarterly with the US \$4.5 million payment due September 30 of each year. In 2010, it is expected that the parties will establish new fixed prices after taking into account the cost savings achieved by Nucrust in the previous three years.

Nucrust initiatives to reduce manufacturing costs in 2008 continued in the first quarter of 2009 which resulted in lower costs of goods sold and improved gross margins in the first quarter of 2009 compared to the same period in 2008. Nucrust's gross margin for the three months ended March 31, 2009 of \$2.4 million is an improvement of \$1.3 million compared to the gross margin of \$1.1 million for the three months ended March 31, 2008.

Other Products – Outside of its Smith & Nephew agreements, Nucrust is continuing efforts to extend its nanocrystalline silver technology to develop other medical devices to combat infection and inflammation. While Nucrust discontinued its efforts to develop pharmaceutical products containing NPI 32101 for the treatment of gastrointestinal conditions in 2008, Nucrust is continuing to explore commercialization avenues for its topical barrier cream containing NPI 32101 as well as discussing with third parties other product applications for its coating technology outside of wound care.

Nucrust Outlook – The overall combined impact of the amendments to the Smith & Nephew agreements discussed above could have a material adverse effect on Nucrust'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 Nucrust, and the receipt by Nucrust of further milestone payments. In the longer term, Nucrust expects the amendments to the agreements to further facilitate its ongoing efforts to expand Nucrust's business opportunities while enabling it to continue to support Smith & Nephew to realize the future growth potential of the Acticoat™ products. Nucrust believes that market conditions in the advanced wound care market, including the silver dressing segment, have become more competitive due in part to increased competition from new low cost market entrants and customer cost containment efforts.

In addition to its efforts to expand its revenue base, Nucrust has been reviewing its overall operations and reducing the level of expenditures, particularly in certain development areas. In the fourth quarter of 2008, Nucrust closed its Wakefield, Massachusetts research center and relocated its corporate headquarters to Princeton, New Jersey. Nucrust 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 commercial partners. Nucrust does not expect to earn milestone revenue in 2009.

Nucrust's cash position was reduced by the return of capital to shareholders of \$18.3 million approved on February 12, 2009 and paid on February 25, 2009. Nucrust's cash balance at March 31, 2009 was \$10.6 million compared to \$28.8 million at December 31, 2008. Nucrust's cash balance is sufficient to allow it to execute its 2009 business plan.

Nucrust may be impacted by the current global worldwide recession. Nucrust 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 Nucrust'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, Nucrust is taking steps to ensure its long-term viability in light of current economic circumstances.

Discontinued Operations

iFire Technology Ltd. – 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

Discontinued Operations (continued)

caused the forecast product development timeline to extend past the timeframe originally expected by the Company. As a result, in November 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 interim consolidated financial statements. iFire's operations in 2009 are 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 were 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.

iFire Financial Results – The loss at iFire for the three months ended March 31, 2009 was \$0.3 million compared to \$10.1 million in 2008. The decrease in the loss is primarily the result of asset write-downs of \$7.1 million and severance costs of \$2.0 million recorded in the first quarter of 2008.

Depreciation of capital assets was discontinued in November 2007 when iFire was classified as a discontinued operation for accounting purposes and therefore no depreciation or amortization is reported for the three months ended March 31, 2009 or March 31, 2008.

Canadian GAAP requires that assets held for sale be recorded in the financial statements at the lesser of cost or net realizable value. 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 were expected to 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 \$1.1 million. No material gain or loss was 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.

Contractual Commitments

The Company's contractual commitments as at March 31, 2009 are as follows:

(\$millions)	Payments due by Period				
	Total	Less than 1 Year	1 – 3 Years	3 – 5 Years	More than 5 Years
Operating lease obligations	\$ 7.8	\$ 1.6	\$ 3.3	\$ 1.9	\$ 1.0
Contractual obligations	5.9	5.9	–	–	–
Supplier purchase obligations	1.1	1.1	–	–	–
	\$ 14.8	\$ 8.6	\$ 3.3	\$ 1.9	\$ 1.0

Liquidity and Capital Resources

The Company's business plans are developed to ensure 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 and new product development and the Company will have sufficient cash and cash equivalents to fund the Company's corporate operations.

At March 31, 2009, the Company had consolidated cash and cash equivalents of \$40.2 million, compared to \$46.8 million at December 31, 2008.

Cash used in continuing operations in the first quarter of 2009 amounted to \$2.1 million compared to cash provided from continuing operations of \$4.9 million in the same period of 2008. The 2008 cash flow benefitted from a \$7.4 million collection of accounts receivable, primarily relating to a US \$5.0 million Nucrust milestone receivable earned in 2007. Cash used in discontinued operations of \$1.8 million

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Liquidity and Capital Resources (continued)

included the impact of paying all remaining severance costs of iFire which had been accrued in 2008. Capital expenditures of \$0.1 million in the first quarter of 2009 were \$0.6 million less than the same period in 2008 reflecting the completion of capital projects at Nucryst in 2008.

In the first quarter of 2009, the Company received \$1.4 million from the sale of assets in discontinued operations, primarily relating to the sale of iFire's intellectual property and other intangible assets.

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 Nucryst to consider the return of capital to Nucryst shareholders of approximately US \$14.7 million or US \$0.80 per share. The meeting was held on February 12, 2009 and the shareholders approved the return of capital which was distributed on February 25, 2009. This resulted in a net reduction of \$4.6 million of consolidated cash with the payment of US \$3.7 million to Nucryst's minority shareholders. Nucryst's cash position was reduced by \$18.4 million while the Company's unconsolidated cash position increased by \$13.7 million.

Cash increased by \$6.0 million in the first quarter of 2008 as the result of the divestiture of a non-core subsidiary.

At March 31, 2009, Nucryst's cash and cash equivalents declined to \$10.6 million from \$28.8 million at December 31, 2008 primarily reflecting the return of capital discussed above. Nucryst's funds are not accessible by the Company to fund its own operations.

As a result of reduced activity and staff reductions, the Company's corporate costs will be less than 2008. Restructuring costs of \$1.9 million have been fully accrued at March 31, 2009 and are expected to be paid by the end of 2009.

Neither the Company nor Nucryst has plans for major capital expenditures in 2009.

The Company has no debt. In 2008, the Company entered into a credit arrangement with a major financial institution which has been extended until May 31, 2009. This arrangement allows the Company to borrow up to \$6.3 million and is secured by Canadian non-bank asset-backed commercial paper ("ABCP") with a face value of \$6.3 million. The Company has signed a credit offer for a \$4.7 million three year replacement facility which is expected to be finalized in the second quarter of 2009.

Asset-backed Commercial Paper

In the third quarter of 2007, global financial markets experienced an unprecedented credit and liquidity crisis at which time Canadian third-party asset-backed commercial paper ("ABCP") ceased to trade in an active market. A Pan-Canadian Investors Committee (the "Committee") was tasked with overseeing the restructuring of the ABCP under the Companies' Creditors Arrangement Act which was approved in the fourth quarter of 2008.

Under the approved restructuring plan, all of the ABCP would be exchanged for longer dated notes that match the maturity of the underlying reference assets in the structure. The restructuring pooled certain series of ABCP which are supported in whole or in part by underlying synthetic assets. Under this arrangement, there are three distinct restructuring categories 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.

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. A reduction in face value from \$8.5 million to \$8.4 million was recorded 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 ⁽²⁾	Mar. 31, 2009 Face Amount
MAV II Class A-1	July 2056 ⁽¹⁾	BA - 0.5%	\$ 5.7
MAV II Class A-2	July 2056 ⁽¹⁾	BA - 0.5%	1.4
MAV II Class B	July 2056 ⁽¹⁾	BA - 0.5%	0.3
MAV II Class C	July 2056 ⁽¹⁾	BA + 20%	0.2
MAV III Traditional	September 2012 to July 2056	not finalized ⁽³⁾	0.6
MAV III Ineligible	December 2021 to December 2034	not finalized ⁽³⁾	0.2
Other	-	-	-
			\$ 8.4
Accumulated interest in conduit trusts			\$ 0.1
Valuation provision			(4.5)
Fair value			\$ 4.0

- (1) Maturity date reflects legal maturity date. Latest maturity date of underlying assets is December 2016.
(2) BA rate is Canadian dollar Bankers Acceptance interest rate with a maturity of 90 days.
(3) Interest rates for MAV III notes have not been finalized.

At the time of the restructuring, DBRS assigned a rating of "AA" to the MAV III Traditional notes and a rating of "A" to the MAV II Class A-1 and MAV II Class A-2 notes. On April 24, 2009, DBRS placed the rating of the MAV II Class A-2 notes under review with negative implications. The MAV II Class B and MAV II Class C notes and MAV III Ineligible notes have not been rated by the DBRS. Accounting for the exchange of the notes included settlement of the original notes and recognition of the New Notes. The New Notes were measured at fair value on initial recognition. The New Notes are classified as held-for-trading under the Company's Financial Instruments policy which requires 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 reporting dates. The fair values may change materially in subsequent periods. In conjunction with the note exchange, the Company received a payment of \$0.2 million in the first quarter of 2009 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 was included in the Company's fair value calculation at December 31, 2008. The estimated unpaid interest in 2009 up to the restructuring date of January 21, 2009 is not material and does not impact the Company's fair value calculation at March 31, 2009.

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 CICA Handbook Section 3855 "Financial Instruments - Recognition and Measurement", 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 March 31, 2009 and December 31, 2008 which considered expected interest rates, fixed/floating interest rate swaps, credit spreads, estimated restructuring fees and estimated maturity dates. The assumptions used in this model include: average risk free interest rate of 2.5%; weighted average discount rate of 10.2%; 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 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

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Liquidity and Capital Resources (continued)

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 \$4.0 million at March 31, 2009 and \$4.3 million at December 31, 2008.

Based on management's assumptions, the fair value of the Company's holdings of ABCP could range from \$4.0 million to \$4.1 million. Continuing uncertainties regarding the value of the assets which underlie the ABCP and the amount and timing of cash flows 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.

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 March 31, 2009, the Company, excluding Nucryst, had \$29.6 million in cash and cash equivalents and these funds were invested in Government of Canada Treasury Bills or Bankers Acceptances of Schedule A Canadian Chartered Banks. The Company's non-consolidated cash position improved with the receipt of \$13.7 million in February 2009 from Nucryst's return of capital discussed above. The Company's 75% investment in Nucryst could be affected by adverse changes in the equity markets or changes in Nucryst's operations over which the Company has no control.

The Company is actively reviewing strategic investment opportunities with the objective of maximizing the value of the Company's strong balance sheet. 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 lower than reported in 2008.

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 original face value of \$8.5 million to an estimated fair value of \$4.0 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 March 31, 2009 totaled \$2.9 million. The Company has a long-term site restoration provision of \$6.2 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 were paid in the first quarter of 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 be lower 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-

Current Global Economic Uncertainty (continued)

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.

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 during 2009.

Nucryst management believes that Nucryst will continue to have sufficient cash resources to operate successfully beyond 2009.

Share Capital

As at March 31, 2009 and May 7, 2009, the Company had 94,220,632 common shares outstanding and 3,933,597 options outstanding, exercisable for common shares.

Quarterly Financial Information

(000, except per share data)	Q1 2009	Q4 2008	Q3 2008	Q2 2008
Revenue from continuing operations	\$ 5,174	\$ 6,969	\$ 5,466	\$ 4,754
Loss from continuing operations	\$ (2,339)	\$ (1,224)	\$ (1,851)	\$ (1,887)
Loss per common share from continuing operations – basic and diluted	\$ (0.02)	\$ (0.01)	\$ (0.02)	\$ (0.02)
Net (loss) income	\$ (2,681)	\$ 2,746	\$ (3,122)	\$ (3,002)
Net (loss) income per common share – basic and diluted	\$ (0.03)	\$ 0.03	\$ (0.03)	\$ (0.03)
	Q1 2008	Q4 2007	Q3 2007	Q2 2007
Revenue from continuing operations	\$ 5,209	\$ 11,174	\$ 7,839	\$ 6,686
Income (loss) from continuing operations	\$ 3,227	\$ 1,169	\$ (8,772)	\$ 2,875
Income (loss) per common share from continuing operations – basic and diluted	\$ 0.03	\$ 0.01	\$ (0.09)	\$ 0.03
Net loss	\$ (6,857)	\$ (26,807)	\$ (17,138)	\$ (7,388)
Net loss per common share – basic and diluted	\$ (0.07)	\$ (0.28)	\$ (0.18)	\$ (0.08)

Disclosure Controls and Internal Controls over Financial Reporting

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 March 31, 2009, the Company's DC & P were effective.

The Westaim Corporation

Management's Discussion and Analysis

Three months ended March 31, 2009

Disclosure Controls and Internal Controls over Financial Reporting (continued)

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 March 31, 2009, 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 March 31, 2009, the controls and procedures were operating effectively. There are no material weaknesses that have been identified by management in this regard.

Critical Accounting Policies and Recently Adopted Accounting Pronouncements

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. Management believes that its estimates for determining the valuation of the Company's assets and liabilities are appropriate.

Goodwill and Intangible Assets

In February 2008, the Canadian Institute of Chartered Accountants ("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 was applicable to financial statements relating to fiscal years beginning on or after October 1, 2008. Accordingly, the Company adopted the new standards for its fiscal year beginning January 1, 2009. This section established 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 determined that the implementation of this section did not have any impact on its interim consolidated financial statements.

Future Changes in Significant Accounting Policies

In January 2009, the CICA issued new Handbook Section 1582 "Business Combinations" replacing the existing Handbook Section 1581 "Business Combinations". It provides the Canadian equivalent to International Financial Reporting Standards IFRS 3 "Business Combinations" (January 2008). The Section applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2011. Earlier application is permitted. If an entity applies this Section before January 1, 2011, it shall disclose that fact and apply Section 1601 "Consolidated Financial Statements" and Section 1602 "Non-Controlling Interests" at the same time. The Company does not expect the new Section to have an impact on its financial position or results of operations. The Company plans to adopt this new Section for its fiscal year beginning January 1, 2011.

In January 2009, the CICA issued new Handbook Section 1601 "Consolidated Financial Statements". This Section, together with new Handbook Section 1602 "Non-Controlling Interests", replaces existing Section 1600 "Consolidated Financial Statements" and establishes standards for the preparation of consolidated financial statements. The Section applies to interim and annual consolidated financial statements relating to fiscal years beginning on or after January 1, 2011. Earlier

Future Changes in Significant Accounting Policies (continued)

adoption is permitted as of the beginning of a fiscal year. An entity adopting this Section for a fiscal year beginning before January 1, 2011 also adopts Section 1582 "Business Combinations" and Section 1602 "Non-Controlling Interests". The Company does not expect the new Section to have an impact on its financial position or results of operations. The Company plans to adopt this new Section for its fiscal year beginning January 1, 2011.

In January 2009, the CICA issued new Handbook Section 1602 "Non-Controlling Interests". This new Section establishes standards for accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. It is equivalent to the corresponding provisions of International Financial Reporting Standard IAS 27 "Consolidated and Separate Financial Statements" (January 2008). This Section applies to interim and annual consolidated financial statements relating to fiscal years beginning on or after January 1, 2011. Earlier adoption is permitted as of the beginning of a fiscal year. An entity adopting this Section for a fiscal year beginning before January 1, 2011 also adopts Section 1582 "Business Combinations" and Section 1601 "Consolidated Financial Statements". The Company does not expect the new Section to have an impact on its financial position or results of operations. The Company plans to adopt this new Section for its fiscal year beginning January 1, 2011.

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.

Forward-looking Statements

Certain portions of this Management's Discussion and Analysis, as well as other public statements by Westaim, contain forward-looking statements. The words "strategy", "strategic", "objective", "alternative", "may", "will", "developing", "continuing", "exploring", "potential", "could", "intends", "believe", "estimated", "expect", "expected", "expects", "would", "likely" 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 commercialization strategies, alternatives and objectives; technology development and investment strategies; capital expenditures; strategic alternatives to maximize value for shareholders; Nucryst new product development; the potential of NPI 32101 as a treatment for dermatological conditions, infection and inflammatory conditions; the impact of amendments to the Smith & Nephew agreements and the probability of future amendments; statements regarding earnings from Nucryst's wound care products; projections regarding Nucryst manufacturing cost reimbursement revenues; statements regarding expected Nucryst cost savings and the use or consequence of any such savings; statements relating to the sufficiency of cash and cash equivalents to fund the activities and operations of Nucryst or the Company; restructuring and severance costs, corporate costs, capital expenditures and capital commitments; statements regarding ABCP generally, including without limitation in respect of replacement notes and their rating and value, the value of the Company's ABCP, and the liquidity of ABCP and its impact on the Company's 2009 business plan; the likely effect of changes in internal control over financial reporting; and regarding the impact of changes in significant accounting policies on the Company's interim consolidated financial statements. 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

The Westaim Corporation
Management's Discussion and Analysis
Three months ended March 31, 2009

Forward-looking Statements (continued)

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) cost estimates based upon assumptions which may prove to be unrealistic; (ii) delays or problems in receiving regulatory approvals for Nucryst's products; (iii) the degree to which Smith & Nephew plc succeeds in selling Acticoat™ products; (iv) unexpected obstacles or complexities associated with Nucryst technology, manufacturing processes and new applications; (v) patent and technical hurdles which might inhibit or delay the ability of Nucryst to develop or commercialize technologies or products; (vi) 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 medical device 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; and (viii) 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.

THE WESTAIM CORPORATIONConsolidated Statements of Operations, Comprehensive loss and Deficit
(unaudited)

(thousands of dollars except per share data)	Three Months Ended March 31	
	2009	2008
Revenue	\$ 5,174	\$ 5,209
Costs		
Manufacturing	2,462	3,904
Research and development	934	1,335
General and administrative	3,183	2,488
Depreciation and amortization	452	430
Corporate costs	1,349	1,294
Operating loss	(3,206)	(4,242)
Foreign exchange gain	463	696
Interest	49	205
Dilution gain	-	6,000
Gain (loss) on issuance of shares of subsidiary (note 4)	9	(17)
Non-controlling interest (note 4)	341	588
(Loss) income from continuing operations before income taxes	(2,344)	3,230
Income tax recovery (expense)	5	(3)
(Loss) income from continuing operations	(2,339)	3,227
Loss from discontinued operations net of income taxes (note 2)	(342)	(10,084)
Net loss	\$ (2,681)	\$ (6,857)
(Loss) income per common share (note 9)		
Continuing operations - basic and diluted	\$ (0.02)	\$ 0.03
Net loss - basic and diluted	(0.03)	(0.07)
Weighted average number of common shares outstanding (thousands)	94,216	94,186

Consolidated Statements of Comprehensive Loss

Net loss for the period	\$ (2,681)	\$ (6,857)
Unrealized gain on translation of net foreign operations	419	494
Comprehensive loss	\$ (2,262)	\$ (6,363)

Consolidated Statements of Deficit

Deficit at beginning of period	\$ (386,116)	\$ (375,881)
Net loss for the period	(2,681)	(6,857)
Deficit at end of period	\$ (388,797)	\$ (382,738)

THE WESTAIM CORPORATION
Consolidated Balance Sheets
(unaudited)

(thousands of dollars)	March 31 2009	December 31 2008
ASSETS		
Current		
Cash and cash equivalents	\$ 40,159	\$ 46,768
Accounts receivable	5,353	6,272
Inventories	3,998	3,535
Other	638	772
Current assets held for sale (note 2)	106	2,436
	<u>50,254</u>	<u>59,783</u>
Investments (note 5)	4,049	4,262
Capital assets	11,117	11,486
Capital assets held for sale (note 2)	1,048	1,103
Intangible assets	604	643
	<u>\$ 67,072</u>	<u>\$ 77,277</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Accounts payable and accrued liabilities	\$ 6,746	\$ 6,956
Accounts payable and accrued liabilities held for sale (note 2)	386	2,885
	<u>7,132</u>	<u>9,841</u>
Provision for site restoration	6,233	6,580
	<u>13,365</u>	<u>16,421</u>
Non-controlling interest (note 4)	5,877	10,854
Shareholders' equity		
Capital stock (note 7)	426,282	426,280
Contributed surplus (note 8)	8,806	8,718
Accumulated other comprehensive income	1,539	1,120
Deficit	(388,797)	(386,116)
	<u>47,830</u>	<u>50,002</u>
	<u>\$ 67,072</u>	<u>\$ 77,277</u>

THE WESTAIM CORPORATION
Consolidated Cash Flow Statements
(unaudited)

(thousands of dollars)	Three Months Ended March 31	
	2009	2008
Operating Activities		
(Loss) income from continuing operations	\$ (2,339)	\$ 3,227
Items not affecting cash		
Depreciation and amortization	452	430
Stock-based compensation expense (note 8)	105	285
Non-controlling interest	(341)	(588)
(Gain) loss on issuance of shares of subsidiary	(9)	17
Dilution gain	-	(6,000)
Accounts receivable	955	7,378
Inventories	(459)	908
Other	133	28
Accounts payable and accrued liabilities	(214)	(796)
Site restoration expenditures	(347)	-
Cash (used in) provided from continuing operations	(2,064)	4,889
Cash used in discontinued operations	(1,830)	(3,317)
Cash (used in) provided from operating activities	(3,894)	1,572
Investing activities		
Capital expenditures	(44)	(711)
Proceeds from investments (note 5)	213	-
Proceeds from sale of discontinued operations	1,374	-
Intangible assets	(4)	(9)
Proceeds on sale of subsidiary (note 3)	-	1,500
Cash provided from investing activities	1,539	780
Financing activities		
Return of capital by subsidiary (note 4)	(4,644)	-
Issuance of common shares of subsidiary (note 3)	-	1,000
Issuance of convertible debentures of subsidiary (note 3)	-	3,500
Cash (used in) provided from financing activities	(4,644)	4,500
Effect of exchange rate changes on cash and cash equivalents	390	377
Net (decrease) increase in cash and cash equivalents	(6,609)	7,229
Cash and cash equivalents at beginning of period	46,768	30,993
Cash and cash equivalents at end of period	\$ 40,159	\$ 38,222
Cash and cash equivalents is comprised of:		
Cash	\$ 5,579	\$ 18,176
Cash equivalents	34,580	20,046
Supplemental disclosure of cash flow information:		
Non-cash capital asset additions included in accounts payable and accrued liabilities	\$ -	\$ 6

The Westaim Corporation
Notes to Interim Consolidated Financial Statements for the three months ended March 31, 2009 (unaudited)
(thousands of dollars)

These interim consolidated financial statements should be read in conjunction with the Company's most recent annual audited financial statements.

Note 1 – Significant Accounting Principles

These interim consolidated financial statements are prepared in accordance with Canadian generally accepted accounting principles ("GAAP"), following the same accounting policies and methods of computation as the most recent annual consolidated financial statements. These interim consolidated financial statements do not include all disclosures that would be included in the Company's annual audited consolidated financial statements. All amounts are expressed in thousands of dollars except share and per share data.

These interim consolidated financial statements were prepared using GAAP applicable to a going concern which contemplates that the Company will continue in operation for the foreseeable future and will be able to realize assets and settle liabilities in the normal course of business as they come due. Management believes that there are no material uncertainties related to future events that may cast significant doubt on whether the Company can continue as a going concern.

Recently Adopted Accounting Pronouncements

In February 2008, the Canadian Institute of Chartered Accountants ("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 is applicable to financial statements relating to fiscal years beginning on or after October 1, 2008. Accordingly, the Company adopted 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 did not have a material impact on its consolidated financial statements.

Future Accounting Pronouncements

In January 2009, the CICA issued new Handbook Section 1582 "Business Combinations" replacing the existing Handbook Section 1581 "Business Combinations". It provides the Canadian equivalent to International Financial Reporting Standards IFRS 3 "Business Combinations" (January 2008). The Section applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2011. Earlier application is permitted. If an entity applies this Section before January 1, 2011, it shall disclose that fact and apply Section 1601 "Consolidated Financial Statements" and Section 1602 "Non-Controlling Interests" at the same time. The Company does not expect the new Section to have an impact on its financial position or results of operations. The Company plans to adopt this new Section for its fiscal year beginning January 1, 2011.

In January 2009, the CICA issued new Handbook Section 1601 "Consolidated Financial Statements". This Section, together with new Handbook Section 1602 "Non-Controlling Interests", replaces existing Section 1600 "Consolidated Financial Statements" and establishes standards for the preparation of consolidated financial statements. The Section applies to interim and annual consolidated financial statements relating to fiscal years beginning on or after January 1, 2011. Earlier adoption is permitted as of the beginning of a fiscal year. An entity adopting this Section for a fiscal year beginning before January 1, 2011 also adopts Section 1582 "Business Combinations" and Section 1602 "Non-Controlling Interests". The Company does not expect the new Section to have an impact on its financial position or results of operations. The Company plans to adopt this new Section for its fiscal year beginning January 1, 2011.

In January 2009, the CICA issued new Handbook Section 1602 "Non-Controlling Interests". This new Section establishes standards for accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. It is equivalent to the corresponding provisions of International Financial Reporting Standard IAS 27 "Consolidated and Separate

Note 1 – Significant Accounting Principles (continued)

Financial Statements" (January 2008). This Section applies to interim and annual consolidated financial statements relating to fiscal years beginning on or after January 1, 2011. Earlier adoption is permitted as of the beginning of a fiscal year. An entity adopting this Section for a fiscal year beginning before January 1, 2011 also adopts Section 1582 "Business Combinations" and Section 1601 "Consolidated Financial Statements". The Company does not expect the new Section to have an impact on its financial position or results of operations. The Company plans to adopt this new Section for its fiscal year beginning January 1, 2011.

In 2006, Canada's Accounting Standards Board ("AcSB") ratified a strategic plan that will result in GAAP, as used by public entities, being converged with International Financial Reporting Standards ("IFRS") over a transitional period. In February 2008, the AcSB confirmed January 1, 2011 as the date that Canadian public entities will be required to start reporting under IFRS. Companies are required to provide qualitative disclosure on the key elements and timing of their transition plan to IFRS no later than their 2008 annual Management Discussion and Analysis. Qualitative disclosure of the impact of the transition is required in companies' 2009 interim and annual Management Discussion and Analysis. Comparative financial information for 2010 will be required when companies begin reporting 2011 results under IFRS. During 2009, the Company will prepare its detailed IFRS conversion plan. This plan will be aimed at identifying the differences between IFRS and the Company's current accounting policies, assessing the impact on the Company's financial reporting and, when necessary, analyzing alternative policies that could be adopted. The nature and extent of this project may be impacted by changes in the strategic direction of the Company.

Note 2 – Discontinued Operations

In November 2007, the Company announced that it was seeking a buyer for the business and assets of its wholly owned subsidiary, iFire Technology Ltd. ("iFire"). Accordingly, the results from the operations of this business have been accounted for on a discontinued basis and the related assets and liabilities are classified as held for sale.

In the first quarter of 2008, the Company estimated the value that would be realized by selling the individual assets of iFire including buildings, equipment, and intellectual property. As a result, a write-down of \$6,086 of capital assets held for sale and \$1,000 of intangible assets held for sale was recorded in that period.

In the fourth quarter of 2008, iFire sold its equipment for net proceeds of \$8,165 after fees, costs, taxes and termination amounts and reported a gain on the sale of these assets of \$5,268. Also, in the fourth quarter, 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 net proceeds to be realized on the sale of the intellectual property and other intangible assets were less than the book value of the intangible assets available for sale and as a result these assets were written down by \$279 in the fourth quarter of 2008. The sale of intellectual property and other intangible assets was completed in January 2009 for net proceeds of \$1,113 after fees, costs, taxes and termination amounts. No material gain or loss was reported on this transaction. Other capital assets were sold in the first quarter of 2009 for proceeds of \$261 which resulted in a gain on sale of capital assets held for sale of \$206. The Company's manufacturing building previously used by iFire in Toronto, Ontario remains for sale and has a book value of \$1,048. All remaining iFire restructuring costs relating to employee severances were accrued as at December 31, 2008 and paid in the first quarter of 2009 (note 13).

The Westaim Corporation
Notes to Interim Consolidated Financial Statements for the three months ended March 31, 2009 (unaudited)
(thousands of dollars)

Note 2 – Discontinued Operations (continued)

Results of discontinued operations:

	Three months ended	
	March 31, 2009	March 31, 2008
Loss related to discontinued operations - iFire	\$ (548)	\$ (2,998)
Gain on sale of capital assets held for sale	206	-
Write-down of discontinued operations to fair value - iFire	-	(7,086)
Loss from discontinued operations net of income taxes	\$ (342)	\$ (10,084)

No depreciation or amortization expense was incurred in the three months ended March 31, 2009 or 2008. Current income tax expense included in loss from discontinued operations for the three months ended March 31, 2009 amounted to \$40 (2008 – \$2).

Loss per common share from discontinued operations was \$0.01 for the three months ended March 31, 2009 (2008 - \$0.10).

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

	March 31, 2009	December 31, 2008
Current assets held for sale	\$ 106	\$ 2,436
Accounts payable and accrued liabilities held for sale	(386)	(2,885)
Capital assets held for sale	1,048	1,103

Note 3 – Dilution Gain and Gain on Sale of Investments

In January 2008, a wholly owned subsidiary of the Company issued common shares to a non-related Canadian company for proceeds of \$1,000 representing 40% of the issued share capital of the subsidiary and also issued \$3,500 of convertible debentures to non-related third parties. The debentures had no recourse to the Company and were convertible into common non-voting shares of the subsidiary representing 58.3% of the issued share capital on a fully diluted basis. As a result of these transactions, the Company's interest in this subsidiary was reduced to 60%. In March 2008, the debentures were converted and the Company's economic interest in the subsidiary was reduced to approximately 25% and the Company's consolidated non-capital losses, unclaimed scientific research and development expenditures and research and development tax credits were reduced by approximately \$85,000, \$17,000 and \$19,000 respectively. Also, in March 2008, the Company sold its remaining interest in this subsidiary for proceeds of \$1,500. As a result of these transactions, the Company reported a dilution gain of \$6,000 for the three months ended March 31, 2008.

Note 4 – Non-controlling Interest

The Company's ownership in Nucryst Pharmaceuticals Corp. ("Nucryst") was 74.7% at March 31, 2009 and December 31, 2008.

The Company consolidates the financial statements of Nucryst with the non-controlling interest being reported separately in the consolidated statement of operations and consolidated balance sheet. The non-controlling interest for the three months ended March 31, 2009 amounted to \$341 (2008 – \$588). In addition, the Company recorded a gain on the issuance of shares of Nucryst of \$9 in the first quarter of 2009 (2008 – loss \$17).

At a Special Meeting of Nucryst's shareholders held on February 12, 2009, the shareholders approved a special resolution to reduce stated capital of the common shares of Nucryst for the purpose of distributing U.S. \$0.80 cash per common share to the shareholders of Nucryst. Nucryst distributed U.S. \$14,656 to shareholders on

Note 4 – Non-controlling Interest (continued)

February 25, 2009. This reduced the Company's consolidated cash position by \$4,644 representing the amount paid to Nucryst minority shareholders.

Note 5 – Investment in Canadian Third Party Asset-Backed Commercial Paper

In the third quarter of 2007, global financial markets experienced an unprecedented credit and liquidity crisis at which time Canadian third-party asset-backed commercial paper ("ABCP") ceased to trade in an active market. A Pan-Canadian Investors Committee (the "Committee") was tasked with overseeing the restructuring of the ABCP under the Companies' Creditors Arrangement Act which was approved in the fourth quarter of 2008.

Under the approved restructuring plan, all of the ABCP would be exchanged for longer dated notes that match the maturity of the underlying reference assets in the structure. The restructuring pooled certain series of ABCP which are supported in whole or in part by underlying synthetic assets. Under this arrangement, there are three distinct restructuring categories 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.

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. A reduction in face value from \$8,525 to \$8,374 was recorded primarily related to realized losses on certain underlying investments and restructuring costs incurred in the restructuring process.

Notes	Maturity Date	Interest Rate ⁽²⁾	Mar. 31, 2009 Face Amount
MAV II Class A-1	July 2056 ⁽¹⁾	BA - 0.5%	\$ 5,673
MAV II Class A-2	July 2056 ⁽¹⁾	BA - 0.5%	1,387
MAV II Class B	July 2056 ⁽¹⁾	BA - 0.5%	252
MAV II Class C	July 2056 ⁽¹⁾	BA + 20%	226
MAV III Traditional	September 2012 to July 2056	not finalized ⁽³⁾	594
MAV III Ineligible	December 2021 to December 2034	not finalized ⁽³⁾	198
Other	-	-	44
			\$ 8,374
Accumulated interest in conduit trusts			\$ 92
Valuation provision			(4,417)
Fair value			\$ 4,049

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

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

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

At the time of the restructuring, DBRS assigned a rating of "AA" to the MAV III Traditional notes and a rating of "A" to the MAV II Class A-1 and MAV II Class A-2 notes. On April 24, 2009, DBRS placed the rating of the MAV II Class A-2 notes under review with negative implications. The MAV II Class B and MAV II Class C notes and MAV III Ineligible notes have not been rated by the DBRS. Accounting for the exchange of the notes included settlement of the original notes and recognition of the New Notes. The New Notes were measured at fair value on initial recognition. The New Notes are classified as held-for-trading under the Company's Financial Instruments policy which requires 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 reporting dates. The fair values may change materially in subsequent periods. In conjunction with the note exchange, the Company received a payment of \$213 in the first quarter of 2009 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

The Westaim Corporation
Notes to Interim Consolidated Financial Statements for the three months ended March 31, 2009 (unaudited)
(thousands of dollars)

Note 5 – Investment in Canadian Third Party Asset-Backed Commercial Paper (continued)

31, 2008 was included in the Company's fair value calculation at December 31, 2008. The estimated unpaid interest in 2009 up to the restructuring date of January 21, 2009 is not material and does not impact the Company's fair value calculation at March 31, 2009.

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 CICA Handbook Section 3855 "Financial Instruments – Recognition and Measurement", 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 March 31, 2009 and December 31, 2008 which considered expected interest rates, fixed/floating interest rate swaps, credit spreads, estimated restructuring fees and estimated maturity dates. The assumptions used in this model include: average risk free interest rate of 2.5%; weighted average discount rate of 10.2%; 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 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 \$292. 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 \$4,049 at March 31, 2009 and \$4,262 at December 31, 2008.

Based on management's assumptions, the fair value of the Company's holdings of ABCP could range from \$3,958 to \$4,099. Continuing uncertainties regarding the value of the assets which underlie the ABCP and the amount and timing of cash flows 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 (note 6) to satisfy its financial obligations as they come due over the next twelve months.

Note 6 – Long-Term Debt

The Company has a credit agreement with a major Canadian financial institution. Under the terms of the revolving credit line, the Company may borrow up to \$6,300. Borrowings will be secured by ABCP of equivalent value held by the Company. Interest rates on the credit line are based on bankers acceptance rates plus 2%. The Company has not drawn on this facility as at March 31, 2009. In the first quarter of 2009, this agreement was extended to May 31, 2009. The Company has signed a credit offer for a \$4,725 three year replacement facility which is expected to be finalized in the second quarter of 2009.

Note 7 – Capital Stock

Changes in the Company's common shares outstanding for the three months ended March 31, 2009 and March 31, 2008 are as follows:

	Three months ended March 31, 2009		Three months ended March 31, 2008	
	Number	Stated Capital	Number	Stated Capital
Balance at beginning of period	94,215	\$426,280	94,136	\$426,262
RSUs exercised	6	2	79	18
Balance at end of period	94,221	\$426,282	94,215	\$426,280

In the first quarter of 2009, 6,000 (2008 – 79,097) shares were issued as settlement for 6,000 (2008 – 79,097) fully vested Restricted Share Units ("RSUs").

Note 8 – Stock-based Compensation Plans

Employee and Director Stock Options – Changes under the Company's stock option plans for the three months ended March 31, 2009 and 2008 are as follows:

common share stock options (000)	Three months ended	Three months ended
	March 31, 2009	March 31, 2008
Outstanding at beginning of period	4,099	4,449
Granted	–	10
Expired	(160)	(160)
Forfeited	(5)	(4)
Outstanding at end of period	3,934	4,295

No options were granted in the first quarter of 2009. In the first quarter of 2008, the Company granted 10,000 options for common shares of the Company at a weighted average exercise price of \$0.22.

In accordance with GAAP, the Company records the fair value of stock options including those of its subsidiaries in the consolidated financial statements. For the three months ended March 31, 2009, corporate costs, research and development, and general and administrative expenses include compensation expense totaling \$102 (2008 – \$276) relating to stock options with a corresponding addition to contributed surplus. Discontinued operations for the three months ended March 31, 2008 include a recovery relating to stock options of \$18 with a corresponding adjustment to contributed surplus.

The fair value of each option grant by the Company is estimated using the Black-Scholes option pricing model assuming no dividends are paid on common shares, a risk-free interest rate of 2.53% (2008 – 3.75%), an average life of 7.0 years and a volatility of 60.40% (2008 – 64.19%). The amounts computed according to the Black-Scholes pricing model may not be indicative of the actual values realized upon the exercise of these options by the holders.

Directors' Deferred Share Units – The Company maintains a Deferred Share Unit Plan for the non-executive Directors of the Company. Deferred Share Units ("DSUs") are issued at the market value of the Company's shares at the date of grant and vest upon death or retirement of the non-executive Director. Directors may elect to receive additional DSUs in lieu of fees, which are issued at 90% of the market value of the Company's shares at the date of grant.

Compensation expense relating to DSUs during the three months ended March 31, 2009 amounted to \$187 (2008 – \$56) and as at March 31, 2009, a liability of \$874 (December 31, 2008 – \$687) has been accrued with respect to issued DSUs.

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Note 8 – Stock-based Compensation Plans (continued)

Restricted Share Unit Plan – The Company also maintains a Restricted Share Unit Plan for the Executive Officers of the Company. These units vest over three years and are payable when fully vested in a combination of common shares and cash at the weighted average trading price at the date of exercise. Compensation expense with respect to RSUs during the three months ended March 31, 2009 amounted to \$2 (2008 – recovery \$4). The liability with respect to these units is accrued over the vesting period and amounted to \$24 at March 31, 2009 (December 31, 2008 – \$25). In the first quarter of 2009, RSUs with a value of \$3 (2008 – \$36) were settled with the issuance of 6,000 common shares of the Company and a cash payment of \$2 (2008 – 79,097 common shares of the Company and a cash payment of \$18).

Stock Appreciation Rights – Employees of the Company, other than Executive Officers, are granted Stock Appreciation Rights (“SARs”). SARs are issued at the market value of the Company’s shares at date of grant, vest over three years and are payable when vested in cash at the amount by which the market value of the Company’s shares exceed the share price at the date of grant. Net changes in the value of SARs are recognized as compensation expense over the vesting period. There was no accrued liability relating to SARs at March 31, 2009 or December 31, 2008. There was no compensation expense with respect to SARs during the three months ended March 31, 2009 or 2008.

For the three months ended March 31, 2009, corporate costs include compensation expense totaling \$189 (2008 – \$52) relating to DSUs, RSUs and SARs.

Subsidiary Stock-based Compensation Plans – Nucrust directors and certain executives have been granted RSUs. These units are issued at the market value of a Nucrust share at date of grant, vest over two to three years and are payable in common shares of Nucrust. Net changes in the value of these RSUs is recognized as compensation expense over the vesting period with an offset to contributed surplus. For the three months ended March 31, 2009, general and administrative expenses included compensation expense relating to Nucrust RSUs of \$3 (2008 – expense \$9) and Nucrust RSUs with a value of \$17 (2008 – \$nil) were exercised for Nucrust shares which reduced contributed surplus by \$17.

Note 9 – Loss per Share

The Company uses the treasury stock method to calculate diluted earnings per share. Under the treasury stock method, the numerator remains unchanged from the basic earnings per share calculation, as the assumed exercise of the Company’s stock options does not result in an adjustment to income. The impact of all dilutive securities on loss per share is antidilutive for the three months ended March 31, 2009 and 2008. Dilutive securities, relating to stock-based compensation plans, totaled 30,864 for the first quarter of 2009 (2008 – 220,000).

Note 10 – Capital Disclosures

The Company’s objectives when managing capital are:

- to safeguard the Company’s ability to continue as a going concern;
- to ensure that the Company’s business plans are developed to ensure operating costs do not overextend the Company’s financial resources; and
- to maintain flexibility in order to preserve the Company’s ability to meet financial obligations with a long term view of maximizing shareholder value.

On an ongoing basis, the Company reviews and assesses its capital structure.

The Company defines its capital as follows:

- shareholders’ equity; and
- long-term debt.

The Company’s capital at March 31, 2009 and December 31, 2008 is as follows:

	March 31, 2009	December 31, 2008
Shareholders’ equity	\$ 47,830	\$ 50,002
Long-term debt	–	–
Net capital	\$ 47,830	\$ 50,002

Note 10 – Capital Disclosures (continued)

The Company is not subject to any regulatory or financial covenants and has maintained a policy of not paying dividends in order to retain its cash reserves to finance capital projects and business growth.

In order to preserve capital, the Company significantly reduced operations at iFire and corporate offices throughout 2008 and the first quarter of 2009. In the fourth quarter of 2007, the Company announced its intention to sell the iFire business or assets. The majority of these assets were sold in the fourth quarter of 2008 and the first quarter of 2009.

At March 31, 2009, the Company had consolidated cash and cash equivalents of \$40,159 including \$10,601 of Nucrust cash and cash equivalents that is not accessible by the Company to fund its own operations. The Company also has ABCP with an estimated fair value of \$4,049 (note 5) as well as a line of credit of \$6,300 that is currently not utilized (note 6).

The Company’s unconsolidated cash position was strengthened in the first quarter of 2009 with the receipt of \$13,737 from the Nucrust return of capital discussed in note 4.

Note 11 – Financial Instruments and Financial Risk Management

(a) Financial instruments

The carrying value of the Company’s interest in financial instruments approximates their fair value. The estimated fair value approximates the amount for which the financial instruments could currently be exchanged in an arm’s length transaction between willing parties who are under no compulsion to act. Certain financial instruments lack an available trading market and, therefore, fair value amounts should not be interpreted as being necessarily realizable in an immediate settlement of the instrument.

The Company has classified its financial instruments as follows:

	March 31, 2009	December 31, 2008
Financial assets:		
Cash and cash equivalents, measured at fair value (held for trading)	\$ 40,159	\$ 46,768
Accounts receivable, measured at cost (loans and receivables)	\$ 5,353	\$ 6,272
Long-term investments - ABCP - measured at fair value (held for trading)	\$ 4,049	\$ 4,262
Financial liabilities:		
Accounts payable and accrued liabilities, measured at cost (other liabilities)	\$ 6,746	\$ 6,956

The carrying value of cash and cash equivalents, accounts receivable and accounts payable and accrued liabilities approximates fair value due to their short-term nature.

There is no active market for ABCP and the Company has estimated the fair value of its investment in ABCP considering the best available public information regarding market conditions and other factors that a market participant would consider for such investments (note 5).

The Company is required to identify and measure embedded derivatives that require separation from the related host contract and measure those embedded derivatives at fair value. Subsequent changes in fair value of embedded derivatives are recognized in the statement of operations in the period the change occurs. The Company did not have any embedded derivatives during the three months ended March 31, 2009 or 2008.

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Note 11 – Financial Instruments and Financial Risk Management (continued)

(b) Financial risk management

The Company has exposure to credit risk, liquidity risk and market risk. The Company's Board of Directors has the overall responsibility for the oversight of these risks and reviews the Company's policies on an ongoing basis to ensure that these risks are appropriately managed.

(i) Credit risk

Credit risk is the risk of financial loss to the Company if a customer, partner or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's cash and cash equivalents, and accounts receivable. The carrying amount of the financial assets represents the maximum credit exposure.

The Company manages credit risk for its cash and cash equivalents by maintaining bank accounts with major Canadian and U.S. banks and investing only in highly rated Canadian Government securities or Canadian and U.S. financial institutions with debt securities that are traded on active markets and are capable of prompt liquidation. The Company also has investments in ABCP discussed in note 5.

The Company has a concentration of credit risk through its reliance on one customer for Nucryst's wound care products. This risk is limited due to the long-term contractual relationship with this customer. The Company has not experienced any losses related to uncollectible accounts and therefore does not carry an allowance for doubtful accounts. Trade accounts receivable past due more than 60 days represented 2.6% of total receivables at March 31, 2009 (9.8% at December 31, 2008).

(ii) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they come due. The Company manages its liquidity risk by continuously monitoring forecasts and actual cash flows and has secured a line of credit with a major Canadian bank (note 6).

(iii) Market risk

Market risk is the risk that changes in market prices, such as interest rates, foreign exchange rates, and equity prices will affect the Company's income or the value of its financial instruments.

The Company is subject to interest rate risk on its cash and cash equivalents. The Company does not believe that the results of operations or cash flows would be affected to any significant degree by a sudden change in market interest rates relative to interest rates on the investments, owing to the relative short-term nature of the investments. For the three months ended March 31, 2009, a 100 basis points decrease in interest rates on investments, excluding ABCP (note 5) would have reduced earnings before income taxes by approximately \$83. Conversely, a 100 basis points increase in interest rates would have increased earnings before income taxes by a similar amount.

Financial instruments potentially exposing the Company to foreign exchange risk consist principally of cash and cash equivalents, accounts receivable and accounts payable and accrued liabilities. The Company believes that the results of operations and cash flows would be affected by a sudden change in foreign exchange rates, but that this change would not impair the Company's ability to meet its obligations. For the three months ended March 31, 2009, a 10% increase in the U.S. dollar to the Canadian dollar exchange rate would have increased earnings before income taxes by approximately \$1,255. Conversely, a 10% decrease in the U.S. dollar to Canadian dollar exchange rate would have reduced earnings by a similar amount.

The Company does not trade in equity instruments of other corporations.

Note 12 – Segmented Information

	Three months ended	
	March 31, 2009	March 31, 2008
Revenue		
Nucryst Pharmaceuticals	\$ 5,174	\$ 5,209
(Loss) income from continuing operations		
Nucryst Pharmaceuticals	\$ (1,377)	\$ (2,238)
Other (including corporate costs)	(962)	5,465
	\$ (2,339)	\$ 3,227

Note 13 – Operational Restructuring

In 2008, the Company implemented an operational restructuring plan in which staffing levels at iFire and at the Company's corporate offices were reduced. These initiatives continued into the first quarter of 2009.

Operational restructuring costs relating to employee severance amounted to \$249 for the first three months of 2009 (2008 – \$2,206) of which a recovery of \$4 (2008 – expense \$1,965) is included in discontinued operations and \$253 (2008 – \$241) is included in corporate costs in the interim consolidated statement of operations.

Included in accounts payable and accrued liabilities at March 31, 2009 are accrued severances and transition costs of \$1,919 (December 31, 2008 – \$1,765) relating to the operational restructuring. Accounts payable and accrued liabilities held for sale include accrued severance costs of \$36 at March 31, 2009 (December 31, 2008 – \$895).

Note 14 – Subsequent Event

On April 3, 2009, the Company announced that it plans to pursue strategic investment opportunities designed to maximize the value of the Company's strong balance sheet and non-cash resources. To implement this strategy, the Company entered into a management services agreement ("MSA") with Goodwood Management Inc. ("Goodwood"), an affiliate of Goodwood Inc., to manage the day-to-day affairs of the Company and to present strategic investment opportunities for the Board of Directors to consider.

Goodwood Inc., as portfolio manager to certain investment funds, exercises control or direction over an aggregate of 18,747,000 common shares of the Company, which represents approximately 19.9% of the issued and outstanding shares of the Company. The MSA is for an initial term of five years with automatic renewal every three years and provides that the Company will pay Goodwood an annual fee of 2% of the Company's consolidated net book value. In addition, Goodwood may earn incentive fees if the Company achieves pre-tax income above certain thresholds based on a percentage of its consolidated net book value.

Goodwood is required to provide certain services to the Company including the services of two directors, one of whom is also President and Chief Executive Officer, and a Chief Financial Officer.