DYNEX POWER INC.

REPORT FOR THE QUARTER ENDED SEPTEMBER 30th 2018

NOTICE OF NO AUDITOR REVIEW OF THESE INTERIM FINANCIAL STATEMENTS

The accompanying unaudited condensed interim consolidated financial statements of Dynex Power Inc for the quarter ended September 30th, 2018 have been prepared by management and approved by the Board of Directors. The Corporation's independent auditors have not performed a review of these financial statements in accordance with the standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity's auditor.

Our Vision

Dynex, in partnership with CRRC Times Electric, will be a leading international, top three high power semiconductor business.

Our Core values

Continuous Improvement

Our company will strive to ensure that our employees have the skills that will enable them to seek to challenge and improve our working practices in order to exceed our customers' expectations, without compromising on safety or quality.

Engineering Excellence

Our products are world leading and highly engineered and in order to maintain our high standards we ensure that our employees are qualified and operating at the forefront of technology in our sector.

Performance Driven

In maintaining and growing our business we recognise that it is only by doing things well and meeting targets and expectations, that we will increase the financial performance of the business.

Accountability and Responsibility

We accept our responsibility to our customers and those that we do business with, to find solutions and achieve results, no matter how challenging the tasks. Our employees will always take personal accountability for our commitments and performance.

Integrity and Honesty

In our dealings with customers, suppliers and all outside agencies, we pride ourselves in our honest approach to business. We keep our promises and deal with people and issues promptly and our consultative culture will find the best solutions for all parties.

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This report may contain forward looking statements that involve a number of risks and uncertainties, including statements regarding the outlook for the Group's business and results of operations. By nature, these risks and uncertainties could cause actual results to differ materially from those indicated. Dynex disclaims any intention or obligation to update or revise any forward looking statement whether as a result of new information, future events or otherwise.

Company Profile

Dynex is one of the world's leading suppliers of specialist, high power semiconductor products. Dynex Semiconductor Limited is its only operating business and is based in Lincoln, England in a facility housing the fully integrated silicon fabrication, assembly and test, sales, design and development operations. The Company designs and manufactures high power bipolar discrete semiconductors, high power insulated gate bipolar transistor (IGBT) modules and die and high power electronic assemblies. Dynex power products are used worldwide in power electronic applications including rail traction motor drives, electric power transmission and distribution, renewable and distributed energy, marine traction motor drives, aerospace, electric vehicles, industrial automation and controls and power supplies.

Company Facts

- Dynex Power Inc. was formed in June 1999
- Dynex Semiconductor Limited was formed to acquire the assets of the Lincoln Business Unit in January 2000
- The Lincoln Business Unit was founded in Lincoln England in 1956 and since that time has traded as:

AEI Semiconductors Ltd	(AEI)
Marconi Electronic Devices Ltd	(MEDL)
GEC-Plessey Semiconductors Ltd.	(GPS)

- Zhuzhou CSR Times Electric Co., Ltd acquired 75% of the common shares of Dynex Power Inc. in October 2008. In April 2016 this company changed its name to Zhuzhou CRRC Times Electric Co., Ltd.
- 337 employees (September 2018)
- ISO9001:2008, ISO14001:2004 and ISO 50001:2011 approved
- Further information: www.dynexpower.com

Products

- High power bipolar discrete semiconductors
- High power IGBT modules and die
- High power electronic assemblies and components

Customers

Our customers are electronic equipment manufacturers and maintenance providers in the following sectors:

- Railway propulsion and on-board systems
- Industrial
  - -Electric power transmission and distribution
  - -Renewable and distributed power
  - -Heavy industries such as steel and mining
  - -Factory automation
- Marine propulsion and on-board systems
- Aircraft power electronic systems
- Electric vehicles

Letter to Shareholders

The financial performance of Dynex in the third quarter was broadly in line with my guidance. The losses were similar to the first and second quarters, due to insufficient sales volume caused by a dimished order book. I did, however, report that the order book was improving by the end of the second quarter, and I am pleased that this has continued into the third quarter.

In fact –as I predicted in my Q2 letter - our book-to-bill ratio in Q3 was significantly improved, coming in at 1.5. We secured a record order intake month for the company in August, at over $8.5 million. This has increased the order backlog to $15.4 million from $10.4 million at the beginning of the quarter. We will be able to convert a portion of this increase in Q4, with the remainder due at various points in 2019.

Revenue for the third quarter was $9.9 million, a 25% decrease on the same period in 2017. Gross margin was 3.4% versus 11.7% in the corresponding quarter of last year. As noted above, this was as a result of the lower order book in the context of our high fixed cost business. Year-to-date loss for the business stands at $4.3 million, versus a loss of $0.5 million for the same nine-month period last year.

The company used $0.9 million total cash in the second quarter, leaving a positive balance of $2.7 million. Management remains confident that the company has the liquidity to ride out the current earnings turbulence, and emerge stronger as we go forward into 2019.

Dynex continues to execute its turnaround plan, and specifically is making good progress on expanding and refreshing its product portfolio.

In the quarter, we completed full qualification on our 3.3kV E2 IGBT module, successfully completing all 11 of the required certification tests. This innovative module has demonstrable differentiation from the competitor modules, including lower losses and more strength and robustness. It comes with a choice of 3 different chip types that allows specific tailoring to customer applications, for example rail traction, power grid and industrial motor drives. This provides our customers with greater overall system efficiency. In the quarter, we won the first part of a significant volume order for 3.3kV IGBT modules from an international rail customer.

In the fourth quarter, we will qualify and bring to market further new IGBT products. Our ongoing testing is showing these to be of high quality and performance.

We continue to see significant customer interest across our new product lines, and in the fourth quarter we anticipate further sample and volume production orders from our new product range.

In our Power Assemblies business, we competitively won a significant new order for IGBT test equipment from a Taiwan-based semiconductor manufacturer. This is an important entry into one of the world's major clusters of semiconductor manufacturing.

Further, we are continuing to reduce time-to-market of new developments, with a strengthened focus on the higher-current Trench Gate developments at 6.5kV, 4.5kV and 3.3kV. Announcements and product launches in this regard are expected in the fourth quarter, at which point we anticipate having a refreshed, highly competitive high-power IGBT portfolio.

The Sales and Marketing function continues to develop, with the hiring of a number of new salespeople from within the semiconductor industry. This will further improve our customer intimacy and market penetration, in parallel to our new product releases.

These re-invigorated product development, and sales and marketing, initiatives are providing the foundation for a strong future. In line with this progress, we are now well into a project to increase manufacturing capacity at our site in Lincoln, UK. It is clear that, as the new products are selected by our customers, we will need to produce them in significantly greater quantities than in the previous few years. We are planning for this in advance, and making good progress.

Therefore, I remain convinced that we are taking all the actions required to build the elements of a great business. It will take some more time for this to translate into sustained profitability. However, we are on the right path.

Clive Vacher
President and Chief Executive Officer
November 27th, 2018

Management's Discussion & Analysis

The following discussion and analysis should be read in conjunction with the Interim Condensed Consolidated Financial Statements of the Company for the quarter ended September 30th, 2018.

This management's discussion and analysis contains certain forward-looking statements that involve a number of risks and uncertainties, including statements regarding the outlook for the Group's business and results of operation. By nature, these risks and uncertainties could cause actual results to differ materially from those indicated.

Introduction to the Dynex Group

Dynex Power Inc. (the "Company") was formed in Ottawa, Canada on June 15th, 1999 and is quoted on the TSX Venture Exchange under the symbol DNX. The Company has one subsidiary, Dynex Semiconductor Limited (the "Subsidiary"), which is wholly owned and based in Lincoln, England. The Company and its Subsidiary (collectively, the "Group") are engaged in the design, manufacture and sale of industrial power equipment.

Apart from a few administrative activities carried out by Dynex Power Inc., all the business of the Group is carried out by Dynex Semiconductor Limited.

In 2008, Zhuzhou CSR Times Electric Co., Ltd acquired approximately 75% of the share capital of the Company and thus became the Company's immediate parent company. Zhuzhou CSR Times Electric changed its name in April 2016 to Zhuzhou CRRC Times Electric Co., Ltd ("CRRC Times Electric"). CRRC Times Electric is established in the People's Republic of China and is quoted on The Hong Kong Stock Exchange. CRRC Times Electric is itself majority owned by CRRC Corporation which is therefore the Company's ultimate parent company. CRRC Corporation is established in the People's Republic of China.

Dynex's Business and Strategy

The Group is primarily engaged in the design, manufacture and sale of high power bipolar discrete semiconductors, high power modules (IGBTs) and die and high power electronic assemblies. The Group's aim, working within the Semiconductor Business Unit of CRRC Times Electric, is to be recognised as one of the world's leading manufacturers of high power semiconductors.

The Group also provides advice and assistance, primarily to CRRC Times Electric, on matters relating to semiconductor design and manufacture.

All the activities of the Group described above take place in a single factory in Lincoln, England often using common facilities and shared staff. Consequently, the Group regards bipolar discrete, power modules and die, power electronic assemblies, integrated circuits and the provision of advice as separate product groups for revenue analysis but does not regard them as separate operating segments for reporting purposes. The Group does not analyse gross margins, expenses, taxation, net profit or assets by product group.

Due to the nature of silicon wafer fabrication, there is a relatively high level of fixed costs in the business. Consequently, the profitability of the business is particularly responsive to the volume of production and, therefore, the overall level of revenue.

Management does not regard the business as seasonal. In the case of Power Electronic Assemblies, small numbers of large contracts drive revenues in this segments. The delivery of a large contract in a particular quarter can cause revenue to fluctuate significantly, giving the appearance of seasonality.

Foreign Exchange Rates

Because all of the design, manufacture and sale of products and the provision of advice are carried out by the Subsidiary, all of these transactions are initially recorded in Sterling and have to be translated into Canadian Dollars for inclusion in the Group's financial statements. Consequently, changes in the Sterling-Canadian Dollar exchange rate can have a significant influence on reported results.

The following exchange rates have been used in preparing these Condensed Consolidated Financial Statements:

	£1 equals
Average rate July to September 2018	C$1.71067
Average rate July to September 2017	C$1.6510
Rate at September 30th, 2018	C$1.70794
Rate at December 31st, 2017	C$1.69774
Rate at September 30th, 2017	C$1.6760

As illustrated, the Canadian Dollar rate against Sterling for the quarter was approximately 4% weaker than in the corresponding quarter of 2017. Consequently, exchange rate movements did not have a significant impact on reported revenue and expenditure in the quarter.

The Canadian Dollar rate against Sterling at September 30th, 2018 was approximately 1% weaker than the rate at December 31st, 2017. Consequently, the change in rates did not have a significant impact on assets and liabilities at the period end.

Review of Operating Results

Objective

The Group's objective over the medium term is to achieve strong revenue growth whilst maintaining a gross profit percentage in the range of 20-25% so as to be able to invest strongly in research and development, cover other administrative expenses, finance charges and tax and provide shareholders with a good return on their investment in the business.

Overview

Revenue in the third quarter of 2018 was 25% lower than the corresponding quarter of last year. Gross margin was 3.4% compared with 11.7% in the correspoding period of last year reflecting a less favourable product mix. The lower level of margin along with the high fixed cost base of the facility and the higher non production expenses than the corresponding quarter of last year led to a loss before tax of $1.9m.

The Company's booking to billing ratio for the quarter was 1.5. While bookings were in line with target and included some significant Bipolar orders, revenues were significantly below target reflecting delays with customer orders in the first half of the year and also the need for qualification of new products.

Revenue

Revenue for the third quarter of 2018 was $9.9 million, $3.2 million or 25% lower than in the corresponding quarter of last year. In Sterling terms, revenue had decreased by 27% compared to the corresponding quarter of last year.

Gross Margin

The gross margin was 3.4% of revenue in the third quarter of 2018 compared to a gross margin of 11.7% of revenue in the corresponding quarter last year. This reduction reflects the impact of lower volumes with a high fixed cost base.

Sales and Marketing and Admin Expenses

Management's aim is to reduce the combined sales and marketing and administration expenses as a percentage of revenue through growth. The Group is currently investing in its Sales and Marketing resources in order to drive growth. Such expenses were 13.1% of revenue in the third quarter of 2018 compared to 9.6% in the corresponding quarter of last year. This rise was due to both a fall in revenues and a rise in underlying costs.

Research and Development Expenses

Management believes that it is important to maintain a level of expenditure on research and development so as to maintain the intellectual property of the Group and to be able to offer the best products to the market in order to protect long term profitability. As far as possible, management seeks to fund such expenditure from contributions from its parent company, customers and governmental agencies so that the full burden of such expenditure does not fall to shareholders.

The net expenditure on research and development for the third quarter of 2018 was $697,000 compared with $497,000 in the corresponding quarter of the previous year.

Gross research and development expenditure was 26.2% of revenue in the quarter compared to 21.6% of revenue in the corresponding quarter of last year. Management has chosen to control expenditure and focus on the management of a number of critical programmes that will deliver new products to market believing this more focused approach will deliver returns in the second half of 2018 and beyond.

Finance Costs

Finance costs for the quarter were $172,000, compared to $150,000 in the corresponding quarter of last year.

Other Gains and Losses

Other gains and losses relate to foreign exchange gains and losses and profits or losses on the disposal of property, plant and equipment. Consequently, the figure reported can fluctuate significantly.

Loss before Tax

The Group reported a loss before tax in the quarter of $1.9 million compared with a profit before tax of $31,000 in the corresponding quarter of last year.

Income Tax Expense

The Group recorded a tax recovery in the quarter equivalent to 18% of the loss before tax compared with an expense of 65% in the corresponding quarter of last year.

Net Profit/Loss

The Group reported a net loss of $1.5 million in the quarter compared to a net profit of $11,000 in the corresponding quarter of last year.

Liquidity & Capital Resources

Objective

The Group's objective is to maintain a strong balance sheet so as to be able to carry out its business efficiently, to be able to grow revenue substantially over the medium term and to be in a position to take advantage of market opportunities.

Non-Current Assets

The net value of non-current assets decreased from $32.1 million at the end of last year to $31.0 million at the end of the quarter. The decrease reflected some depreciation in excess of capital expenditure and the impact of a movement in the exchange rate.

Working Capital

The Group aims to optimise the ratio of assets invested in working capital (current assets less cash less trade payables, other payables and accruals, provisions, amounts owing to parent company and deferred tax liabilities) compared to the revenue of the business.

At the end the quarter, working capital stood at $12.9 million or 1.3 times third quarter revenue compared to $14.0 million or 1.2 times quarter four revenue at the end of December 2017.

Net Debt

At the end of June 2018, the Group had net debt (borrowings less cash) of $21.7 million. At the end of December 2017, it had net debt of $19.9 million.

The Group had no off balance sheet financing arrangements at the quarter end nor at the previous year end.

Equity

Equity has decreased by $4.1 million since the end of the preceding year. The decrease resulted from the net loss of $4.3 million and an exchange gain on translation of the UK subsidiary of $0.2 million.

Gearing

Management monitors closely the Group's gearing ratio (the ratio of net debt, being borrowings less cash balances, to equity). At the end of September 2018, the Group had a gearing ratio of 97.7%. At the end of the preceding year, the Group had a gearing ratio of 75.6%. Management consider this level of debt is too hight and are working to reduce the level of debt in the medium term.

Borrowing Facilities

The Group primarily uses uncommitted facilities which are cheaper and more flexible than committed facilities. The Group had $2.7 million of cash at the quarter end.

Cash Flow

There was an outflow of $0.7 million from operating activities in the quarter compared with an inflow of $1.2 million in the corresponding quarter last year. The outflow in cash during the quarter reflected an increase in inventory and the losses in the quarter.

Commitments

The Group has capital commitments at the quarter end of $0.3 million for intangible assets and property, plant and equipment for manufacturing and research and development.

Contingencies

A number of the Group's products are covered by product warranties of varying duration. The Group provides for claims under such warranties on the basis of past experience. However, actual claims could exceed the amount of this provision.

The Group has not issued any guarantees of any third party debts or performance.

Selected Financial Information

	2018 Q3	2018 Q2	2018 Q1	2017 Q4	2017 Q3	2017 Q2	2017 Q1	2016 Q4	2016 Q3	2017 FY	2016 FY	2015 FY
Revenue	9,885	10,590	10,577	11,248	13,119	11,546	11,553	10,045	11,079	47,466	40,519	46,512
Gross Profit	328	265	891	833	1,533	998	2,732	(1,052)	2,071	6,097	2,090	4,683
Gross profit %	*3.4%*	*2.5%*	8.4%	7.4%	11.7%	8.6%	23.7%	(10.5%)	18.7%	12.8%	5.2%	10.1%
Gross R&D %	*26.2%*	*23.1%*	26.1%	18.6%	21.6%	25.6%	17.4%	33.2%	26.9%	20.8%	28.6%	21.3%
Loss / Profit before Tax	(1,856)	(1,748)	(1,682)	(285)	31	(1,135)	545	(3,678)	352	(844)	(5,951)	270
Net Loss / Profit	(1,517)	(1,426)	(1,379)	(310)	11	(944)	406	(2,965)	236	(837)	(4,919)	166
Earnings per Share												
Basic	(0.02)	(0.02)	(0.02)	0.00	0.00	(0.01)	0.01	(0.04)	0.00	(0.01)	(0.06)	0.00
Diluted	(0.02)	(0.02)	(0.02)	0.00	0.00	(0.01)	0.01	(0.04)	0.00	(0.01)	(0.06)	0.00
Non-current assets	31,010	31,589	33,625	32,106	32,681	33,747	33,665	34,218	35,274	32,106	34,218	45,100
Working capital	12,878	12,296	12,246	14,039	12,816	12,851	14,534	12,714	15,560	14,040	12,714	16,325
Net debt	21,694	20,417	19,273	19,874	19,259	20,178	21,298	20,623	20,692	19,874	20,623	22,918
Equity	22,194	24,097	26,598	26,272	26,239	26,419	26,901	26,309	30,142	26,272	26,309	38,507
Dividends	0	0	0	0	0	0	0	0	0	0	0	0

Selected quarterly and annual financial information is presented above. All figures have been prepared in accordance with IFRS. Quarterly figures have not been audited except for balance sheet figures for each of the fourth quarters. The figures for the financial years 2015, 2016 and 2017 have been audited. All amounts are stated in thousands of Canadian Dollars except for the gross profit percentage and the gross R&D percentage and for earnings per share figures which are stated in Canadian Dollars per share.

The amounts shown for non-current assets are as disclosed in the appropriate financial statements. Working capital is defined as current assets excluding cash less current liabilities excluding borrowings less non-current liabilities excluding borrowings. Net debt is defined as cash less borrowings. The amounts shown for equity are as disclosed in the financial statements.

Annual revenue declined by 13% between 2015 and 2016 an then increased in 2017. In the first case the change was as result of the strengthening of the Canadian Dollar and in the second case primarily due to increased trading. Fluctuations in quarterly revenues have also been heavily affected by exchange rate movements. In Sterling terms, revenue was low in the first and second quarters of 2016 and was strong in the first second, third and forth quarters of 2017. It was reasonably stable in all other quarters. Revenues in the first, second and third quarters of 2018 were lower than the corresponding quarters in 2017 despite a favourable comparative exchange rate. This reduction in revenues was due to a depleted order backlog at the end of 2017 and lower than planned orders in the first two quarters of 2018.

The gross profit percentage in 2015 was below the level targeted by management. The gross loss in 2016 reflected an inventory write-off, loss of sales and restructuring costs. In the second quarter of 2016, low revenue resulted in a small gross loss. In the third quarter, stronger revenue saw a return to a gross profit but there was again a gross loss in the fourth quarter as a result of an inventory write-off, loss of sales and restructuring costs. Gross profit recovered sharply in the first quarter of 2017 in response to the stronger revenue reported and product mix but fell back in the second quarter and improved slightly in the third quarter, again due to product mix and overall volume increase, hower it reduced slight in the forth quarterdue to product mix. Gross profit in the first three quarters of 2018 was lower than the corresponding quarters in 2017, this as due to lower volumes and product mix.

Management regards research and development expenditure as key to the future of the business. The absolute amount of gross expenditure on research and development in both the quarter and year to date was 5% lower than the previous year. This reduction followed a rigourous review of all activities with an increased focus on a number of new products that will come to market and contribute to 2018 revenues.

The annual profit before tax reflects the strength of the gross profit in any particular period. The quarterly figures follow the same trend. The net profit reflects the strength of profit before tax in any particular period.

Non-current assets have generally declined slightly throughout the period as management has been cautious about investment until the business shows better results. However, the figures also reflect currency fluctuations over the period which have also impacted the current quarter.

Working capital level declined in 2016. These figures were affected by changes in the exchange rate between the Canadian Dollar and Sterling. Working capital increased in the first quarter of 2017 but then fell back in the second and third quarters of 2017 increasing in the fourth quarter as a consequence of the higher levels of revenues in the final month of the year. Working capital decreased in the first two quarters of 2018 primarily due to an increase in payables, and increased slightly in the third quarter as a consequence of increases in inventory.

Net debt in Sterling has been relatively stable, with movements in the Canadian Dollar value reflecting changes in the Sterling Canadian Dollar exchange rate.

The change in the equity reflects the comprehensive income in each period.

Risk Management

The Group operates in a competitive market in which the major competition comes from businesses that are much larger than Dynex and which, therefore, have more resources at their disposal. The purchase of a 75% stake in the Company by CRRC Times Electric in October 2008 made the Group part of a larger group. The Group further tries to meet this challenge by ensuring it undertakes sufficient R&D and continuous improvements in manufacturing to maintain its product quality, product performance and delivery lead time at or ahead of the levels provided by competitors.

A fundamental shift in technologies in the Group's product markets could have a material adverse effect on its competitive position within the industry. Dynex is increasing the gross expenditure on R&D as a percentage of revenue in order to mitigate this risk.

The level of worldwide demand for power semiconductors and power semiconductor assemblies is one of the key uncertainties for the Group. Global plans to reduce carbon emissions in response to concerns about climate change, including increased power generation from non-fossil fuels, the electrification of transport systems and the increased use of advanced power electronic equipment, together with the need for additional power generation capacity and improved power transmission and distribution systems and the increased demand for the supply of high quality electrical energy, provide strong justification for believing that demand for the Group's products will remain strong in the longer-term. The purchase of a 75% stake in the Company by CRRC Times Electric in October 2008 gives the Group improved access to the important Chinese market. However, any reduction in investment in these areas would be detrimental to the future of the business.

The Group has based its future business development plans on the assumption that CRRC Times Electric will purchase a substantial portion of its IGBT product requirements from Dynex. This is not certain as there are many factors that could prevent CRRC Times Electric purchasing such products. In particular, there is a risk that Dynex IGBT modules may prove technically incompatible or not competitive for use in CRRC Times Electric equipment and that may materially reduce the future demand for IGBT modules. The Group is working closely with CRRC Times Electric, has set up several joint teams and is increasing its R&D expenditure to ensure that its products are able to meet CRRC Times Electric's needs and the needs of other power electronic equipment manufacturers both within China and the rest of the world.

The Group's manufacturing processes are highly complex and manufacturing efficiency is an important factor in the Group's competitiveness and profitability. The Group has been investing and continues to invest in new production equipment to ensure it remains competitive.

The Group's manufacturing yields vary significantly among products, depending on the complexity of a particular product's design and the Group's experience in manufacturing that type of product, the quality of the raw materials and bought in components used in manufacture and the effects of contamination or other difficulties during the semiconductor fabrication process. Deterioration in yields will increase production costs and therefore reduce margins. In addition, failure to meet planning yields may also lead to late deliveries to customers. The Group seeks to manage these risks by constantly monitoring and seeking to improve its yields through improvements in design, materials and manufacturing processes.

The Group's business is quite concentrated, with over 75% of turnover typically coming from ten or fewer customers. The failure or consolidation of any of these customers around companies owned or supplied by Dynex's major competitors could significantly reduce the opportunities available to the business in future. The acquisition of a major stake in the Company by CRRC Times Electric in October 2008 has given the Group a much closer relationship with this entity which has become the Group's major customer. The Group has developed and works to a Quality Policy, operated under ISO 9001:2008 in order to ensure it meets its customers' requirements as well as it possibly can. The Group constantly seeks to acquire new customers to broaden its customer base.

Certain raw materials, such as silicon, neutron transmutation doped ("NTD") silicon, molybdenum, ceramic housings, substrates, baseplates, wafer fabrication chemicals and gases, electricity, assembly materials and sub-contract services are critical to the manufacture of high power semiconductors. The Group seeks to maintain close relationships with key suppliers, entering into long term supply arrangements where appropriate and by multi sourcing products where possible, in order to ensure continued access to such raw materials.

In the case of electricity, the Group is a major user of electricity and the cost of electricity in the UK is subject to significant short term variation. The Group has developed and operates a formal Energy Management System under ISO 50001 in order to minimise the use of power. The Group takes independent professional advice on the purchase of electricity and seeks to enter into long term contracts to reduce the uncertainty about future prices.

Many of the Group's expenses, particularly those relating to capital equipment and manufacturing overheads, are relatively fixed, making the Group's results extremely sensitive to volume reductions. The Group seeks to manage this risk by maintaining close relationships with its main customers and by seeking new customers. The Group's capability in power electronic assemblies is an important aspect of developing and maintaining such close relationships.

The Group's operating business is in Lincoln, England and the majority of its assets, liabilities, revenue, expenses and cash flows take place in and are recorded in Sterling. These values have to be translated into Canadian Dollars for inclusion in the consolidated financial statements of the Company. Movements in the Canadian Dollar-Sterling exchange rate directly affect such values. The Company does not generally hedge such exposures, believing that its shareholders have taken a positive decision to invest in a business operating out of the UK.

Although the Group buys some materials in continental Europe, the Far East and North America, the bulk of its costs are incurred in Sterling. However, it sells into world markets with many sales denominated in US dollars and Euros. As a consequence, the Group's results are affected by changes in exchange rates between these currencies. Management monitors these exposures but does not believe that it would be beneficial to hedge them at the present time. The need to undertake such hedging is reviewed from time to time.

The Group's future success depends, in part, upon its ability to attract and retain suitably qualified and experienced personnel in engineering, research and development, operations, production management, sales, marketing, finance, IT and general management. The Group seeks to ensure that its remuneration, employee benefits and general terms and conditions remain competitive to ensure it is able to recruit and retain the people it needs to be competitive.

As part of its manufacturing operations, the Group uses many hazardous chemicals and gases. The Group operates a formal Health and Safety Plan compliant with UK Health and Safety Executive guidance note HSG65 and a formal Environmental Management Plan under ISO 14001:2004 in order to ensure compliance with the relevant laws and regulations and to ensure that the risks to employees, third parties and the environment are minimised.

Financial Instruments & Other Instruments

The Group does not currently use any financial instruments or other instruments as part of its risk management strategy.

Critical Accounting Judgements and Estimates

The following are the key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year:

Going Concern

The Group's management has judged that the accounts should be prepared on a going concern basis. In reaching this conclusion, managemen looked at its forecast cashflows for the next twevlve months and also considered the financing available to the Group and a letter of support received from CRRC Times Electric and concluded that the funds necessary to finance the business for the next twelve months would remain available.

Impairment review

In view of the recent results of the Group, management carried out a detailed review as at the end of 2017 in order to assess whether any impairment of assets had taken place. As part of that review, management has prepared a five year plan for the business. The plan incorporates the budget for 2018 as the first year of the plan.

The review has considered asset impairment for each of the three cash generating units: semiconductor devices, assemblies and distribution of CRRC Times Electric products.

Following completion of that review, management has concluded that no impairment of assets had taken place although this will continue to be reviewed.

Anticipated useful lives of intangible assets and property, plant and equipment

Management determines the estimated useful lives of its intangible assets and property, plant and equipment based on historical experience of the actual lives of assets of similar nature and functions and reviews these estimates at the end of each reporting period. At September 30th, 2018 the carrying amount of intangible assets and property, plant and equipment was $28.7 million.

Provisions against inventories

Management reviews the condition of inventories at the end of each reporting period and recognises a provision for slow-moving and obsolete items of inventory when they are no longer suitable for use or sale.

Management's estimate of the net realisable value of inventories is based primarily on sales prices in the forward order book and current market conditions. At September 30th, 2018 the provision against inventories was $5.3 million and the carrying amount of inventories was $11.6 million.

Impairment of trade receivables

Management determines the estimated recoverability of trade receivables based on the evaluation and ageing of trade receivables, including the current creditworthiness and the past collection history of each customer and reviews these estimates at the end of each reporting period. At September 30th, 2018 the provision was $148,000 and the carrying amount of trade receivables was $5.2 million.

Provisions

Management determines the best estimate of provisions based on experience of similar transactions and, in some cases, reports from independent experts and reviews them at the end of each reporting period. At September 30th, 2018 the carrying value of provisions was $109,000.

Disclosure Controls

Disclosure controls and procedures have been designed to provide reasonable assurance that all relevant information is gathered and reported to senior management, including the Chief Executive Officer and Chief Financial Officer, on a timely basis so that appropriate decisions can be made regarding public disclosure.

Internal Controls

Internal control over financial reporting has been designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with International Financial Reporting Standards. During the quarter ended June 30th, 2018, there have been no changes in the design of the Group's internal controls over financial reporting that has materially affected, or is reasonably likely to affect materially the Group's internal control over financial reporting.

Government Assistance

The Group received $346,000 in grants during the quarter from the European Union and the UK Government to assist in its research and development activities.

Outstanding Share Data

As of the date of this Management's Discussion and Analysis, the Company has 80,509,047 common shares outstanding. The Company has no options to purchase shares outstanding.

Related Party Transactions

During the quarter, the Group sold $0.6 million of goods and $1.5 million of services to CRRC Times Electric, received a contribution towards research and development of $1.6 million and purchased materials and components from them for $1.6 million. The Group sold servccies of £142,000 to CRRC Corporation Ltd. The Group also sold $2.0 million of goods and $1.5m million of services to a fellow subsidiary of CRRC Times Electric, paid $52,000 in interest on a loan from another fellow subsidiary of CRRC Times Electric and provided $0 of services to a parent company of CRRC Times Electric. The Group incurred expenses in the UK of $11,000 on behalf of CRRC Times Electric and $0 on behalf of a fellow subsidiary of CRRC Times Electric which expenses were reimbursed to the Group.

At September 30th, 2018 the Group was owed $6.8 million for goods and services sold to CRRC Times Electric and owed them $8.5 million for materials and components purchased from them.

The Group has a loan of $5.1 million from a fellow subsidiary of CRRC Times Electric and an amount of $855,000 was outstanding for interest under this loan.

The Group paid $440,000 in compensation during the quarter to its key management personnel and no amounts were outstanding at the end of the quarter. The Group paid $5,000 in fees to directors during the quarter. Directors' fees of $5,000 were outstanding at the end of the quarter.

The Group purchased services from a law firm in Canada during the quarter for $15,000. At September 30th, 2018, $22,150 was outstanding to this law firm. One of the Company's directors is a partner in this firm.

Outlook

Revenue from bipolar discrete products was 16% lower in quarter 3 than in quarter 2. Order bookings in Q3 for Bipolar devices was strong and as a consequence the current order backlog supports growth in revenues in quarter 4.

Revenue from the sale of IGBT modules and die remained largely flat in the third quarter of 2018 compared to that reported in the second quarter of 2018. Based on current order backlog, and expected orders for Die, it is forecast to increase significantly in the forth quarter based on module sales.

Revenue from the sales of power electronic assemblies decressed by 17% in the third quarter compared to the second quarter of 2018. Revenue is expected to improve in the forth quarter half as a consequence of new orders

Overall, revenue in the third quarter was lower than the levels in quarter 1 or quarter 2. It is expected to improve in quarter four based on our current levels of order backlog and expected order bookings subject to no unforeseen issues in production.

At the end of September 2018, the order book stood at $15.3 million compared to $9.8 million at the end of June, a significant increase as a consequence of the increase in order bookings and book to bill ratio.

The business reported a net loss of $1.5 million in the third quarter. Management is working hard to improve on this in quarter four. The key focus through the forth quarter is to secure around $1.4 million of orders for dispatch in the forth quarter of the year and also ensure a robust closing order book for delievery in 2019.

Additional Information

Additional information relating to the Company is available on SEDAR at www.sedar.com

Alan Lyons.
Chief Financial Officer
November 27th, 2018

DYNEX POWER INC.
Interim Condensed Consolidated Statements of Comprehensive Income (unaudited) in Canadian Dollars
Quarter Ended September 30th, 2018

	Note	**3 months Sept 30th 2018**	3 months Sept 30th 2017	**YTD Sept 30th 2018**	YTD Sept 30th 2017
			Note	**$**	$
Revenue	5, 6	**9,885,111**	13,119,281	**31,052,330**	36,218,391
Cost of sales		**(9,557,070)**	(11,585,733)	**(29,568,217)**	(30,954,533)
Gross profit		**328,041**	1,533,548	**1,484,113**	5,263,858
Other income	6	**13,978**	526,425	**144,860**	612,826
Sales and marketing expenses		**(327,420)**	(370,911)	**(1,277,670)**	(1,068,539)
Administration expenses		**(970,457)**	(885,946)	**(3,416,140)**	(3,257,383)
Research and development expenses	7	**(696,800)**	(496,741)	**(1,645,541)**	(1,416,739)
Finance costs		**(171,996)**	(150,189)	**(558,953)**	(473,521)
Other (losses)/gains		**(31,501)**	(125,161)	**(17,177)**	(219,556)
Loss before tax	7	**(1,856,155)**	31,025	**(5,286,508)**	(559,054)
Income tax recovery		**338,727**	(20,394)	**964,384**	31,875
Net loss		**(1,517,428)**	10,631	**(4,322,124)**	(527,179)
Other comprehensive (loss)/ income					
Items that may be reclassified subsequently to net profit/loss:					
Exchange differences on translation of foreign operations (net of tax of $nil)		**(385,024)**	(191,189)	**244,571**	456,947
Total comprehensive (loss)/income for the period		**(1,902,452)**	(180,558)	**(4,077,553)**	(70,232)
Loss per share					
Basic	8	**(0.02)**	0.00	**(0.05)**	(0.01)
Diluted	8	**(0.02)**	0.00	**(0.05)**	(0.01)

All results are derived from continuing operations.

These financial statements should be read in conjunction with the notes set out on pages 19 to 29.

DYNEX POWER INC.
Interim Condensed Consolidated Statement of Financial Position (unaudited) in Canadian Dollars
As at September 30th, 2018

	Note	**Sept 30th 2018**	Dec 31st 2017
		$	$
NON-CURRENT ASSETS			
Intangible assets	9	**1,439,924**	1,475,016
Property, plant & equipment	9	**27,228,363**	29,338,663
Derivative financial instruments		**-**	-
Deferred tax asset		**2,342,091**	1,292,441
Total non-current assets		**31,010,378**	32,106,120
CURRENT ASSETS			
Inventories		**12,640,749**	10,961,596
Trade receivables		**5,181,769**	4,637,011
Amounts owing from group undertakings	13	**8,683,350**	8,704,381
Prepayments, deposits & other receivables		**2,794,583**	2,138,954
Tax recoverable		**-**	-
Cash		**2,713,256**	3,564,624
Total current assets		**32,013,707**	30,006,566
CURRENT LIABILITIES			
Trade payables		**3,077,274**	1,271,903
Amounts owing to group undertakings	13	**8,536,504**	3,701,225
Other payables and accruals		**4,700,586**	7,204,708
Borrowings	10	**22,214,009**	20,292,764
Tax payable		**-**	-
Provisions		**57,387**	173,339

DYNEX POWER INC.
Interim Condensed Consolidated Statement of Financial Position (Unaudited) in Canadian Dollars (continued)
As at September 30th, 2018

	Note	**Sept 30th 2018**	Dec 31st 2017
		$	$
NON-CURRENT LIABILITIES			
Borrowings	10	**2,192,925**	3,146,100
Provisions		**51,238**	50,932
Total non-current liabilities		**2,244,163**	3,197,032
NET ASSETS		**22,194,162**	26,271,715
EQUITY			
Share capital	11	**37,096,192**	37,096,192
Accumulated deficit		**(15,687,266)**	(11,365,142)
Foreign currency translation reserve		**785,236**	540,665
TOTAL EQUITY		**22,194,162**	26,271,715

These financial statements should be read in conjunction with the notes set out on pages 19 to 29.

DYNEX POWER INC.
Interim Condensed Consolidated Statement of Changes in Equity (unaudited) in Canadian Dollars
Quarter Ended September 30th, 2018

	Share Capital	Deficit	Foreign Currency Translation Reserve	Total Equity
	$	$	$	$
At January 1st, 2017	37,096,192	(10,528,225)	(259,137)	26,308,830
Total comprehensive income for the period	-	(527,179)	456,947	(70,232)
At September 30th, 2017	37,096,192	(11,055,404)	197,810	26,238,598
Total comprehensive (loss)/income for the period	-	(309,738)	342,855	33,117
At December 31st, 2017	37,096,192	(11,365,142)	540,665	26,271,715
Total comprehensive (loss)/income for the period	-	(4,322,124)	244,571	(4,077,553)
At September 30th, 2018	**37,096,192**	**(15,687,266)**	**785,236**	**22,194,162**

These financial statements should be read in conjunction with the notes set out on pages 19 to 29.

DYNEX POWER INC.
Interim Condensed Consolidated Statement of Cash Flows (unaudited) in Canadian Dollars
Quarter Ended September 30th, 2018

	Note	**YTD Sept 30th 2018**	YTD Sept 30th 2017
		$	$
CASH FLOW FROM OPERATING ACTIVITIES			
Loss before tax		**(5,286,508)**	(559,054)
Finance costs recognised in loss before tax		**558,953**	473,521
Investment income recognised in loss before tax		**-**	518
Amortization of intangible assets		**320,164**	144,677
Depreciation of property, plant & equipment		**3,503,343**	3,428,972
Loss on disposal of property, plant & equipment and intangibles		**23,320**	-
Provision for slow moving and obsolete inventory		**226,961**	(3,188,558)
Non cash movement in provisions		**-**	42,294
Movements in working capital	12	**740,618**	3,067,615
Income taxes paid		**(99,467)**	(96,228)
Net cash generated by operating activities		**(12,616)**	3,313,757
CASH FLOW FROM INVESTING ACTIVITIES			
Payments for intangible assets		**(270,202)**	(9,522)
Payments for property, plant & equipment		**(1,185,380)**	(1,352,617)
Interest received		**-**	(518)
Net cash used in investing activities		**(1,455,582)**	(1,362,657)
CASH FLOW FROM FINANCING ACTIVITIES			
Proceeds from borrowings		**2,566,368**	1,382,927
Repayments of borrowings		**(1,714,773)**	(1,702,462)
Interest paid		**(244,054)**	(206,399)
Payments for other finance costs		**(86)**	(14,465)
Net cash generated by financing activities		**607,455**	(540,399)
NET INCREASE IN CASH		**(860,743)**	1,410,701
Cash at beginning of period		**3,564,626**	898,855
Effect of foreign currency translation on cash		**9,373**	(17,986)
CASH AT END OF PERIOD		**2,713,256**	2,291,570

All operating cash flows are derived from continuing operations.

These financial statements should be read in conjunction with the notes set out on pages 19 to 29.

1. CORPORATE INFORMATION

Dynex Power Inc. (the "Company") was formed on June 15th, 1999 under the laws of Canada by the amalgamation of GLG Dynex Power Inc. and Dynex Power Inc. GLG Dynex Power Inc. had been incorporated under the laws of Canada on February 19th, 1996. The former Dynex Power Inc. had been incorporated under the laws of Canada in the name of DPI Technologies Inc. on February 11th, 1998 and changed its name to Dynex Power Inc. on June 4th, 1999.

The registered office of the Company is 515 Legget Drive, Suite 800, Kanata, Ontario, K2K 3G4.

The Company and its subsidiary (collectively the "Group") are engaged in the design and manufacture of industrial power equipment.

The immediate parent company of the Group is Zhuzhou CRRC Times Electric Co. Ltd ("CRRC Times Electric") and the ultimate parent company of the Group is CRRC Corporation Limited ("CRRC Group"), which are both established in The People's Republic of China. The ultimate controlling party is the Chinese State-owned Asset Supervision and Administration Commission based in Beijing in The People's Republic of China.

2. BASIS OF PREPARATION

These interim condensed consolidated financial statements of the Group were prepared in accordance with International Accounting Standard ("IAS") 34, "Interim Financial Reporting". Therefore these interim condensed consolidated financial statements do not include all the information and disclosures that are required in annual financial statements in accordance with International Financial Reporting Standards ("IFRS").

The preparation of financial statements requires the Group's management to make judgements and estimates that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period presented. However, actual results could differ from the estimates made by management requiring a material adjustment to the carrying values of assets and liabilities in the future. Any changes in estimates will be treated prospectively in the period in which they change. Details of the Group's key judgements and estimates are disclosed in Note 5 of the Group's consolidated financial statements for the year ended December 31st, 2017.

These interim condensed consolidated financial statements have been prepared on a going concern basis under the historical cost convention, unless otherwise noted. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

All figures are in Canadian Dollars ("$") which is the Company's functional currency except as otherwise stated. The functional currency of the Company's subsidiary, Dynex Semiconductor Limited, is British Pounds.

3. FUTURE CHANGES IN ACCOUNTING POLICIES

At the date of authorisation of these financial statements, the following Standards and Interpretations relevant to the Group which have not been applied in these financial statements were in issue but are not yet effective. The Group has reviewed these pronouncements and determined that the following may have an impact on the Group:

IFRS 16: Leases

Various Annual Improvements to IFRS Standards 2015-2017 Cycle

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These interim condensed consolidated financial statements have been prepared using the same accounting policies as those used in the Group's annual financial statements for the year ended December 31st, 2017, except for the adoption of new standards and interpretations as of January 1st, 2018 noted below.

Adoption of new standards and interpretations

At January 1st, 2018 the Group adopted the following standards and interpretations with no material impact on the Financial Statements:

New or revised standards:

IFRS 9 Financial Instruments

IFRS 15 Revenue from Contracts with Customers

Amendments:

IFRS 2 Classification and Measurement of Share Based Payment Transactions

IFRS 15 Clarifications to IFRS 15 'Revenue from Contracts with Customers'

IFRIC22 Foreign Currency Transactiosn and Advance Consideration

Various Annual Improvements to IFRS Standards 2014-2016 Cycle

Various IFRS10, IFRS12 and IAS28 Investment Entities, Applying for Consolidation Exception

5. OPERATING SEGMENT INFORMATION

IFRS 8 "Operating Segments" defines an operating segment as (a) a component of an entity that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same entity), (b) whose operating results are regularly reviewed by the entity's chief operating decision maker to make decisions about resources to be allocated to the segment and to assess its performance and (c) for which discrete financial information is available.

For management purposes the Group's activities are attributable to a single operating segment, engaged in the design and manufacture of industrial power equipment. Consequently, the Group does not present any operating segment information.

Revenue by geographic area

The location of the customer determines the geographic areas for revenue.

	3 months Sep 30th 2018	3 months Sep 30th 2017	**YTD Sep 30th 2018**	YTD Sep 30th 2017
	$	$	**$**	$
Canada	**-**	47,225	**6,787**	349,510
China	**4,132,557**	4,684,418	**11,909,935**	10,178,966
France	**1,120,362**	1,108,927	**4,233,826**	4,287,368
United Kingdom	**139,789**	2,393,866	**1,058,702**	7,432,378
India	**-**		**-**	-
Other (None > 10%)	**4,492,403**	4,884,845	**13,843,080**	13,970,169
	9,885,111	13,119,281	**31,052,330**	36,218,391

Property, plant and equipment by geographic area

The location of property, plant and equipment determines the geographic areas.

All property, plant and equipment is located in the UK.

Major customers

For the quarter ended September 30th, 2018 the Group had one customer accounting for more than 10% of revenue, generating $4,312,787 (CRRC Times Electric Group) (Sept 30th, 2017 – one customer accounting for more than 10% of revenue, generating $5,426,984 (CRRC Times Electric Group).

In the nine months ended September 30th, 2018 the Group had one customer accounting for more than 10% of revenue, generating $12,580,621 (CRRC Times Electric Group) (Sept 30th, 2017 – one customer accounting for more than 10% of revenue, generating $12,321,512 (CRRC Times Electric Group).

6. REVENUE AND OTHER INCOME

Revenue on sale of goods and services

Revenue on the sale of goods represents the net invoiced value of goods sold less trade discounts and allowance for returns and excludes sales tax.

Revenue for services is recognised at the contractual rates as labour hours are delivered and direct expenses are incurred.

An analysis of the Group's revenue and other income is as follows:

	3 months Sep 30th 2018	3 months Sep 30th 2017	**YTD Sep 30th 2018**	YTD Sep 30th 2017
Revenue:	**$**	$	**$**	$
Sale of goods	**7,884,043**	11,602,056	**25,482,463**	31,974,967
Rendering of services	**2,001,068**	1,517,225	**5,569,867**	4,243,424
	9,885,111	13,119,281	**31,052,330**	36,218,391
Other Income:				
Legal Claim	**-**	227,502	**88,111**	227,502
Sale of scrap materials	**9,322**	18,503	**50,314**	98,311
Insurance Claim	**-**	280,670	**-**	280,670
Bank interest income	**-**	19	**-**	32
Other interest income	**-**	5	**-**	(550)
Other income	**4,656**	(274)	**6,435**	6,861
	13,978	526,425	**144,860**	612,826

7. LOSS BEFORE TAX

Loss before tax from continuing operations is stated after charging/(crediting):

	3 months Sep 30th 2018	3 months Sep 30th 2017	**YTD Sep 30th 2018**	YTD Sep 30th 2017
	$	$	**$**	$
Cost of inventories sold	**7,499,484**	10,018,770	**23,816,229**	26,593,980
Staff costs (including director's remuneration):				
Wages and salaries	**4,810,572**	4,832,869	**15,589,739**	14,651,667
Other benefits	**229,395**	216,873	**733,088**	646,673
Foreign exchange differences (net)	**8,367**	125,161	**(6,143)**	219,556
Amortization of intangible assets charged				
Cost of sales	**3,234**	182	**3,623**	554
Sales and marketing expenses	**1,829**	-	**1,829**	-
Research and development expenses	**60,235**	21,221	**157,436**	82,293
Administration expenses	**52,000**	20,195	**157,276**	61,830
Depreciation of items of property, plant				
Cost of sales	**893,605**	926,504	**2,759,364**	2,841,125
Sales and marketing expenses	**578**	-	**1,771**	-
Research and development expenses	**235,848**	184,233	**695,773**	559,473
Administration expenses	**19,453**	8,475	**46,435**	28,374
Research and development expenses	**2,595,875**	2,829,562	**7,808,559**	7,795,052
Contribution from CRRC Times Electric	**(1,553,499)**	(1,941,653)	**(4,722,203)**	(5,220,096)
Government grants:				
Research and development	**(345,576)**	(391,168)	**(1,440,815)**	(1,158,217)
Provision for slow moving and obsolete inventories	**(75,692)**	(8,777)	**226,961**	(3,188,558)

8. PROFIT/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS

Profit/(loss) per share calculations are based on:

	3 months Sep 30th 2018	3 months Sep 30th 2017	**YTD Sep 30th 2018**	YTD Sep 30th 2017
	$	$	**$**	$
Earnings:				
(Loss)/profit attributable to ordinary equity holders used in both basic and diluted earnings per share calculations	**(1,517,428)**	10,631	**(4,322,124)**	(527,179)
Shares:				
Weighted average number of ordinary shares outstanding during the period used in both basic and diluted earnings per share calculations	**80,509,047**	80,509,047	**80,509,047**	80,509,047

9. INTANGIBLE ASSETS & PROPERTY, PLANT AND EQUIPMENT

In the quarter ended September 30th, 2018 the Group acquired intangible assets and property, plant and equipment with an aggregate cost of $837,997 (Sept 30th, 2017 - $340,233). In the nine months ended September 30th, 2017 the Group acquired intangible assets and property, plant and equipment with an aggregate cost of $1,455,640 (Sept 30th, 2017 - $1,362,139).

In the quarter ended September 30th, 2018 the Group disposed of property, plant and equipment with an aggregate carrying amount of $23,134 (Sept 30th, 2017 - $nil) which resulted in a net loss of $23,134 (Sept 30th, 2017 - $nil) included in other gains and losses in comprehensive income. In the nine months ended September 30th, 2018 the Group disposed of property, plant and equipment with an aggregate carrying amount of $23,320 (Sept 30th, 2017 - $nil) which resulted in a net loss of $23,320 (Sept 30th, 2017 - $nil) included in other gains and losses in comprehensive income.

At September 30th, 2018 the Group has commitments for the purchase of intangible assets and property, plant and equipment of $0.3 million (Dec 31st, 2017 - $1.1 million).

10. BORROWINGS

	Note	Sept 30th 2018 $	Dec 31st 2017 $
Secured at amortised cost:			
Bank loans	(i)	**18,787,340**	16,977,400
Finance lease	(ii)	**194,222**	15,230
		18,981,562	16,992,630
Unsecured at amortised cost:			
Other loans	(iii) (iv) (v) (vi)	**5,425,372**	6,446,234
		24,406,934	23,438,864
Current portion		**22,214,009**	20,292,764
Non-current portion		**2,192,925**	3,146,100
		24,406,934	23,438,864

(i) The Group has a bank loan of $18,787,340 (Dec 31st, 2017 - $16,977,400) under an uncommitted revolving loan facility. The repayment date and the interest on drawings under the facility are set at the time each drawing is made and varies depending on the length of the drawing. The rate on drawings at Sept 30th, 2018 was 2.7% (Dec 31st, 2017 – 2.4%). The facility is guaranteed by CRRC Times Electric. $17,079,400 is due for repayment in February 2019 and $1,707,940 is due for repayment in April 2019. Management expects these to be renewed and in addition have received confirmation from their parent that they can and will provide any necessary funding to continue as a going concern. The Parent have also confirmed to continue to guarantee the loan facility as long as the Group requires this. They have confirmed they will provide such a guarantee up to the value of net assets.

(ii) The finance leases are secured by the equipment leased which has a carrying value of $210,460 (Dec 31st, 2017 - $133,961).

(iii) The Group has an unsecured loan from a fellow subsidiary of CRRC Times Electric for $5,123,820 (Dec 31st, 2017 - $6,111,864). The loan bears interest at 4% per annum and is repayable in five equal biannual repayments between June 2018 and June 2020. See Note 13.

(iv) The Group has an unsecured interest free loan from an unrelated party for $115,449 (Dec 31st, 2017 - $188,533). The loan is repayable in monthly instalments between December 2016 and October 2019.

(v) The Group has an unsecured interest free loan from an unrelated party for $24,452 (Dec 31st, 2017 - $145,837). The loan is repayable in monthly instalments between December 2017 and November 2018.

(vi) The Group has a loan from an unrelated party for $161,651 (Dec 31st, 2017 - $ nil). The loan bears interest at 7.6% per annum and is repayable in ten monthly instalments from March 2018 to December 2018.

11. SHARE CAPITAL

At September 30th, 2018 there were 80,509,047 common shares of the company outstanding (Dec 31st, 2017 – 80,509,047).

12. MOVEMENTS IN WORKING CAPITAL

An analysis of the Group's movements in working capital is as follows:

	YTD Sept 30th 2018	YTD Sept 30th 2017
	$	$
(Increase) decrease in inventories	**(1,859,755)**	4,369,117
(Increase) in trade receivables	**(1,309,439)**	(2,551,496)
(Increase) decrease in prepayments, deposits & other receivables	**(655,135)**	577,080
Decrease (increase) in amounts owing from group undertakings	**851,413**	(3,559,705)
Increase (decrease) in trade payables	**2,014,586**	(936,039)
(Decrease) increase in other payables & accruals	**(2,937,616)**	218,414
(Decrease) increase in provisions	**(120,713)**	334,566
Increase in amounts owing to group undertakings	**4,757,277**	4,615,678
	740,618	3,067,615

13. RELATED PARTY TRANSACTIONS AND BALANCES

The Group's management regards the members of the board of directors of Dynex Power Inc. and their immediate families, the senior managers of Dynex Semiconductor Limited and their immediate families, its immediate parent company, Zhuzhou CRRC Times Electric Co., Ltd, its directors and their immediate families, CRRC Corporation and all of its affiliates and LaBarge Weinstein Professional Corporation as related parties.

The Group had the following material transactions and balances with related parties:

		3 months Sep 30th 2018	3 months Sep 30th 2017	**YTD Sep 30th 2018**	YTD Sep 30th 2017
		$	$	**$**	$
Transactions with CRRC Times Electric:					
Sale of goods	(i) (ii)	**554,955**	3,192,257	**5,077,264**	6,339,560
Rendering of services	(iii)	**1,524,001**	1,450,585	**4,605,416**	3,716,787
Amounts in respect of jointly funded research and development activity which is accounted for as a reduction in research and development expenses	(iv)	**1,553,499**	1,941,653	**4,722,203**	5,220,096
Reimbursed expenses	(v)	**-**	-	**10,806**	41,094
Purchases of materials and components	(i) (vi)	**1,556,550**	3,069,199	**4,105,593**	5,720,707
Transactions with CRRC Corporation Ltd:					
Rendering of services	(vii)	**141,557**	-	**141,557**	136,599
Transactions with fellow group subsidiaries:					
Sale of goods	(viii) (ix)	**1,956,131**	784,142	**2,620,240**	2,128,566
Rendering of services	(ivi)	**1,524,001**	1,450,585	**4,605,416**	3,716,787
Interest expense	(x)	**51,180**	88,910	**158,473**	269,021
Reimbursed expenses	(xi) (xii)	**752**	15,185	**5,874**	44,871
Transactions with other parties:					
Compensation to key management personnel		**440,000**	324,000	**1,499,000**	1,025,000
Non-executive directors fees	(xiii)	**5,000**	5,000	**15,000**	15,000
Legal fees and expenses	(xiv)	**15,000**	15,937	**48,244**	48,997

13. RELATED PARTY TRANSACTIONS AND BALANCES (continued)

		Sept 30th 2018	Dec 31st 2017
		$	$
Balances with CRRC Times Electric:			
Amounts owing from group undertakings	(i) - (v)	**6,786,922**	8,130,011
Amounts owing to group undertakings	(i) (vi)	**8,536,504**	3,701,225
Other payables and accruals	(iii) (iv)	**1,290,627**	4,025,363
Balances with CRRC Corporation Ltd:			
Amounts owing from group undertakings	(vii)	**4,696**	-
Balances with fellow group subsidiaries:			
Amounts owing from group undertakings	(viii)	**1,891,732**	574,370
Borrowings	(ix)	**5,123,820**	6,111,864
Other payables and accruals	(ix) (x)	**854,625**	718,813
Balances with other parties:			
Other payables and accruals	(xi)	**20,000**	10,000
Trade payables	(xii)	**16,950**	11,300
Other payables and accruals	(xii)	**5,200**	-

(i) CRRC Times Electric is the Group's main distributor for high power semiconductors in The People's Republic of China and the Group is CRRC Times Electric's main distributor for high power semiconductors in Europe, Africa and parts of Asia. The parts are sold to the distributor at the market price less a discount to cover the cost of the work carried out by the party handling the distribution.

(ii) CRRC Times Electric uses the Group to buy certain raw materials and to provide IGBT die and module products for its own use and to construct certain pieces of equipment for use in its IGBT assembly and test facility in Zhuzhou, China.

(iii) On April 4th, 2017 the Group signed a new agreement with CRRC Times Electric to provide technical support to CRRC Times Electric for its 8 inch wafer fabrication facility in China and to share the costs of carrying out research and development projects for high power semiconductor devices at the Group's premises in Lincoln, England. Under the new agreement it was estimated that the costs for the technical support would be $12.0 million and the total costs of the joint research and development, of which TEG would contribute 80% of the costs and the Group will contribute 20%, would be $29.5 million over a three year period commencing January 1st, 2017. CRRC Times Electric paid $6.0 million in advance being 25% of their estimated contribution for the first two years.

13. RELATED PARTY TRANSACTIONS AND BALANCES (continued)

(iv) On October 18th, 2017 the Group signed an agreement with CRRC Times Electric to provide technical support for its automotive assemblies' development project at the Group's premises in Lincoln, England. Under the agreement it was estimated that the costs for the project would be $3.8 million over a 12 month period commencing January 1st, 2017. CRRC Times Electric paid in advance 25% of their contribution. This agreement expired on December 31st, 2017 and a new agreement is being finalised with Zhuzhou CRRC Times Electric UK Innovation Center. The Group is incurring expenses in advance of the contract being being signed. This expenditure will be reimbursed to the Group and an advance payment towards future costs will be received once the new agreement is signed.

(v) From time to time the Group pays incidental expenses in the UK on behalf of CRRC Times Electric. These costs are reimbursed in full.

(vi) The Group uses CRRC Times Electric to make purchases of materials and components for it in China.

(vii) The Group provides management training courses to CRRC Corporation Limited.

(viii) In 2011, the Group appointed Times Electric USA LLC, a fellow subsidiary of CRRC Times Electric, to act as the Group's main distributor for high power semiconductors in North, Central and South America.

(ix) In 2018 CRRC (Hong Kong) Co., Ltd, a fellow subsidiary of CRRC Times Electric, purchased IGBT die from the Group.

(x) In 2015 the Group was provided with a loan for approximately $12.1 million by CRRC Times Electric (Hong Kong) Co., Ltd, a fellow subsidiary of CRRC Times Electric, which bears interest at 4% per annum and is repayable in 10 biannual instalments between December 2015 and June 2020. Accrued interest on this loan is reported as part of Other Payables and Accruals.

(xi) The Group incurs costs in the UK on behalf of CRRC Zhuzhou Institute Co Ltd. These costs are reimbursed in full. CRRC Zhuzhou Institute Co Ltd paid in advance the costs payable for the first quarter which will be deducted at the end of the contract.

(xii) In 2018 Soil Machine Dynamics Ltd, a fellow subsidiary of CRRC Times Electric paid for incidental expenses in the UK on behalf of the Group. The Group reimbursed these costs in full.

(xiii) Directors' fees comprise directors' fees payable to two non-executive directors. The directors' fees are paid half yearly in arrears.

(xiv) The Company retains a business law firm in Canada to provide legal services and advice. One of the Company's directors is a partner of this firm.

Advances to and from the parent company are recorded at fair value. The directors' fees and other related party amounts are recorded at the negotiated amounts. All amounts due to and from related parties, other than borrowings, are recorded as current liabilities and current assets since they are due upon demand or on the basis of normal creditor terms. Amounts due under borrowings are recorded as current liabilities or non-current liabilities according to the dates on which repayments are due to be made.

14. APPROVAL OF THE FINANCIAL STATEMENTS

These interim condensed consolidated financial statements were approved by the board of directors of Dynex Power Inc. on November 23rd, 2018.

Corporate Information

Board of Directors

Liu Ke'an [1] [3]
Chairman

Clive Vacher [1]
Director, President & CEO

Alan Lyons [1]
Director & CFO

Debbie Weinstein [1] [2]
Director

David Banks [1] [2] [3]
Director

Richard Wu [1] [2] [3]
Director

George Guo [1]
Director

Gary Liu [1]
Director

[1] Member of the Governance Committee
[2] Member of Audit Committee
[3] Member of Compensation Committee

Stock Exchange Listing

Toronto Ventures Exchange
Symbol: DNX

Auditors

UK – Deloitte LLP

Transfer Agent

Computershare Trust Company of Canada

Legal Counsel

LaBarge Weinstein Professional Corporation
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Ontario
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Senior Officers, VP's & Senior Managers

Clive Vacher
President & CEO

Alan Lyons
VP Finance, CFO & Co.Secretary

Mark Kempton
Chief Operating Officer

Keith Ferguson
Chief Technology Officer

Vincent Li
Technology Manager

Su Bailey
Head of HR

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