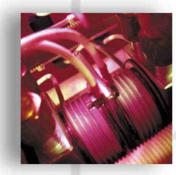
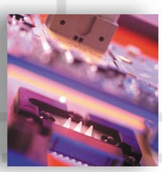
Dynex Power Inc.

Report for the Quarter ended March 31st 2002





DYNEX

empowering your mind

Dear Shareholder,

The objective for your company's first quarter was a continuation of the strategic repositioning and restructuring we commenced in the fourth quarter of last year. My primary objective in the first quarter was to further tighten our costs and concentrate on exploiting every revenue opportunity we found. The sharp decline in the technology sector in 2001 reinforced our move to quickly bring a much tighter focus to the products and markets where we are strongest and globally competitive. First quarter revenues of $8.65 million were down 19% from the same quarter in 2001 and 18% down from the previous quarter underlining the overall market weakness. Notwithstanding the sluggish market and a decline in revenue, we exceeded our forecasted EBITDA even including restructuring charges of $248,000 and a non-cash net foreign exchange loss of $109,000. We are restructuring the business into a robust stand-alone power semiconductor manufacturer.

Cost cutting measures and tight liquidity control implemented this quarter have been effective, reducing operating costs by 39% from the same period last year. Gross margins were 12.7% well above the 2001 reported gross margins of 4.3% as production costs were down 21.8% and indirect operating costs were 11% below forecast levels. However, gross profit margins and fixed overheads still need more improvement and I intend to take further action.

Despite the cost cutting we have not lost our focus. We continue to invest in our research and development programmes to develop devices to meet the demands for more reliable and efficient use of electricity. The new 1200V IGBT modules and the prototype development of the IGBT module with Ballard Drives for their electric vehicles have been completed.

We continued to implement our plan for the financial restructuring of the business. This included the issuance of 5 million shares at $0.45, significant cost reductions and the term-out of $1.65 million in unsecured debtor payments from many of our suppliers. We also completed a private placement of 1.5 million shares at $0.65 in May 2002 raising an additional $975,000 from employees and current shareholders.

During this quarter we secured a _2.6 million order from Alstom Transport for the supply of mission critical power semiconductors in support of Alstom's rail traction business including those for the TGVs (high-speed trains) as well as customised devices for maintenance requirements. This was an inflection point for the Company in the quarter and provided a much-needed boost to our order book.

With costs now under control our next big challenge is to capitalise on our current order book over the course of this year. I am pleased to note that revenues from high power IGBT modules, the focus of our business, are up 43% from the same period last year. Our particular niche market area of high power semiconductors for the power transmission and distribution, urban rail and fast rail equipment and alternative energy generation sectors is expected to grow somewhere near 7% overall this year. The indication is that most of that growth will occur in the end of the third quarter and fourth quarter of 2002. We should be well positioned to take advantage of the market growth at that time and in the future years ahead.

In summary, we are returning Dynex to profitability with our strategy to re-focus and financially restructure the business. 2002 will continue to be a difficult year. The market recovery, we expect, will only improve late in the third or even into the fourth quarter.

Once again I want to thank the Dynex employees for the support and dedication shown during a very difficult first quarter made even more difficult with a 20% pay cut. Our employees made the decisive difference in our successful passage through the most difficult time our industry has ever faced. As we push forward I know that we will be able to count on their continued hard work and support throughout the year to achieve even better results.

Sincerely yours,

Michael A. LeGoff
President and Chief Executive Officer
May 25th, 2001

Management Discussion & Analysis

The following discussion and analysis should be read in conjunction with the unaudited Consolidated Financial statements for the Corporation for the quarter ended 31st March, 2002.

This quarterly report may contain certain forward looking statements that involve a number of risks and uncertainties, including statements regarding the outlook for the Company's business and results of operation. 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 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.

Overview

Revenues for the quarter of $8.6 million show a reduction of 18% from the same period in FY01, due primarily to the low level of order intake that continued in the wake of September 11th. In order to mitigate the low level of revenue, the Corporation adopted serious cost saving measures which included :-

i. As discussed in the annual report, the entire workforce agreed to a 20% salary reduction for the quarter. This short-term measure, agreed to with a majority vote of 85% is a clear demonstration of the belief of the workforce in the growth strategy for the balance of 2002.
ii. Thirty-one direct operators, with less than two years service, were released during March with marginal severance liability.
iii. A full review of all shift working was undertaken and all non-essential shift working curtailed, yielding significant shift premium savings.

The above measures, together with stringent controls on all expenditure have further reduced the company break-even point, positioning the Company to return to profitability during the second half of 2002.

Results of Operation

Revenues for the first quarter of fiscal 2002 were $8.6 million compared with $10.6 million for the same period in 2001. The reduction in revenues was attributable to the low levels of orders received subsequent to the events of September 11th. Orders received during November and December indicate a return to more normal levels and are reflected in an increased order book for quarter 2. The reported loss, before taxes of $849,000 is reconciled to a normalised EBITDA with the following adjustments:-

i. Restructuring charges of $248,000.
ii. Amortisation (non-cash) of $186,000.
iii. Foreign exchange, non cash loss on re-statement of the inter company loans of $169,000. (Note The transactional cash impact of foreign exchange movements was profitable for the period)
iv. Interest charges of $251,000

The Company therefore had a normalised positive EBITDA result for the quarter, in line with market and internal forecast expectations.

Sales

Sales for the quarter were $8.6 million compared with $10.6 million for the same period in 2001.

Gross Margin

Gross margins, impacted by the low level of sales and therefore reduced fixed overhead recovery were 12% of revenues compared with 11.5% for the same period in 2001. The fact that gross margins have been maintained despite a revenue reduction of 20%+ is a reflection of the significant reduction of the company break-even level.

General & Administration

General and administrative costs were12.3% of revenues including $248,000 of restructuring charges and $251K of interest charges.

Sales and marketing

Sales and marketing costs were $366,000 or 4.2% of revenues compared with costs of $785,000 or 7.4% for the same period in 2001.

Research and Development

Net research and development costs were $343,000 or 4% of revenues compared with $479,000 or 4.5% for the same period in 2001. The reduction is as a result of increases in grant income and funded development rather than any reduction in research and development activity. R& D has been protected from expenditure savings in order to underpin product enhancement activities.

Foreign Exchange Gain

The majority of the costs are incurred in Sterling while revenues are received in US dollars, Sterling and Euros. The Company has not used hedging as an instrument but constantly monitors the possible need. The strength of Sterling relative to internal plans is reflected in the transactional gain in the period of $57,000. The restatement of the inter-company loans, a non- cash adjustment does however result in a net impact of $112,000 reported in the earnings statement.

Earnings before Income Taxes

Actions taken during the past 8 months have enabled the Company to reduce its' break-even level to an extent that a positive EBITDA performance was achieved despite revenues having been reduced by 19% from the same quarter in 2001. Given the strength of the order book for Q2, satisfying orders during this period will deliver positive net earnings.

Outlook

Dynex continues to pursue its primary aim of profitable growth in the core business of power semiconductors. Cost saving actions during the past quarter positions the company to deliver positive earnings at significantly reduced revenue levels. Given the better tone of the order book, Dynex is well positioned to deliver positive earnings from Q2.

Bernard Gallagher
Chief Financial Officer

Consolidated Financial Statements
(unaudited)

DYNEX POWER INC.

Quarter ended March 31st, 2002

DYNEX POWER INC. CONSOLIDATED GROUP
Consolidated Statement of Profit and Loss (Unaudited)
Quarter Ended March 31st, 2002

	3 months March 31st 2002	3 months Mar 31st 2001
Revenue	**8,646,082**	10,643,983
Cost of sales	**7,611,217**	9,416,405
Gross margin	**1,034,865**	1,227,578
Expenses		
General and administration	**1,066,022**	1,628,544
Sales and marketing	**366,163**	785,367
Research and development	**342,709**	478,895
	1,774,894	2,892,806
Earnings (loss) before undernoted items	**(740,029)**	**(1,665,228)**
Other income (expenses)		
Interest and other income	**2,902**	34,953
Foreign exchange gain (loss)	**(111,846)**	(147,931)
	(108,944)	(112,978)
Earnings (loss) before income taxes	**(848,973)**	(1,778,206)
Provisions for income taxes	**6,912**	-
NET EARNINGS (LOSS)	**(855,885)**	(1,778,206)
RETAINED EARNINGS (DEFICIT), BEGINNING OF YEAR	**(5,015,980)**	2,284,355
RETAINED EARNINGS (DEFICIT),END OF YEAR	**(5,871,865)**	506,149
Earnings per share		
Basic	($0.05)	($0.13)
Fully diluted	($0.05)	($0.11)
Weighted average number of shares		
Basic	**16,157,568**	13,807,343
Fully diluted	**16,157,568**	16,669,677

DYNEX POWER INC. CONSOLIDATED GROUP
Consolidated Balance Sheet (Unaudited)
Quarter Ended March 31st, 2002

	Mar 31st 2002	Mar 31st 2001
CURRENT ASSETS		
Cash and cash equivalents	**1,087,479**	908,843
Short term investments	**-**	15,000
Accounts receivable	**6,521,424**	11,346,352
Refundable investment tax credits	**-**	23,688
Inventories	**9,332,318**	12,217,743
Due from shareholders	**53,910**	120,000
Prepaid expenses and deposits	**550,892**	288,349
	17,546,023	24,919,975
CAPITAL ASSETS	**6,788,440**	7,673,802
	24,334,463	32,593,777
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	**11,348,537**	8,050,779
Income tax payable	**6,901**	1,183,047
Short-term loan	**5,345,696**	7,644,819
Current portion of long-term debt	**1,595,543**	1,376,085
	18,296,677	18,254,730
LONG-TERM DEBT	**3,593,717**	5,244,108
DUE TO RELATED PARTIES	**-**	22,527
FUTURE INCOME TAXES	**416,880**	123,754
	22,307,274	23,645,119
CONTINGENCY	**-**	1,410,375
SHAREHOLDERS' EQUITY		
Share Capital	**8,462,885**	7,032,134
Retained earnings (deficit)	**(5,871,865)**	506,149
Cumulative translation adjustment	**(563,831)**	**-**
	2,027,189	7,538,283
	24,334,463	32,593,777

DYNEX POWER INC. CONSOLIDATED GROUP
Consolidated Statement of Cash Flow (Unaudited)
Quarter Ended March 31st, 2002

	3 months Mar 31st 2002	3 months Mar 31st 2001
OPERATIONS		
Net earnings (loss)	**(855,885)**	(1,778,206)
Items not affecting cash		
Amortization	**186,451**	300,806
(Gain)/loss on disposal of capital assets	**(7,435)**	-
Future income taxes	**-**	-
Changes in non-cash operating working capital	**4,504,462**	(1,188,555)
	3,827,593	(2,665,955)
FINANCING		
Shares and special warrants issued for cash	**-**	30,701
(Increase) decrease in due from shareholder	**4,172**	-
Increase (decrease) in short-term debt	**(2,987,282)**	(381,222)
Increase (decrease) in long-term debt	**(441,278)**	(319,049)
	(3,424,388)	(669,570)
INVESTMENTS		
(Purchase) disposal of capital assets	**7,474**	(101,685)
	7,474	(101,685)
Foreign exchange movements	**147,861**	-
INCREASE (DECREASE) IN CASH POSITION	**558,540**	(3,437,210)
Cash (Bank Indebtedness) at start of period	**528,939**	4,361,053
CASH (BANK INDEBTEDNESS) AT END OF PERIOD	**1,087,479**	923,843

Supplementary Information:		
Interest paid	**251,008**	358,536
Income taxes paid during year	**-**	-

1. DESCRIPTION OF BUSINESS AND ACQUISITION OF BUSINESS UNIT

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.

On January 19, 2000, the Corporation acquired the Lincoln Business Unit of Mitel Semiconductor Limited ("Mitel") for $11,870,115 (U.K. £5 million) through its newly formed subsidiary Dynex Semiconductor Limited. Acquisition costs of $3,858,000 were incurred as a result of acquisition and related integration plans. The acquisition has been accounted for using the purchase method under Canadian generally accepted accounting principles.

The assets acquired from Mitel consisted of inventory and capital assets with book values at December 31, 1999 of $13,145,000 and $13,633,000 respectively. No other assets or liabilities were acquired. Due to the excess of the book value of the acquired assets over the purchase price, the inventory and capital assets were recorded at $7,815,470 and $7,912,645 respectively.

Of the acquisition price of U.K. £5 million, U.K. £4 million was discharged by use of a U.K. £10 million facility from GMAC Commercial Credit Limited (see Notes 7 and 8). The balance was funded by a convertible debenture from Mitel. The convertible debenture was fully repaid during December 2000.

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
Leasehold improvements	20% declining-balance

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Translation of foreign currencies

Prior to fiscal 2001, the wholly-owned subsidiary, Dynex Semiconductor Limited, was considered to be an integrated subsidiary and the accounts in foreign currencies 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 assets to which the related. Gains and losses from translation are included in earnings in the year in which they occur.

During fiscal 2001, Canadian currency loans made from Dynex Power Inc. to Dynex Semiconductor Limited were re designated to be dominated in £ sterling. Because Dynex Semiconductor Limited is no longer exposed to exchange rate changes between the Canadian dollar and the £ sterling, and it meets all other Canadian Institute of Chartered Accountants Handbook criteria for classification as a self-sustaining subsidiary, the Company has changed its method of accounting for 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, net of related investment tax credits, 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 Company 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 options

The Corporation has a stock option plan as described in Note 9. No compensation expense is recognized when stock options are issued to employees. Any consideration paid by employees on exercise of stock options or purchase of stock is credited to share capital.

Cash flows

During the year ended December 31, 1999, the Corporation adopted the Canadian Institute of Chartered Accountants new accounting recommendations for cash flow statements. These recommendations have been applied retroactively to all periods reflected. The adoption of the new recommendations has not resulted in any material changes to balances or presentation as shown in previously issued financial statements.

3. INVENTORIES

	March 31, 2002	March 31, 2001
Raw materials	**2,994,066**	3,974,390
Work in progress	**5,331,346**	6,721,429
Finished goods	**1,006,906**	1,521,924
	$ 9,332,318	$ 12,217,743

Inventory is presented net of a provision of $ (11,792,814) [2001 – (12,838,942)].

4. DUE FROM SHAREHOLDERS

The amounts due from shareholders are non-interest bearing and have no fixed terms of repayment.

5. CAPITAL ASSETS

	March 31, 2002			March 31, 2001
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Land	**$ 466,893**	**0**	**466,893**	489,674
Buildings	**3,251,127**	**210,916**	**3,040,211**	3,237,162
Equipment	**4,592,474**	**1,311,137**	**3,281,336**	3,946,966
Leasehold improvements	**0**	**0**	**0**	0
	$ 8,310,494	**1,522,053**	**6,788,440**	$ 7,673,802

6. SHORT TERM LOAN

In connection with the acquisition of the Lincoln Business Unit, the Corporation obtained from GMAC Commercial Credit Limited a long-term credit facility (as described in Note 8), a short term loan and an inventory loan.

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

At March 31, 2002, the short-term loan had a balance of $3,941,880. 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 March 31, 2002, the inventory loan had a balance of $1,403,815. 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

		March 31, 2002	March 31, 2001
GMAC Commercial Credit Limited facility	**$**	**5,061,465**	6,433,066
Small business loan, payable in monthly instalments of $3,964 plus interest at prime plus 2 _%, due May 24, 2003 and secured under a general security agreement		**79,285**	126,857
Loan payable in monthly instalments of $1,470 to August 2004, bearing interest at 13.7%, and secured under a general security agreement		**48,510**	60,270
		5,189,260	6,620,193
Current portion		**1,595,543**	1,376,085
		3,593,717	$5,244,108

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").

7. LONG-TERM DEBT (Continued)

Principal payments

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

2002 (April to December)		**1,181,917**
2003		**1,732,584**
2004		**726,722**
2005		**776,228**
2006		**771,809**
Thereafter		**0**
	$	**5,189,260**

Bank covenants

At March 31,2002, Dynex Semiconductor Ltd. was in breach of its earnings covenant with GMAC.
For the years ended 2001 and 2000, 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:

	March 31, 2002	March 31, 2001
Common shares/ Warrants - amount	**8,912,885**	7,032,134
- number	**17,157,568**	13,807,343

There are no issued and outstanding preferred shares.

Common share and special warrant transactions

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 Company 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.

8. SHARE CAPITAL (Continued)

Dynex Power Inc. issued 2,750,000 special warrants on December 15, 2000 at a price of $2.00/warrant. Total proceeds, net of $426,250 commission expense and $145,000 other expenses, were $4,928,750. Each warrant entitles 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. $2,516,875 of the proceeds were held in escrow at December 31, 2000, until a receipt was received in February 2001 from the Ontario Securities Commission.

Dynex Power Inc. issued 1,666,667 special warrants (the "first units") on February 24, 2000 at a price of $0.60/warrant. Total proceeds, net of $100,000 commission expense and $184,783 of other expenses, were $715,217. Each unit entitles the holder to one common share of the Corporation and one half of one purchase warrant for no additional consideration. Each whole purchase warrant entitles the holder to acquire one common share for a period of two years from February 29, 2000 at a price of $2.95. Because a final receipt for a prospectus was not issued by the Ontario Securities Commission within 120 days of the private placement closing, on or before June 28, 2000 each holder of a Special Warrant became entitled to receive upon exercise of the Special Warrant, 1.1 Common Shares and 0.55 Common Share purchase warrants. A prospectus receipt was issued in the Province of Ontario on October 27, 2000. In addition to the commission expense, the Corporation issued to the agent 166,667 compensation warrants. Each compensation warrant is exercisable without additional compensation into one compensation option. 83,333 compensation options were exchangeable into one first unit at a price of $0.60/unit and were exercised by the agent in fiscal 2000. The remaining 83,334 options are each exchangeable into one first unit at a price of $2.95/unit.

In addition, the Corporation issued 833,334 special warrants on March 3, 2000 at a price of $0.60/warrant. Total proceeds, net of $40,000 commission expense and $2,500 agent legal fees, were $457,500. The special warrants were exercisable into one common share of the Corporation for no additional consideration. During December 2000, all such special warrants were deemed to be exercised into an aggregate of 833,334 Common Shares as a result of the Corporation filing its annual information pursuant to Alberta Securities Commission Rule 45-501. In addition to the commission expense, the Corporation issued to the agent warrants that are exercisable into 83,334 broker warrants for no additional consideration. The first 41,667 broker warrants entitled the agent to purchase one unit (the "second units") consisting of one common share of the Corporation and one half of one warrant ("broker purchase warrant") at an exercise price of $0.60/second unit and have been exercised by the agent subsequent to September 30, 2000. Each whole broker purchase

warrant is exchangeable into a common share of the Corporation at a price of $2.95/warrant. The remaining 41,666 broker warrants entitle the agent to purchase one second unit at a price of $2.95/unit.

On May 28, 1999, the Corporation filed an information circular in connection with the acquisition of all the shares of GLG Dynex Power Inc. ("GLG Dynex"), the amalgamation of the two companies and the change of the Corporation's name from DPI Technologies Inc. to Dynex Power Inc. The Corporation issued 4,000,000 shares to the former owners of the common shares of GLG Dynex.
The amalgamation has been accounted for as though it were a continuity of interests and, accordingly, the Corporation's financial statements have been restated to combine the financial statements of GLG Dynex. The acquisition of GLG Dynex was a non arm's length transaction as certain shareholders, officers and directors of the Corporation were beneficial shareholders of GLG Dynex.

8. SHARE CAPITAL (Continued)

Stock option plan

A total of 1,750,000 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 will expire 5 years from the date of the grant. Options are not assignable.

Stock options activity summarised below:

	Number of Options	Weighted Average Exercise Price
Outstanding at December 31, 1999	625,000	$ 0.24
Granted	450,000	$ 0.60
Exercised	(80,000)	$ 0.21
Canceled	(39,000)	$ 0.30
Outstanding at December 31, 2000	956,000	$ 0.42
Granted	653,000	$ 1.92
Exercised	(173,000)	$ 0.21
Canceled	(134,000)	$ 0.87
Outstanding at December 31, 2001	1,302,000	$ 1.15
Granted	330,000	$ 0.50
Canceled	(7,500)	$ 0.83
Outstanding at March 31, 2002	**1,624,500**	**$ 1.02**

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

	Number of Options	Exercise Price	Grant Date	Expiry Date
Officers	127,000	0.30	Jun 2,1999	Jun 2, 2004
	260,000	0.60	Jan 19, 2000	Jan 19, 2005
	121,500	2.00	Jan 1, 2001	Jan 1, 2006
	330,000	0.50	Jan 1,2002	Jan 1, 2004
Directors who are not officers	50,000	0.20	Aug 21, 1998	Aug 21, 2003
	50,000	0.30	Jun 2, 1999	Jun 2, 2004
New directors	100,000	1.59	Jun 6, 2001	Jun 6, 2006
Employees	56,000	0.30	Jun 2, 1999	Jun 2, 2004
Employees	150,000	0.60	Jan 19, 2000	Jan 19, 2005
Employees	380,000	2.00	Jan 1, 2001	Jan 1, 2006
Total	1,624,500			

9. RESEARCH AND DEVELOPMENT

		March 31, 2002		March 31, 2001
Gross research and development	**$**	**342,709**	$	478,895
Less: Investment tax credits		**0**		0
Net research and development	**$**	**342,709**	$	478,895

10. COMMITMENTS

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

2002	**$**	**262,299**
2003		**43,247**
2004		**11,958**
2005		**680**
2006		**0**
	$	**318,184**

11. CHANGES IN NON-CASH OPERATING WORKING CAPITAL ITEMS

		March 31,2002		March 31, 2001
Accounts receivable	**$**	**2,585,797**	$	543,200
Refundable investment tax credits		**0**		0
Inventories		**1,012,638**		(963,192)
Prepaid expenses and deposits		**105,426**		(9,741)
Accounts payable and accrued liabilities		**793,665**		(766,292)
Income tax payable		**0**		7,470
	$	**4,504,462**	$	(1,188,555)

12. EARNINGS (LOSS) PER SHARE AND FULLY DILUTED EARNINGS (LOSS) PER SHARE

During the current year, the Corporation adopted the recommendations of the Canadian Institute of Chartered Accountants Handbook, section 3500, earnings per share. The recommendations were applied retroactively.

13. ECONOMIC SIGNIFICANCE

For the quarter ended March 31, 2002, the Corporation had no customer that represented more than 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 French Franc. 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, trade receivables and accounts payable approximate fair market value because of the short maturity of these instruments.

15. BUSINESS SEGMENT INFORMATION

Business area

As of January 19, 2000, the business operates in three distinct customer areas - Power (design and manufacture of power semiconductors), Automotive (microwave and millimetre wave board level products for sensor 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 September 30, 2001 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. Prior to the acquisition of the Lincoln Business of Mitel Semiconductor Limited (refer to Note 1), the Corporation operated in one segment in North America.

Geographic area

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

Revenue:			
Business segment	Power	$	**6,055,767**
	Automotive		**1,641,140**
	Integrated Circuits		**949,175**
		$	**8,646,082**
	Europe		**5,582,795**
	North America		**2,514,773**
	Far East and other		**548,514**
		$	**8,646,082**

15. BUSINESS SEGMENT INFORMATION(continued)

Capital Assets

Europe	**$ 6,752,468**
North America	**35,972**
Far East and other	**0**
	$ 6,788,440

16. CONTINGENCIES

The GMAC facility provides for the Corporation to pay a success fee to GMAC on the earliest of: (a) sale of share capital of Dynex Semiconductor Limited; (b) flotation of Dynex Semiconductor Limited stock on any recognized stock exchange; (c) default under the terms of the facility; (d) prepayment of whole facility; (e) January 19, 2005. The fee is calculated at 12.5% of the Fair Price of Dynex Semiconductor Limited as defined in the agreement.

An action against the Corporation was commenced by a former employee of the Corporation in the Ontario Superior Court of Justice on October 6, 2000 for payment of approximately $600,000 and 9.9% of the common shares of the Corporation in respect of employment and incentive compensation arrangements. 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.

17. PENSION PLAN

For the quarter ended March 31, 2002 the Corporation made provision in the accounts for an expense of $149,835 (March 31, 2001: $ 183,477) with respect to a defined contribution pension plan in place at Dynex Semiconductor Ltd.

Shareholder and Corporate Information

Board Of Directors

David F. Banks
Chairman
Michael A. LeGoff
President and Chief Executive Officer
Bernard Gallagher
Director, VP Finance & CFO
Richard Bertrand
Director
Debbie Weinstein
Director & Company Secretary
Keith Ralls
Director
Jack Lawrence
Director

Auditors

Canada Deloitte & Touche
UK Hurst Morrison Thompson

Legal Counsel

LaBarge Weinstein, Ottawa, Ontario

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Corporate Website

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