Powerful ideas at work

Dynex Power Inc. Annual Report 2002

DYNEX

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This annual report may contain forward looking statements that involve a number of risks and uncertainties, including statements regarding the outlook for the Company's business and results of operations. By nature, these risks and uncertainties could cause actual results to differ materially from those indicated. Such factors include, without limitation, the various factors set forth in the Management, Discussion and Analysis of this report as discussed in public disclosure documents filed with the Canadian Regulatory authorities. Dynex disclaims any intention or obligation to update or revise any forward looking statements whether as a result of new information, future events, or otherwise.

All figures are in Canadian dollars except as otherwise stated.

Fiscal 2002 Highlights

Announcements and Highlights

January - Employees accepted 20% pay cut for first quarter.

April - Dynex returned to profitability in Q2 through to year end despite lower revenues.

May - Launched new 1200V IGBT low loss technology for module and die products.

May - Launched two new Bi-directional switch IGBT modules at 1200V and 1700V for matrix converter applications.

May - Dynex and partners participate in $7.1 million research contract to develop 3.3kV Power MOSFET and Schottky diode technology from silicon carbide - Establish Silicon Carbide Applications for Power Electronics.

October - Launched new high voltage phase control thyristors for power supplies and power conversion.

October - Launched new website.

December - Dynex Semiconductor Ltd awarded ISO14001 certification – the international environmental standard.

December - Awarded $4.3 million contract by Alstom for power quality sub-systems.

December - $3.9 million reduction in company debt, while reducing unsecured creditors by 50%.

December - Significant increase in gross margins despite 12% reduction in revenues.

Selected Financial Information

All figures in millions of Canadian dollars except share and per share data.

	2002	2001
Revenue	**$ 38.4**	$ 43.9
Gross Profit Margins	**8.6**	1.9
Gross Margin %	***22.3%***	*4.3%*
EBITDA	**2.1**	(5.2)
Net earnings / (Loss)	**0.4**	(7.3)
EPS (Loss) per issued share	**0.03**	(0.52)
Working Capital	**(0.2)**	0.2
Total Assets	**24.4**	28.3
Debt: -		
Long Term	**4.6**	5.7
Short Term	**5.8**	8.6
Shareholder Equity	**$ 3.8**	$ 2.8
Total Common Shares Issued and Outstanding	**18,814,551**	16,157,568
Weighted Average Number of Shares Issued	**17,836,483**	14,120,250
Average Number of Employees	**330**	386

Letter to Shareholders

Michael LeGoff
President and Chief Executive Officer

In a word, 2002 was challenging. We achieved our plan and met market expectations, but it was not easy. Through our dogged determination to remain competitive despite an acute shortage of liquidity the financial situation of your company has improved. We increased profit and margin levels every quarter, reduced overheads by 39%, increased our gross profit margins from $1.9 million (4% of revenues) to $8.56 million (22% of revenues) and improved productivity without the aid of capital expenditure.

We survived through a mix of innovative measures to conserve cash and minimise costs and, through the sale of some equity. The 350% improvement in gross profits and the subsequent reversal of the losses experienced in 2001 were effected by the diligent work of our production groups to enhance efficiencies in manufacturing. Even with these improvements, however, we had to suffer through inflexible trading terms imposed by many suppliers leaving us short of piece parts and unable to ship product to customers' request dates or build up inventory. Lack of piece parts from suppliers also meant that we could not take advantage of opportunity sales. Our competitors exploited our long delivery times and market share was lost. Our power sales were the most impacted with revenues from power semiconductors dropping by 22.8% over 2001 levels. We had to work very closely with our primary suppliers to optimise production and subsequent revenues. With their co-operation over the course of 2002, we were able to reduce the level of overdue indebtedness to our suppliers by over 50%.

The power semiconductor markets remain gruelling. Currently, many large industrial infrastructure projects have either been cancelled or are on hold. The limited amount of business available has created stiff competition and many of our competitors have reduced selling prices below their costs to win orders. Maintaining market share under those conditions is either challenging or unfeasible. To offset this pressure on margins, we will continue to bring new proprietary products to those markets and customers who have demanding requirements for reliability, customisation and customer service. These customers see the cost benefits for reliable quality products and will pay for them. In 2003 we intend to concentrate on winning back market share with customer focus and superior product technologies.

Subsequent to the 2002 reporting period, unsecured subordinated loans were received in February and March 2003 from Board members and an external shareholder. Then in March 2003 we completed a $8.9 million sale and leaseback transaction that substantially improved our liquidity and balance sheet. However, these transactions were completed after the first quarter 2003 revenues were negatively impacted by liquidity constraints. Other than this first quarter bump, our outlook for 2003 remains optimistic. This outlook is driven by our continued strategic focus on our core power semiconductor business. Market analysts estimate the semiconductor market will grow at 1% in 2003, with the power segment growing at more than 5%. That is not to suggest that market pressures have eased, but with improved liquidity, we expect to be a stronger force in our markets and the improvements are already evident.

Letter to Shareholders

Our employees have been extraordinary this past year operating under the most extreme pressures while having to deal with highly inefficient and frustrating working conditions. We are now anticipating being able to contribute to a burgeoning company and look forward to building sustaining profits. During 2001 we proved we could survive and in 2002 we proved we could endure. This year we intend to prove we can prosper.

Respectfully yours,

Michael A. LeGoff
President and Chief Executive Officer
April 2003

Description of Operations

Dynex designs and manufactures high power semiconductors, microwave sensors and integrated circuits for customers around the world, including the European, US and Far Eastern markets. The current operations were formed in Lincoln in 1981 with the amalgamation of a number of semiconductor businesses including those of GEC, AEI, Marconi and subsequent merger with Plessey in 1990.

Although Dynex continues to produce three product groups, the focal point is in power semiconductor products, that constitute 65% of revenues. Dynex is one of the world's leading designers and manufacturers of industrial high power semiconductors. Our unique capabilities permit the manufacture of both standard bipolar semiconductors and newer insulated-gate bipolar transistors ("IGBTs"). The Company's products are used to improve the reliability and quality of power generation, transmission and distribution systems, marine and train electric drives, induction heating systems, industrial motor drives and the next generation electric vehicle drive solutions.

The power semiconductors are divided into three product groups:

- IGBTs
- High power bipolar power semiconductors such as thyristors, gate turnoff thyristors, bipolar transistors and rectifiers
- Power assemblies

The IGBTs are manufactured as high power modules with voltage ratings from 600V to 6,500V and current ratings of 100A to 2,400A. The IGBT products represent a key high growth area for Dynex. The primary focus of the power products has been in high-power applications (>100kW) such as electric utilities, rail traction (high speed and urban rail), marine drives, industrial motor drives and induction heating.

The microwave sensors product group designs and manufactures radio frequency sensors for supply to the original equipment market in Europe. Currently, we primarily sell components for car security applications. Manufacturing activities are focused on the finishing processes of optimization, packaging and testing rather than base manufacturing such as surface-mount technology.

We continue to operate certain mature integrated circuits businesses, such as silicon on sapphire products, custom macrochip products and surface acoustic wave filters that service existing customers and require limited resources.

The manufacturing facility in Lincoln is the primary operating asset. This facility has been the centre for power electronics, power semiconductors, microwave sensors and other integrated circuit products for over twnety years and has been substantially refurbished. The plant facility consists of 160,000 square feet located on a 17-acre freehold site within the suburban metropolitan area of Lincoln, UK. The highly experienced workforce has a very low turn-over rate with 60% of the 330 employees having worked for the company between 6 and 20 years. Over 100 scientists and engineers are employed by Dynex. The Lincoln facility is a stand alone integrated operation with R&D, design, wafer fabrication assembly and test manufacturing facilities accredited to ISO9001 and ISO14001.

Dynex is a public company listed on the Toronto Ventures Exchange (TSX) with shares trading under the symbol "DNX".

Power Semiconductor Market Overview

The Semiconductor Industry Association (the "SIA") estimates the current size of the global power semiconductor market to be US$8.2 billion, growing at a CAGR of 1% over the next two years. The SIA

Description of Operations

estimates the current size of the high power segment of the global power semiconductor market to be US$787 million and to grow at a CAGR of 9% over the next two years.

Within the high power semiconductor segment, the leading power semiconductor market data organizations, such as SIA and Intex Management Services forecast IGBT demand to grow at a CAGR of approximately 11% through 2004 and conventional high power semiconductor products to grow at a slower CAGR of 5%. From our point of view, the divergence of growth in IGBT demand and conventional high power semiconductor demand is a key aspect driving our product mix strategy to focus on IGBT products as IGBT technology is increasingly used to substitute for conventional high power semiconductors in specific fast growing future applications.

The following factors will contribute both to the growth in high power bipolar semiconductor demand and the increased substitution of IGBT technology in traditionally conventional high power semiconductor applications.

- Approximately 50% of the energy consumed globally is used to power motor drives. We believe that increased demand for high power semiconductor reliability, efficiency and performance in motor control applications will cause a shift from conventional high power semiconductors towards the use of more efficient IGBTs.
- Zero emission and hybrid electric automobile motor drives will provide IGBT technology with a potentially huge market opportunity.
- The anticipated increases in demand for electricity in developed countries and the inability to store electricity for future use will drive demand for transmission and distribution (“T&D”) infrastructure and distributed energy resources to satisfy peak electricity demand requirements. Given the significant issues regarding the ability of current transmission and distribution networks to meet the requirements of burgeoning electricity demand, there will be a clear need for more substantial T&D infrastructure and distributed energy resources, resulting in increased demand for high power semiconductors as a core component of such infrastructure.
- The demand for power semiconductors will be driven by requirements for ultraclean, stable and reliable electricity, largely for use by the digital economy and other industrial processes. Called “high nines” reliability, this type of power is available at least 99.999% of the time, and is expensive to supply through electricity grids, which typically provide power with 99.9% reliability. High nines reliability power supplied by uninterruptible power supplies, usually located on the customer’s side of the distribution system, are prodigious users of high power semiconductors. The recovery in this market will be tied to capital expenditure in factory refurbishments, which are at an all time low. The latest figures from the US DoE indicate that as the spend in capital expenditure improves there will be a corresponding increase in the spend in power quality systems.
- Global environmental legislation such as those contemplated at Kyoto, along with government incentives will continue to spur the development and implementation of clean power projects based on renewable sources of energy such as wind and solar. Dynex’s technology is perfectly suited to these types of projects, therefore implying an increase in demand commensurate with the growth in renewable energy projects.

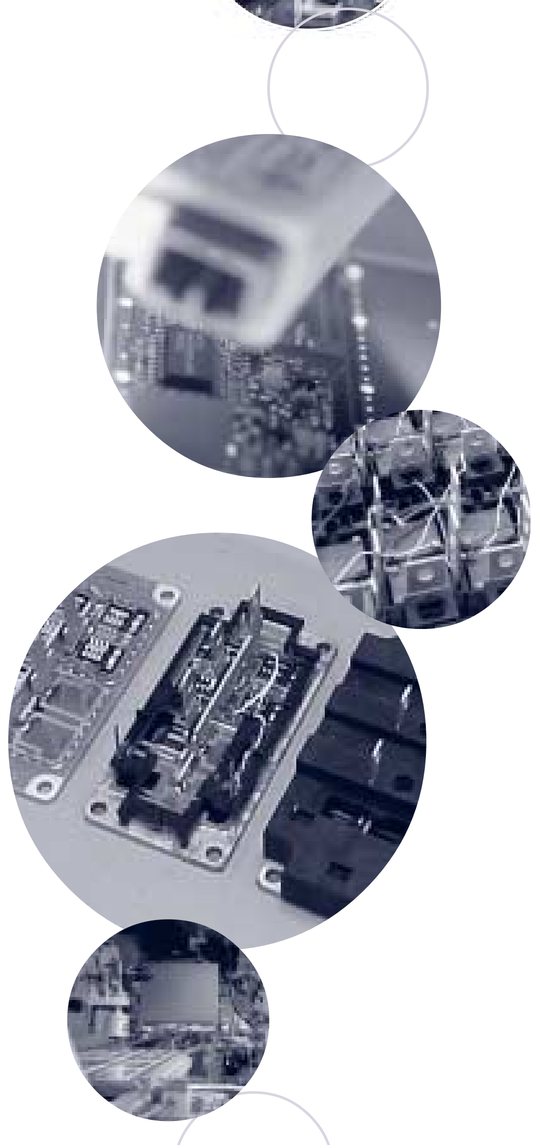
Research and Development

Dr Paul Taylor
Chief Technology Officer

The power semiconductor research and development programmes achieved robust progress along three well-defined product vectors: high voltage thyristors, IGBT die, and power modules. These were assisted by both UK and European grant supported technology development projects and by collaborative initiatives at our partner university research groups. Despite difficult trading conditions we sustained R&D expenditure at $1.5M this year representing 6% of power sales revenue and compared to $1.57M for the previous year. These funds were used to support the following programs.

- Consolidation and simplification of a new high-voltage converter thyristor manufacturing process. Several trial lots were run through the manufacturing facilities to confirm the process consistency and yield, and to validate compatibility with the latest design rules for thyristors. The results demonstrated both improved technical performance and reduced costs over current production processes. Application to specific products has begun and first commercial products will be released to the market in summer 2003.
- Re-design of our core non-punch through (NPT) IGBT products, the subsequent release of a new NPT 1,200V IGBT range in Q2 2002, and further improvements to stabilise and cost reduce the 3,300V NPT products. This has led to the availability of a full range of industry standard NPT IGBT module types over the range 1,200V to 3,300V.
- Under the European Commission funded “HIPO” programme (High Integration Levels in Power Electronics) we have completed preliminary design work on a 6,500V Soft Punch Through (SPT) die set, and demonstrated technical performance in line with global state of the art. A prototype high-voltage package was also designed for the 6,500V IGBT products in anticipation of full product development in 2003
- We have progressed into the second year of the Fan Shaft Driven Generator Project (FSDG) being supported by the British Department of Trade and Industry. Work in 2002 for this aerospace application was concentrated on designing and developing a customised 1200V IGBT module pair with integrated cooling, this will lead to completion and supply of prototypes early in 2003.
- We completed a research programme using facilities at the Los Alamos National Labs in the USA, and partly supported by the FSDG project, to assess the radiation resistance of IGBT and diode modules to cosmic rays. This is particularly important for high altitude “electric” aircraft, but is also relevant to high voltage terrestrial installations. The knowledge gained from this programme is now being applied to improve the reliability and robustness of our IGBT and diode products.
- The growing interest in our customer base for custom specific modules led us to develop our applications and design support capabilities. In particular we can now offer advanced IGBT circuit modelling in the module design process. We provided several customers with high quality technical responses to their custom module requirements and this is leading to a growing business in this area. One example is the development of a bi-directional IGBT module for a matrix converter application.
- Following our successful progress within the European Programme HIPO, Dynex was invited to join a

Research and Development



new consortium working on 3.3kV silicon power devices. This new European Programme ESCAPEE (Establish Silicon Carbide Applications for Power Electronics in Europe) aims to develop 3.3kV Power MOSFET and Schottky Diode technology from silicon carbide. The ESCAPEE project is a 36-month collaboration that commenced in April 2002. The total research contract is worth approximately $5.6 million with funding of approximately $3.5 million being shared among the four commercial partners and the research institutions involved.

- Later in the year, and as a partner in ESCAPEE, Dynex was asked to participate in a much larger European group to prepare a research submission, under the new Framework 6, to work on packaging and integration aspects of silicon carbide. Outcome of this proposal will be known in Q3 2003.
- We continued to benefit from excellent support from our University partners. The research at Cambridge University was maintained during 2002, with greater focus on the application design aspects of IGBT products, such as resonant converters and in collaboration with Toronto University on device circuit modelling.

Looking forward to 2003 we will introduce a new range of IGBT module products at 1,200V and 1,700V offering the latest soft punch through (SPT) and trench gate technology (TGT), giving faster switching, high power, and lower losses. At 3,300V we will introduce SPT with the benefits of lower losses and higher reliability and further develop our 6,500V products to release a range of modules. Following the positive customer reaction to our custom-specific module designs we will continue to offer our full range of IGBT products in both standard and custom module solutions, and progress our custom and integrated heat sink technologies. A range of 6.5kV and 8.5kV thyristors will be released using the new high performance aluminium implant thyristor process, and we will move to replace our existing converter thyristor range with product using the latest design rules. A range of 100mm high power diode products will also be released to satisfy market requirements. We will continue to accept subcontract work for the design and development of specialised electrically and light fired fast turn-on thyristors for pulsed power and other novel emerging power conversion technologies.

Our close working relationships with university research groups, and the benefits gained through both UK and European collaborative programmes will be developed to enhance our technology base in alignment with our key product development vectors of high voltage thyristors, IGBT die, and power modules.

From the Sensors group there has been focus on recent upgrades to the car alarms ensuring we stay technologically ahead of the competition. We have also started delivery of the new ship side crane navigation and collision avoidance systems. These new products permit the safe use of very large overhead cranes that load shipping containers onto container ships. We continue to develop new applications for our radar technologies and we will see customer wins for new applications this coming year.

Dr Paul D. Taylor
Chief Technology Officer

Management Discussion and Analysis

Bernard Gallagher
Chief Finance Officer

The following discussion and analysis should be read in conjunction with the audited Consolidated Financial Statements and Notes of the Corporation for the twelve-month period ended 31 December 2002.

Overview

Dynex Power Inc. ("DPI") reported an operating loss of $30,000 after taking a charge of $502,000 for one-off financial restructuring costs. During 2002 the company was focused on exploiting revenue opportunities while making reductions in operating costs.

A comparison of revenues by product group is shown below.

The most significant drop was the 23% reduction in power semiconductor sales during the year. Cost control measures improved gross profit margins from $1.897 million in 2001 to $8.564 million in 2002 despite the revenue reduction. Costs were trimmed in every area except in Research and Development where a commitment to new product development was maintained.

Results of Operations

The Consolidated Statements of Dynex Power Inc. for the year ended 31st December 2002 include the results of Dynex Semiconductor Ltd. ("DSL"), a UK based wholly owned subsidiary of DPI and Dynex SARL, a France based wholly owned subsidiary of DSL. Revenues for FY2002 were $38.4 million compared with $43.9 million for FY2001. Comparison of revenues by product group is shown below.

Power semiconductors revenues dropped to FY2000 levels and 23% below those achieved in 2001. Market conditions were poor and the lack of liquidity severely impacted the ability to win new business. Dynex's inability to invest in sufficient inventory led to a loss of opportunity sales.

Revenues for sensors at $7.35 million were in line with expectations and 6.5% above 2001 levels.

Integrated Circuits revenues at $6.0 million were slightly ahead of expectations and well ahead of those achieved in 2001.

Revenues

Revenues for the year were $38.4 million compared to $43.9 million in 2001. The reduction reflected the severe contraction in Dynex's power semiconductor markets.

Gross Profit Margins

Despite the $5 million reduction in revenues, gross profit margins increased to 22.3% in 2002 from 4.3% in 2001. The increase was due cost controls.

General & Administration

General and administration costs were reduced in 2002 to $4.7 million from $5.4 million in 2001. G&A remained 12.3 % of revenue in 2001 and 2002.

Revenues $000s	**2002**	**2001**	**% Change**
Power Semiconductors	24,996	32,338	–22.80%
Sensors	7,351	6,902	6.51%
Integrated Circuits	6,048	4,702	28.63%
Total Corporation	**38,365**	43,492	–11.79%

Management Discussion and Analysis

However, in 2002 there were one-time charges of $502,000 in financial re-structuring costs and $253,000 in a non-cash charge for shares issued to employees in exchange for the reduction by employees of their salary levels for 90 days ($600,000 in redundancy costs in 2001). When these one-time charges are excluded from G&A, expenditures in 2002 reduced by 18% from 2001 levels.

Sales & Marketing

Sales and marketing costs for 2002 of $1.9 million (4.9% of revenues) showed a marked reduction from $3.1 million (7% of revenues) in 2001, an overall reduction of 39%. Among the measures taken to reduce costs was the closure of the Paris office and reduced publicity expenditure.

Research & Development

Even though liquidity was constrained, R&D increased to $2.0 million (5.1% of revenues) in 2002 from $1.9 million (4.3% of revenues) in 2001. Accelerating the income from granted projects mitigated the net increase. Liquidity constraints resulted in the late introduction of new products into the markets.

Interest & Other Income

Available cash was used to reduce short-term debt. Therefore insignificant interest income is received. Interest expense of $900,000 for 2002 ($1.3 million in 2001) is included in the general and administration expense.

Foreign Exchange Gain

The majority of costs are incurred in sterling while revenues are received in US dollars, Sterling and Euros. Dynex did not use hedging as an instrument during 2002 but monitors the possible need. In 2002, there was a net foreign currency gain of $471,000.

Earnings Before Income Taxes

Net earnings for 2002 of $455,000 is a significant improvement over the $8.2 million loss reported for 2001. The improvement resulted from the increase in gross margins and the reductions in sales and marketing and general and administration expenses.

Liquidity & Capital Resources

Cash generated by the business during 2002 together with $546,500 cash proceeds from the issue of shares enabled the following:-

- Reduction of the short-term debt of the Corporation by $3 million to $5.8million at year-end.
- Reduction of long-term debt by $1.8 million to $4.5 million at year-end.
- Increase in the cash position from $0.5 million at January 1st 2002 to $1.1 million at year-end.

During March 2003 Dynex completed the sale and lease back of the Lincoln, UK facility which improved liquidity.

Dynex's policy is not to pay dividends to the common shareholders due to the requirement for capital investment. This policy is unlikely to be changed in the near future.

Risk Management

Dynex's success is dependent upon its key personnel, particularly the highly skilled engineering staff and its ability to both motivate and retain such staff. To enhance the reward system, a universal stock option plan was implemented in 2001 and profit sharing will be implemented when earnings allow.

In order to maximize shareholder value, the relatively low level of capacity utilization must improve and the break-even point reduced further through strict cash management.

Management Discussion and Analysis

During 2003 the company will continue to pursue organic growth which will afford Dynex some operating leverage benefits due to its reduced overhead expenses.

As Dynex's international revenues increase, its exposure to currency fluctuations will increase. This may necessitate currency hedging.

The company operates in a competitive marketplace with many competitors having advantages of size and economies of scale. For Dynex as relatively small company it is important that competitively priced technologically advanced products are developed as current technology becomes outdated.

Despite Dynex's efforts to protect its proprietary rights, unauthorized parties may attempt to copy aspects of the Company's products or to obtain and use information that Dynex regards as proprietary.

Due to its relative size, Dynex also has to optimize its cash in periods of growth.

Outlook

Dynex's markets gradually improved in 2002. Management believes that the gradual improvement will continue through 2003. With improved liquidity, management believes Dynex will recapture some of its lost market share, particularly as it releases new products.

The key objectives for 2003 remain as:-

- Make further reductions in operating costs of the business to maintain price competitiveness,
- Continue product development programs to increase market share and therefore increase sales revenues, and
- Continue to pursue partnership and / or acquisition opportunities to further increase capacity utilisation.

The combination of a reduced fixed cost base with increased sales will further increase net earnings and shareholder value.

Bernard Gallagher
Chief Financial Officer.

Management's Responsibility for Financial Reporting and Auditors' Report

Management's Responsibility for Financial Reporting

Management is responsible for the preparation and integrity of the financial statements as well as the information contained in this report. The following financial statements of Dynex have been prepared in accordance with Canadian generally accepted accounting principles which involve management's best estimates and judgments based on available information.

Dynex's accounting procedures and related systems of internal control are designed to provide reasonable assurance that its assets are safeguarded and its financial records are reliable. In recognizing that the Company is responsible for both the integrity and objectivity of the financial statements, management is satisfied that the financial statements have been prepared according to and within reasonable limits of materiality and that the financial information throughout this report is consistent with these.

The Corporation has an Audit Committee and a Compensation Committee, made up of outside directors that was set up after the Annual General Meeting in June 2002.

The Committees meet periodically with management, as well as the external auditors, to discuss internal controls over the financial reporting process, auditing matters and financial reporting issues, to satisfy itself that each party is properly discharging its responsibilities in accordance with Dynex's rules of Corporate Governance, and to review the annual report, the consolidated financial statements and the external auditors' report. The Committees report their findings to the Board for consideration when approving salaries, benefits and the consolidated financial statements for issuance to the shareholders. The Audit Committee also recommends to the Board and the shareholders, the engagement or reappointment of the external auditors.

Deloitte & Touche LLP, Chartered Accountants, serve as Dynex's auditors. The Board of Directors, along with the management team, have reviewed and approved the financial statements and information contained within this report. Deloitte & Touche LLP's report on the accompanying financial statements follows. Their report outlines the extent of their examination as well as an opinion on the statements.

Michael A. LeGoff
President and Chief Executive Officer

Bernard Gallagher
Chief Financial Officer

Auditors' Report

To the Shareholders of Dynex Power Inc.

We have audited the consolidated balance sheets of Dynex Power Inc. as at December 31, 2002 and 2001 and the consolidated statements of earnings and deficit and of cash flows for each of the years then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2002 and 2001 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Signed by Deloitte & Touche LLP
Chartered Accountants
Ottawa, Ontario

February 28, 2003, except Note 19
which is as at March 25, 2003

Consolidated Balance Sheets

		December 31, 2002		December 31, 2001
CURRENT ASSETS				
Cash and cash equivalents	**$**	**1,127,035**	$	528,939
Accounts receivable		**7,665,930**		9,328,775
Inventories (Note 3)		**8,168,645**		10,606,415
Due from shareholders (Note 4)		**28,171**		58,082
Prepaid expenses and deposits		**371,069**		672,096
		17,360,850		21,194,307
CAPITAL ASSETS (Note 5)		**7,029,837**		7,152,840
	$	**24,390,687**	$	28,347,147
CURRENT LIABILITIES				
Accounts payable and accrued liabilities	**$**	**9,700,257**	$	10,822,546
Short-term loan (Note 6)		**5,840,027**		8,575,145
Current portion of long-term debt (Note 7)		**2,012,757**		1,592,140
		17,553,041		20,989,831
LONG-TERM DEBT (Note 7)		**2,538,484**		4,134,946
FUTURE INCOME TAXES		**467,342**		427,630
		20,558,867		25,552,407
CONTINGENCIES (Note 16)				
SHAREHOLDERS' EQUITY				
Share capital (Note 8)		**9,359,870**		8,462,885
Deficit		**(4,567,860)**		(5,015,980)
Cumulative translation adjustment		**(960,190)**		(652,165)
		3,831,820		2,794,740
	$	**24,390,687**	$	28,347,147

APPROVED BY THE BOARD

_______________________, Director

Michael LeGoff

_______________________, Director

Deborah Weinstein

Consolidated Statements of Earnings and Retained Earnings
Years ended December 31, 2002, 2001

	2002	2001
Revenue	**$ 38,365,066**	$ 43,941,563
Cost of sales	**29,801,226**	42,045,041
Gross margin	**8,563,840**	1,896,522
Expenses		
General and administration	**4,730,970**	5,403,845
Sales and marketing	**1,894,769**	3,074,169
Research and development	**1,968,317**	1,906,084
	8,594,056	10,384,098
Loss before undernoted items	**(30,216)**	(8,487,576)
Other income		
Interest and other income	**14,357**	53,315
Foreign exchange gain	**471,150**	262,225
	485,507	315,540
Earnings (loss) before income taxes	**455,291**	(8,172,036)
(Provision for) recovery of income taxes (Note 9)		
Current	**153,333**	567,922
Future	**(160,504)**	303,779
	(7,171)	871,701
NET EARNINGS (LOSS)	**448,120**	(7,300,335)
RETAINED EARNINGS (DEFICIT), BEGINNING OF YEAR	**(5,015,980)**	2,284,355
DEFICIT END OF YEAR	**$ (4,567,860)**	$ (5,015,980)
Earnings per share (Note 12)		
Basic earnings (loss) per share	**$ 0.03**	$ (0.52)
Weighted average number of shares outstanding	**17,836,483**	14,120,250
Fully diluted earnings (loss) per share	**$ 0.02**	$ (0.52)

Consolidated Statements of Cash Flows
Years ended December 31, 2002, 2001

	2002	2001
NET INFLOW (OUTFLOW) OF CASH RELATED TO THE FOLLOWING ACTIVITIES:		
OPERATING		
Net earnings (loss)	**$ 448,120**	$ (7,300,335)
Items not affecting cash		
Amortization	**726,334**	749,984
Loss on disposal of capital assets	**10,191**	75,426
Future income taxes	**(742)**	288,929
Shares issued for services	**75,000**	-
Write-off of due from shareholder	**58,082**	-
Shares issued to employees for services	**252,985**	-
Changes in non-cash operating working capital items (Note 11)	**3,949,355**	2,517,002
	5,519,325	(3,668,994)
FINANCING		
Shares and special warrants issued for cash	**546,500**	1,461,452
(Decrease) increase in due from shareholders	**(28,171)**	39,391
(Decrease) increase in short-term loan	**(3,036,331)**	418,399
Decrease in long-term debt	**(1,842,562)**	(1,561,927)
	(4,360,564)	357,315
INVESTING		
Proceeds from disposal of capital assets	**25,276**	-
Purchase of capital assets	**-**	(297,431)
	25,276	(297,431)
NET INCREASE (DECREASE) IN CASH POSITION	**1,184,037**	(3,609,110)
Effect on foreign currency translation on cash flow	**(585,941)**	(223,004)
CASH POSITION, BEGINNING OF YEAR	**528,939**	4,361,053
CASH POSITION, END OF YEAR	**$ 1,127,035**	$ 528,939
Supplementary Information:		
Interest paid in the year	**$ 936,965**	$ 1,329,506
Income taxes paid in the year	**-**	-

Notes to the Consolidated Financial Statements
Years ended December 31, 2002, 2001

1. Decription of Business

Dynex Power Inc. (the "Corporation") was incorporated under the Canada Business Corporations Act on February 11, 1998 under the name DPI Technologies Inc. On May 28, 1999, the Corporation amalgamated with GLG Dynex Power Inc. and changed its name to Dynex Power Inc. The Corporation is engaged in the design and manufacture of industrial power equipment.

2. Summary of Significant Accounting Policies

Basis of consolidation

The consolidated financial statements include the accounts of the Corporation and its wholly-owned subsidiary, Dynex Semiconductor Limited.

Inventories

Raw materials and work in process are valued at the lower of cost and replacement cost, and finished goods at the lower of cost and net realizable value. Raw materials are valued at standard cost that accurately reflects their purchase cost. Work in process and finished goods are valued at the standard cost of direct material and labour plus overheads based on a normal level of activity. Inventory is fully provided for if raw materials or finished goods have not moved in six months and if work in progress has not moved in three months.

Capital assets

Capital assets are recorded at cost. Amortization is calculated using the straight-line method over the anticipated useful lives of the assets as follows:

Buildings	50 years
Equipment	3-8 years

Maintenance Capital Expenditure is expensed in the Statement of Earnings and Retained Earnings.

Revenue recognition

The Corporation recognizes product revenue from sales to end-customers at the time of shipment and when all significant contractual obligations, including customer acceptance, have been satisfied and collection is reasonably assured. The Company's sales to distribution partners are recognized at the time of shipment to the distributor when all contractual obligations have been satisfied and collection is reasonably assured. Any potential for warranty claims is provided for at the time of sale, based on warranty terms and prior claims experience.

Foreign currency translation

Prior to 2001, the wholly owned subsidiary Dynex Semiconductor Limited, was considered to be an integrated subsidiary and the accounts in foreign currency were translated into Canadian dollars using the temporal method of foreign currency translation. Under this method, monetary assets and liabilities are translated at the rate of exchange in effect at year-end. Non-monetary items are translated at rates in effect on the dates of the transactions. Revenues and expenses are translated at rates in effect during the year, except for amortization, which is translated at the same rate as the asset to which it is related. Gains and losses from translation are included in earnings in the year in which they occur.

During 2001 Canadian currency loans made from Dynex Power Inc. to Dynex Semiconductor Limited were re-designated to be denominated in £ sterling. Dynex Semiconductor Limited is no longer exposed to exchange rate changes between the Canadian dollar and the £ sterling on these loans. In addition, it meets all other criteria for classification as a self-sustaining subsidiary. The Corporation therefore changed its method of accounting for the foreign currency translation of Dynex Semiconductor Limited to the current rate method. Under this method, assets and liabilities are translated at the exchange rate in effect as of the balance sheet date and income and expense items are translated at the average exchange rate for the year. Net unrealized exchange adjustments arising on translation of foreign currency are included in shareholders' equity as cumulative translation adjustment.

Use of accounting estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires the Corporation's management to make 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 revenues and expenses during the reporting years presented. Actual results could differ from the estimates made by management.

Research and development costs
Research costs are expensed as incurred. Expenditures for research and development equipment are capitalized. Development costs are expensed as incurred unless they meet the criteria for deferral in accordance with generally accepted accounting principles. To date, no development costs have been deferred.

Income taxes
The Corporation and its subsidiaries account for income taxes using the liability method. Under this method, current income taxes are recognized for estimated income taxes payable for the current year. Future income tax assets and liabilities are recognized for temporary differences between the tax and accounting basis of assets and liabilities and for the benefits of tax losses available to be carried forward to future years if these are more likely than not to be realized.

Cash and cash equivalents
Cash and cash equivalents include investments that have terms of three months or less at the time of acquisition. Cash equivalents consist primarily of term deposits. The carrying amounts of cash and cash equivalents are stated at cost plus accrued interest, which approximates their fair market value.

Stock-based compensation
The Corporation follows the CICA Handbook Section 3870 "Stock-Based Compensation and Other Stock-Based Payments" which establishes standards for the recognition, measurement and disclosure of stock-based compensation. Under this section, stock-based compensation should be recognized on a fair value basis for stock-based payments to non-employees and to employee awards that are direct awards of stock. The section permits the Corporation to continue its existing policy that no compensation expense is recorded on the grant of stock options to employees. Consideration paid by employees on the exercise of stock options is recorded as share capital. The section requires additional disclosures for options granted to employees, including disclosure of pro forma earnings and pro forma earnings per share as if the fair value based accounting method had been used to account for employee stock options, see Note 8.

3. Inventories

	2002	2001
Raw materials	**$ 2,601,796**	$ 3,993,581
Work in progress	**4,223,986**	5,392,147
Finished goods	**1,342,863**	1,220,687
	$ 8,168,645	$ 10,606,415

Inventory is presented net of a provision of $12,357,127 (2001 - $12,003,974).

4. Due from Shareholders

Amounts due from Michael LeGoff bear a nominal interest and are expected to be repaid in 2003. $58,082 was written off as uncollectible during fiscal 2002.

5. Capital Assets

	2002			2001
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Land	**$ 524,306**	**$ -**	**$ 524,306**	$ 478,932
Buildings	**3,650,915**	**313,734**	**3,337,181**	3,142,814
Equipment	**4,821,878**	**1,653,528**	**3,168,350**	3,531,094
	$ 8,997,099	**$ 1,967,262**	**$ 7,029,837**	$ 7,152,840

Notes to the Consolidated Financial Statements
Years ended December 31, 2002, 2001

6. Short-term Loan

The Corporation has a long-term credit facility (as described in Note 7), a short term loan and an inventory loan with GMAC Commercial Finance Limited .

The loans are secured by a first charge on all capital assets, inventory, cash and cash equivalents and accounts receivable.

At December 31, 2002, the short-term loan had a balance of $4,588,042 (2001 - $6,948,016). The short-term loan is repayable on demand with interest at a rate of 2% above the Lloyds Bank TSB Plc's base rate and an administrative charge of 0.45% and is secured by accounts receivable.

At December 31, 2002, the inventory loan had a balance of $1,251,985 (2001 - $1,627,129). The inventory loan is repayable on demand with interest payable monthly at the rate of 2.25% per annum above the Lloyds TSB Bank Plc's base rate and is secured by inventory.

7. Long-term Debt

Long-term debt outstanding

		2002		2001
GMAC Commercial Credit Limited facility	$	**4,463,534**	$	5,577,999
Small business loan, payable in monthly instalments of $3,964 plus interest at prime plus 2 3/4%, due May 24, 2003 and secured under a general security agreement		**43,607**		99,107
Loan payable in monthly instalments of $1,470 to August 2004, bearing interest at 13.7%, and secured under a general security agreement		**44,100**		49,980
		4,551,241		5,727,086
Current portion		**2,012,757**		1,592,140
	$	**2,538,484**	$	4,134,946

GMAC Commercial Credit Limited

The GMAC Commercial Credit Limited facility consists of a property loan repayable in monthly payments of £31,898 (principal and interest) at the rate of 2.25% above the Lloyds TSB Bank Plc's (the "bank") base rate, due January, 2007; and a plant and machinery loan repayable in monthly payments of £41,779 (principal and interest) at the rate of 12.0% per annum above the bank's base rate. In the event the Corporation is in default on the loans, interest is charged at the above rates plus 2.0% (the "default interest rate"). The property and plant and machinery loans are secured by a general security agreement. The loans were repaid subsequent to year-end (Note 19).

Principal payments

Principal payments required in each of the next four fiscal years are:

2003	**$**	**2,012,757**
2004		**820,520**
2005		**876,539**
2006		**841,425**
	$	**4,551,241**

Bank covenants

At December 31, 2002 and 2001, Dynex Semiconductor Ltd. was in breach of its earnings covenant with GMAC. The Corporation has received a waiver of this covenant violation provided that (a) no other covenants are violated and (b) the Corporation pays interest at the default interest rate.

For the year ended 2001, the Corporation was in default of the financial covenants governing the small business loan.

8. Share Capital

Authorized:

An unlimited number of common shares.
An unlimited number of preferred shares issuable in series.

Issued:

The Corporation's issued and outstanding share capital is as follows:

		2002	2001
Common shares	- amount	**$ 8,909,870**	$ 8,012,885
	- number	**18,814,551**	16,157,568
Special warrants	- amount	**$ 450,000**	$ 450,000
	- number	**1,000,000**	1,000,000

There are no issued and outstanding preferred shares.

Common share and special warrant transactions

During 2002, the Corporation issued 1,460,000 common shares in exchange for cash consideration of $545,000; 210,000 shares in exchange for services provided, valued at the fair value of the services received of $75,000; 936,983 shares to employees, valued at the fair value of shares on the date shares were authorized for issuance of $252,985; 45,000 shares to directors in payment of fees of $22,500 accrued during fiscal 2001 and 5,000 shares on exercise of options for cash consideration of $1,500.

In December 2001, the CDNX authorized the issue of 6,666,667 shares at an issue price of $0.45. 2,154,558 common shares and 1,000,000 special warrants were issued at $0.45 under a private placement to board members, insiders and employees and the cash was received by the Corporation during December 2001. Total proceeds, net of $20,000 legal expense, were $1,419,551. The special warrants are exercisable into one common share of the Corporation for no additional consideration.

The Corporation issued 2,750,000 special warrants on December 15, 2000 at a price of $2.00 / warrant. Each warrant entitled the holder to one common share of the Corporation. The Corporation also issued to the Agent 192,500 compensation options, each of which entitles the Agent to purchase one common share at a price of $2.00 at any time prior to December 31, 2002. These special warrants and compensation options expired on December 31, 2002 unexercised.

The Corporation issued 1,666,667 special warrants (the "first unit") on February 24, 2000 at a price of $0.60 per warrant. The warrants entitled the holder to 1.1 common share of the Corporation for no additional consideration and 0.55 of a purchase warrant. Each whole purchase warrant entitled the holder to acquire one common share at a price of $2.95. These special and purchase warrants expired unexercised during fiscal 2002. 83,334 compensation warrants, which were exchangeable into one first unit at a price of $2.95 per unit, expired during fiscal 2002 unexercised.

41,666 broker warrants, which were exchangeable into one common share and one half-broker warrant, expired unexercised during fiscal 2002. Each whole broker warrant was exercisable into one common share at $2.95 per warrant.

Stock option plan

A total of 2,650,000 (2001 - 2,200,000) of the common shares of the Corporation outstanding from time to time are reserved for the issuance of stock options pursuant to the Corporation's stock option plan. Generally, options granted under the plan vest evenly over a three-year period commencing one year from the date of grant and expire five years from the date of the grant. Options are not assignable.

Stock options activity summarized below:

	Number of Options	Weighted Average Exercise Price
Outstanding at December 31, 2000	956,000	$ 0.42
Granted	653,000	$ 1.92
Exercised	(173,000)	$ 0.21
Cancelled	(134,000)	$ 0.87
Outstanding at December 31, 2001	1,302,000	$ 1.15
Granted	400,000	$ 0.50
Exercised	(5,000)	$ 0.30
Cancelled	(56,000)	$ 1.50
Outstanding at December 31, 2002	**1,641,000**	**$ 0.99**

The weighted average remaining life of the outstanding options is 2.6 years.

As at December 31, 2002, there are 729,001 options exercisable.

At December 31, 2002, the following stock options are outstanding:

	Number of Options	Exercise Price	Grant Date	Expiry Date
Officers	122,000	$ 0.30	June 2, 1999	June 2, 2004
	260,000	$ 0.60	January 19, 2000	January 19, 2005
	121,500	$ 2.00	January 1, 2001	January 1, 2005
Directors who are not officers	50,000	$ 0.20	August 21, 1998	August 21, 2003
	50,000	$ 0.30	June 2, 1999	June 2, 2004
	100,000	$ 1.59	June 6, 2001	June 6, 2006
	400,000	$ 0.50	January 1, 2002	January 1, 2007
All other employees	56,000	$ 0.30	June 2, 1999	June 2, 2004
	130,000	$ 0.60	January 19, 2000	January 19, 2005
	351,500	$ 2.00	January 1, 2001	January 1, 2006

Stock-based compensation

The Black-Scholes model used by the Corporation to calculate option values, as well as other currently accepted option valuation models, were developed to estimate the fair value of freely tradable, fully transferable options without vesting restrictions, which significantly differ from the Corporation's stock option awards. This model requires subjective assumptions, including future stock price volatility and expected time until exercise, which affect the calculated values. Accordingly, management believes that this model does not necessarily provide a reliable single measure of the fair value of the Corporation's stock option awards.

The CICA Handbook Section 3870 requires the disclosure of pro forma net income as if the Corporation had accounted for its stock options issued subsequent to January 1, 2002 using a fair value method. If the Corporation had determined stock-based compensation expense based on the fair value at the date of grant of the stock options, under CICA Handbook Section 3870, net earnings and earnings per share would reflect the pro forma amounts indicated in the following table:

Net earnings, as reported	**$**	**448,120**
Pro forma net earnings		**448,120**
Earnings per share, as reported	**$**	**0.03**
Pro forma earnings per share	**$**	**0.03**
Weighted average common shares and warrants outstanding at December 31, 2002		**17,836,483**

During fiscal 2002, 400,000 options were granted to the Chairman of the Board of Directors to compensate for services to be performed in assisting the management of the Corporation. The options expire in five years, and vest over three years commencing January 1, 2003. The fair market value of these options has been determined using the Black-Scholes model based on the fair value of the common shares at December 31, 2002. The amount of stock-based compensation expense for the current fiscal year is not material. The following assumptions were used: five-year live, interest rate of 4%, volatility of 199%, no dividends and fair value of common shares of $0.25 per share.

9. Income Taxes

The following are components of the income tax expense (recovery) for the fiscal year ended:

		2002		2001
Current	$	**(153,333)**	$	(567,922)
Future		**160,504**		(303,779)
	$	**7,171**	$	(871,701)

The provision for income taxes reported differs from the amount computed by applying the Canadian statutory rate to earnings before income taxes for the following reasons:

		2002		2001
Earnings (loss) before income taxes	$	**455,291**	$	(8,172,036)
Expected tax provision (recovery)		**175,833**		(3,407,739)
Increase (decrease) resulting from:				
Prior year losses utilized		**(160,350)**		-
Other		**24,319**		-
Unrecorded benefit of tax loss		**-**		1,438,967
Foreign tax differential		**(32,631)**		1,097,071
Reported income tax provision (recovery)	$	**7,171**	$	(871,701)

Future income taxes consist of the following temporary differences:

		2002		2001
Differences between tax and book value of capital assets	$	**746,030**	$	711,761
Loss carryforwards		**(223,916)**		(383,195)
Differences between tax and accounting value of provisions		**(69,982)**		99,064
	$	**452,132**	$	427,630

The Canadian statutory tax rate of 38.6% (2001 - 41.7%) is comprised of Federal income tax at approximately 26.1% (2001 - 28.1%) and Provincial income tax at approximately 12.5% (2001 - 13.6%). The United Kingdom statutory rate is 30% (2001 - 30%).

As at December 31, 2002, the Corporation has undeducted research and development expenditures of approximately $43,000 which are available without expiry to reduce future years' Canadian Federal and Provincial taxable income.

As at December 31, 2002, the Corporation also has Canadian tax loss carry forwards available to reduce future years' income for tax purposes. These loss carry forwards expire as follows:

Year of expiry	Provincial	Federal
2003	$ 551,000	$ 468,000
2004	160,000	160,000
2005	2,000	2,000
2006	521,000	521,000
2007	424,000	424,000
2008	427,000	427,000

As at December 31, 2002, the Corporation has United Kingdom tax loss carry forward of $768,000 available to reduce future years' income for tax purposes. These tax loss carry forwards have no expiry date.

The potential future income tax benefits related to the above items have not been recorded in the financial statements.

10. Commitments

Minimum operating lease commitments over the next three years are as follows:

2003	$ 145,000
2004	13,000
2005	1,500
	$ 159,500

These lease commitments are separate and distinct from those detailed in Note 19 regarding the Subsequent Events of the sale and lease back of the assets in Lincoln, England

11. Changes in Non-cash Operating Working Capital Items

	2002	2001
Accounts receivable	$ 2,363,414	$ 2,862,902
Refundable investment tax credits	-	23,688
Inventories	3,195,210	929,028
Prepaid expenses and deposits	336,108	(369,927)
Accounts payable and accrued liabilities	(1,945,377)	243,458
Income tax payable	-	(1,172,147)
	$ 3,949,355	$ 2,517,002

12. Earnings (Loss) Per Share and Diluted Earnings (Loss)

During fiscal 2001, the Corporation adopted the recommendations of the Canadian Institute of Chartered Accountants Handbook, section 3500, earnings per share.

For the year ended December 31, 2002, the antidilutive effect excluded from the diluted net loss per share computation due to options to purchase common shares was 963,000 (2001 - 1,303,335), due to special warrants to purchase common shares was NIL (2001 - 916,667) and due to broker warrants and compensation options to purchase common shares was NIL (2001 - 442,500).

	2002	2001
Net earnings (loss) available to common shareholders	**$ 448,120**	$ (7,300,335)
Basic weighted average common shares and warrants outstanding	**17,836,483**	14,120,250
Basic net earnings (loss) per share	**$ 0.03**	$ (0.52)
Diluted:		
Basic weighted average common shares and warrants outstanding	**17,836,483**	14,120,250
Net effect of dilutive options using the treasury stock method	**130,848**	-
Net effect of dilutive broker warrants and compensation options using the treasury stock method	**n/a**	-
Sub-total	**130,848**	-
Diluted weighted average common stock outstanding	**17,967,331**	14,120,250
Diluted net earnings (loss) per share	**$ 0.02**	$ (0.52)

13. Economic Significance

For the year ended December 31, 2002, the Corporation had no (2001 - one) customer that represented more than 10% (2001 - 10%) of total revenue.

14. Financial Instruments

There is financial risk to the Corporation's earnings that arises from fluctuations in foreign exchange rates, and the degree of volatility of these rates. The Corporation has not used derivative instruments to hedge its exposure to foreign currency risk. The exposure to foreign currency risk is primarily limited to that of the United States Dollar, the United Kingdom Pound and the Euro.

In addition, the Corporation is exposed to credit risk from customers. The Corporation's business is mostly with large corporations and governments. The Corporation has credit evaluation, approval and monitoring processes intended to mitigate potential credit risk.

The carrying amounts for cash and cash equivalents, accounts receivable, due from shareholders, accounts payable, and short-term loan approximate fair market value because of the short maturity of these instruments.

The fair value of long-term debt is determined by discounting future cash flows using rates that reflect those that the Corporation could currently obtain, on the market, for loans with similar terms, conditions and maturities. The carrying value amount of all financial instruments was similar to fair values.

15. Business Segment Information

Business area

The business operates in three distinct customer areas - Power (design and manufacture of power semiconductors), Sensors (microwave and millimetre wave board level products for automotive applications) and Integrated Circuits. The customers serviced by these business areas require different marketing strategies but the product manufacturing is supported by common infrastructure at the Corporation's Lincoln, UK facility. As of December 31, 2002 the Corporation does not segregate assets or other balance sheet accounts by business area nor does the Corporation measure operating profits by these areas. The Corporation evaluates performance and allocates resources based on revenue by business area.

Geographic area

The destination of sale (the location of the customer) of revenues and the location of tangible assets determine the geographic areas.

		2002		2001
Revenue:				
Business segment				
Power	$	**24,966,518**	$	32,337,721
Sensors		**7,350,789**		6,901,938
Integrated Circuits		**6,047,759**		4,701,904
	$	**38,365,066**		43,941,563
Geographic area				
Europe	$	**24,762,247**	$	30,629,195
North America		**10,594,323**		10,412,525
Far East and other		**3,008,496**		2,899,843
	$	**38,365,066**	$	43,941,563

Capital assets

Geographic area				
Europe	$	**7,027,246**	$	7,114,144
North America		**2,591**		38,696
	$	**7,029,837**	$	7,152,840

16. Contingencies

An action against the Corporation has been commenced in the Italian courts by a former supplier claiming breach of contract and claiming damages of $125,000 U.S.. The Corporation is defending the action and believes there is a reasonable prospect of a settlement of this matter that will not have a material adverse effect on the operating results and financial condition of the Corporation. However, the outcome is not determinable at this time.

During 2002, the Corporation engaged the services of a consultant to assist with the financial restructuring of the Corporation. The terms of the consultancy agreement provide for a success fee payable in the event of a re-financing package being implemented as a result of this exercise. At year-end it is deemed that such an outcome is unlikely and therefore no provision has been created in the books of account.

An action against the Corporation was commenced by a former consultant of the Corporation in the Ontario Superior Court of Justice on February 4, 2002 for payment of $321,000 CDN in respect of claimed outstanding payments. The Corporation has defended this action and believes there is a reasonable prospect of a settlement of this matter that will not have a material adverse effect on the operating results and financial condition of the Corporation. However, the outcome is not determinable at this time.

In certain events, the Corporation may be required to pay a success fee to GMAC equivalent to 12.5% of the fair value of the Corporation. The Corporation has accrued the estimated amount of this liability, however, the ultimate liability may exceed the amount accrued.

17. Pension Plan

The Corporation incurred expenses of $ 621,493 (2001 - $729,278) with respect to a defined contribution pension plan in place at Dynex Semiconductor Limited. The Corporation instigated a six-month suspension of contributions into this plan, commencing November, 2001. The Corporation's stated intention is to reimburse the contribution shortfall after the six-month period, based on its financial position. At December 31, 2002, 6 months (2001 - 2 months) expense had been accrued.

18. Related Party Transactions

The Corporation incurred expenses of $90,000 (2001 - $22,500) with respect to fees payable to directors. As at December 31, 2002, $90,000 is payable to directors (2001-$22,500) (Note 8). The dir ector fees are recorded at negotiated amounts.

19. Subsequent Events

On February 14 and 20, the Corporation received loans of $300,000 and $200,000, respectively, from a director of the Corporation. The loans bear interest at a rate of 4% per annum compounded monthly and are payable on December 30, 2003. The Corporation granted warrants to acquire 275,000 and 183,333 common shares at a price of $0.30 per share in conjunction with these loans.

On March 19, 2003, the Corporation received a loan of £500,000 to finance working capital from a non-related party. The loan bears interest at 10% per annum compounded monthly and is payable on earlier of April 2, 2004 and the sale on all or substantially all assets of the Corporation. In the event of sale and leaseback of Lincoln UK facilities, 50% of outstanding balance is repayable at option of the lender. The Corporation granted a warrant to acquire up to 1,333,333 common shares at a price of $0.24 per share. The loan is guaranteed by an officer and a director of the Corporation.

On March 19, 2003, the Corporation received a loan of £100,000 from a director of the Corporation with the same terms as the non-related party loan. A warrant to acquire 266,667 common shares at an exercise price of $0.24 was granted.

On March 25, 2003, the Corporation disposed of its land and buildings for cash consideration of £3.5 million to a third party. The site consists of land, a factory building and an office building. The Corporation simultaneously entered into a 25-year lease agreement with the purchasers to lease back the factory at a rent of £240,000 a year. Dynex offices were relocated into the factory at the time of the transaction. The purchaser has contributed £250,000 towards moving costs.

The funds raised through this disposal have been used to repay the GMAC commercial credit limited facility and it is the intention to repay loans of £600,000 provided to the Corporation on March 19, 2003. The balance of the proceeds will be used to finance working capital.

Shareholder and Corporate Information

Board of Directors

David F. Banks
Chairman

Michael A. LeGoff †
Director, President & CEO

Bernard Gallagher
Director, VP Finance & CFO

Debbie Weinstein *†
Director & Company Secretary

Richard Bertrand *
Director

Richard Carl †
Director

Keith Ralls *†
Director

* Members of Audit Committee
† Members of Compensation Committee, with CEO as a non-voting member.

Senior Officers, VPs and Senior Managers

Michael A. LeGoff
President & CEO

Bernard Gallagher
VP Finance & CFO

Dr. Paul D. Taylor
VP Technology & CTO

Trevor Marsh
VP Manufacturing Bipolar

Bill McGhie
VP Manufacturing IGBT

Brian Boomer
VP Sales & Marketing

Neil McDonnell
Manager Sensors Product Group

Trevor Boulding
Human Resources Manager

Stock Exchange Listing
Toronto Ventures Exchange
Symbol: DNX

Auditors
Canada – Deloitte & Touche LLP
UK – Deloitte & Touche LLP

Legal Counsel
LaBarge Weinstein LLP, Ottawa, Ontario

Transfer Agent
Computershare Trust Company of Canada

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