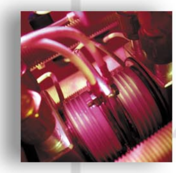
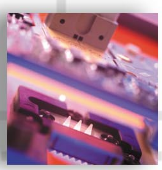
Dynex Power Inc.

Report for the Quarter ended June 30th 2002





empowering your mind

Dear Shareholder,

This quarter has been the first profitable quarter your company has produced in a long time. However, the drama of last year has taught me that we cannot have any illusions about the challenges Dynex faces. Our markets are only gradually improving from the worst period in our industry's history. Power semiconductor demand remains unsettled and the opportunity cycle in the industry's ordering has shortened, favouring companies with stronger liquidity. Our more limited cash position has made it difficult for Dynex to fully exploit any market improvements. The restrictive cash position remains the number one issue for the third quarter and will likely remain the Company's focus for the rest of the year.

Notwithstanding the challenges, the good second quarter result confirms that we are on the right track in lowering the cost of running our business. The improved quarter on quarter result is the consequence of the assiduous application of our original plan to contain costs and tightly manage cash rather than improved market conditions. Operating expenses in the first six months of this year are 43% lower than for the same period last year producing a corresponding improvement in gross margin. The gross margin for the first six months of last year was only 5% and through cost management has grown to 17% for the same period this year and 22% for this the second quarter in 2002.

Revenues of $9.99 million in this quarter were down 12% on the same quarter in 2001, but up 17% over the previous quarter. Earnings before tax for this period were $337,737 or $0.02 per share making a year to date loss of ($511,236) or ($0.03) per share. This quarter we incurred one-off restructuring charges of $130,000 bringing the year to date total to $278,000 as we continued to build enduring competitive advantage and make Dynex stronger.

Looking ahead we see that our key and target markets of electrical power infrastructure manufacturers including power transmission and distribution, alternative energy generation, rail traction and high power specialty motor drives, continue to experience sustained, albeit slow, growth.

The level of interest in our complete product portfolio remains high and we are continuing to build our new customer base. Although our customers do have solid long-term order books, the economic uncertainty is forcing them into erratic purchasing cycles that have made it almost impossible to predict quarter on quarter results.

As reported in the first quarter we continue to invest in our research and development programmes. In May of this year we released a new range of high reliability low-loss 1200-volt IGBT modules suitable for use in the mature industrial motor drives markets. This quarter also saw the release of a range of bi-directional IGBT modules. The bi-directional IGBT modules are unique and have been specifically designed for use in a new generation power control scheme called a matrix converter. Matrix converters are being used in new systems and in new applications for both the power conversion and specialty motor drives markets.

Although Dynex returned to profitability for the quarter, the results for the remainder of the year remain somewhat uncertain. Our markets are not fully recovered and every improvement in financial results will be a challenge. That said, I want to assure you that we regard every revenue opportunity as a struggle we must win. Over the past 12 months we have become tougher and more vigilant to threat and opportunity and in the long run Dynex will be stronger. Our employees have done an astonishing job this year in reducing costs, improving yields and reducing cycle times and we will continue to make progress toward achieving enduring competitive advantage. Additionally, we are committed to diligently pursuing our financial restructuring strategy in order that we will come through this difficult period successfully.

Sincerely yours,

Michael A. LeGoff
President and Chief Executive Officer
August 25th 2002

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 30th June 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 $9.99 million is a reduction of 12% from revenues in quarter 2 2001, but it is an increase of 16% on the previous quarter. There were net earnings for the quarter of $334,000.
Market conditions remain difficult.. Customers are demanding short lead times and only placing short-term orders. The demand for shorter lead times is placing a premium on strategic stocks with opportunity business available to suppliers capable of investing in part finished inventory. Revenues are being missed due to lack of sufficient working capital.

Results of Operation

Revenues for the second quarter of fiscal 2002 were $9.99 million compared with $11.4 million for the same period in 2001 and $8.65 million for the first quarter 2002. Both the revenues and net earnings for the quarter of $334,000 were in line with internal plans and market expectation.

The earnings figure includes the following charges for the quarter: -

i. Interest payments of $217,000
ii. Amortization of $193,000
iii. Foreign exchange, non cash profit on re-statement of the inter company loans of GBP 111,000
iv. Financial restructuring charges of $130,000

The Company reported a normalized EBITDA therefore, slightly ahead of market and internal forecast expectations.

Sales

Sales for the quarter at $9.99 million were $100,000 ahead of internal forecasts made in Q1 and the order book going into Q 3 was in line with the full year forecast. Achievement of Quarter 3 revenue is highly dependent on strict working capital control and the continued ability of raw material suppliers to provide appropriate cycle times in order to fully exploit market opportunities.

Gross Margin

Gross margins of 22% for the Quarter compare with 12% for the previous quarter and 1% negative margins for the same period last year. The major reasons for the improved margins are:

i. Vastly improved material usage both in terms of favorable process yields and in more efficient material usage.
ii. There was a greatly improved mix of product sold during the quarter with relatively high silicon on sapphire sales at higher than average margins.

The significant reduction in the company break even point is reflected in the fact that margins in Q1 2002 are significantly better, at lower volumes, than those reported in Q1, 2001. Furthermore incremental revenues Q2vsQ1 2002 of $1.35 million results in $700,000 incremental margins at current 50% contribution levels.

General & Administration

General and administration costs continue to be reduced in both absolute cost and as a percentage of revenues (10.3% for the Quarter) despite financial restructuring costs ($130,000 or approximately 1.3% of revenues.

Sales and marketing

Sales and marketing costs continue to be below the 5% of revenues target and are reduced from 2001 levels.

Research and Development

Net research and development costs at $398,000 or 4% of revenues compare with $639,000 or 5.6% for the same period in 2001. The reduction is a result not only of maximizing short-term grant income but also controlling external expenditure. Both these actions are short-term measures designed to protect earnings while minimizing the impact on product development activities.

Foreign Exchange Gain

The majority of the Corporation costs are incurred in Sterling with the majority of revenues received in US dollars, Sterling and Euros. The Company has not used hedging as an instrument but constantly monitors the possible need. The weakness of the US Dollar resulted in a transactional loss in the period of $118,000 although year to date there is still a transactional gain. The strength of Sterling resulted in a translational (non-cash) $111,000 gain on the re-statement of the inter-company loans, giving an over all foreign exchange gain of $7,000 for the quarter.

Earnings before Income Taxes

As highlighted in the Q1 report, actions taken to reduce the Company's break- even point have enabled delivery of positive net earnings in Q2 and a normalised EBITDA of $767,000.

Outlook

The market for the Company's products remains very competitive. In such an environment, Dynex must be able to support customers with short lead times and keen prices. Actions taken during the past 12 months have enabled Dynex to reduce its break even level, and vastly streamline the organization. One bi-product of these actions is that improved cycle times are now being achieved in all areas of the manufacturing operation. The lack of adequate working capital is the primary concern of the business. Short term opportunities are being lost because of it and therefore budgeting and financial control is difficult and inefficient.

The forecast for the next six months to the end of FY2002 is unclear. The longer term outlook looks robust with markets recovering and Dynex's cash position improving over time.

Bernard Gallagher
Chief Financial Officer

Consolidated Financial Statements
(unaudited)

DYNEX POWER INC.

Quarter ended June 30th, 2002

DYNEX POWER INC. CONSOLIDATED GROUP
Consolidated Balance Sheet
(Unaudited)
Quarter Ended June 30th, 2002

	June 30th 2002	June 30th 2001
CURRENT ASSETS		
Cash and cash equivalents	**1,055,093**	830,494
Accounts receivable	**7,804,937**	9,211,944
Refundable investment tax credits	**-**	11,517
Inventories	**9,011,801**	13,211,772
Due from shareholders	**57,792**	100,000
Prepaid expenses and deposits	**483,082**	494,475
	18,412,705	23,860,202
CAPITAL ASSETS	**6,706,374**	7,625,079
	25,119,079	31,485,281
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	**11,429,053**	11,296,289
Income tax payable	**(1,568)**	1,126,113
Short-term loan	**5,714,337**	7,148,647
Current portion of long-term debt	**1,649,341**	1,340,146
	18,791,163	20,911,195
LONG-TERM DEBT	**3,316,310**	4,648,009
DUE TO RELATED PARTIES	**-**	22,527
FUTURE INCOME TAXES	**423,855**	117,799
	22,531,328	25,699,530
CONTINGENCY	**-**	1,342,500
SHAREHOLDERS' EQUITY		
Share Capital	**8,755,385**	7,063,334
Retained earnings (deficit)	**(5,537,318)**	(2,620,083)
Cumulative translation adjustment	**(630,316)**	-
	2,587,751	4,443,251
	25,119,079	31,485,281

DYNEX POWER INC. CONSOLIDATED GROUP
Consolidated Statement of Profit and Loss
(Unaudited)
Quarter Ended June 30th, 2002

	3 months June 30th 2002	3 months June 30th 2001	**YTD June 30th 2002**	YTD June 30th 2001
Revenue	**9,993,608**	11,395,072	**18,639,690**	22,039,055
Cost of sales	**7,786,293**	11,516,948	**15,397,510**	20,933,353
Gross margin	**2,207,315**	(121,876)	**3,242,181**	1,105,702
Expenses				
General and administration	**1,028,600**	2,128,165	**2,094,622**	3,756,709
Sales and marketing	**454,057**	814,015	**820,220**	1,599,382
Research and development	**398,061**	638,710	**740,770**	1,117,605
	1,880,718	3,580,890	**3,655,613**	6,473,696
Earnings (loss) before undernoted items	**326,597**	(3,702,766)	**(413,432)**	(5,367,995)
Other income (expenses)				
Interest and other income	**3,897**	8,708	**6,799**	43,660
Foreign exchange gain (loss)	**7,243**	567,826	**(104,602)**	419,895
				-
	11,140	576,534	**(97,804)**	463,556
Earnings (loss) before income taxes	**337,737**	(3,126,232)	**(511,236)**	(4,904,438)
Provisions for income taxes	**3,190**	-	**10,103**	-
NET EARNINGS (LOSS)	**334,547**	(3,126,232)	**(521,338)**	(4,904,438)
RETAINED EARNINGS (DEFICIT), BEGINNING OF PERIOD	**(5,871,865)**	506,149	**(5,015,980)**	2,284,355
RETAINED EARNINGS (DEFICIT) END OF PERIOD	**(5,537,318)**	(2,620,083)	**(5,537,318)**	(2,620,083)
Earnings per share				
Basic	$0.02	($0.22)	($0.03)	($0.35)
Fully diluted	$0.02	($0.19)	($0.03)	($0.29)
Weighted average number of shares				
Basic	**16,232,718**	13,937,260	**16,232,718**	13,937,260
Fully diluted	**20,438,068**	16,671,573	**16,232,718**	16,671,573

DYNEX POWER INC. CONSOLIDATED GROUP
Consolidated Statement of Cash Flow
(Unaudited)
Quarter Ended June 30th, 2002

	3 months June 30th 2002	**YTD June 30th 2002**	3 months June 30th 2001	YTD June 30th 2001
OPERATIONS				
Net earnings (loss)	**334,547**	**(521,338)**	(3,126,232)	(4,904,438)
Items not affecting cash				
Amortization	**192,624**	**379,076**	198,901	499,707
(Gain)/loss on disposal of capital assets	**(0)**	**(7,435)**	(23,294)	(23,294)
Future income taxes	-		-	
Changes in non-cash operating working capital	**(724,730)**	**3,779,733**	4,061,169	2,872,614
	(197,559)	**3,630,036**	1,110,544	(1,555,411)
FINANCING				
Shares and special warrants issued for cash	**292,500**	**292,500**	31,200	61,901
(Increase) decrease in due from shareholder	**(3,882)**	**290**	20,000	20,000
Increase (decrease) in short-term debt	**302,929**	**(2,684,353)**	(532,111)	(913,333)
Increase (decrease) in long-term debt	**(331,845)**	**(773,124)**	(596,099)	(915,147)
	259,702	**(3,164,687)**	(1,077,010)	(1,746,579)
INVESTMENTS				
(Purchase) disposal of capital assets	-	**7,474**	(126,884)	(228,570)
	-	**7,474**	(126,884)	(228,570)
Foreign exchange movements	**(94,529)**	**53,331**	-	-
INCREASE (DECREASE) IN CASH POSITION	**(32,386)**	**526,154**	**(93,350)**	(3,530,560)
Cash (Bank Indebtedness) at start of period	**1,087,479**	**528,939**	923,843	4,361,053
CASH (BANK INDEBTEDNESS) AT END OF PERIOD	**1,055,093**	**1,055,093**	830,493	830,493
Supplementary Information:				
Interest paid	**216,559**	**467,567**	338,351	696,887
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.

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

	June 30th, 2002	June 30th, 2001
Raw materials	**2,816,202**	4,951,838
Work in progress	**4,839,308**	6,817,589
Finished goods	**1,356,290**	1,442,345
	$ 9,011,801	$ 13,211,772

Inventory is presented net of a provision of $ (11,202,636) [2001 – (10,318,186)].

4. DUE FROM SHAREHOLDERS

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

5. CAPITAL ASSETS

	June 30th, 2002			June 30th, 2001
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Land	**$ 474,706**	**0**	**474,706**	489,550
Buildings	**3,305,533**	**238,309**	**3,067,224**	3,211,468
Equipment	**4,616,298**	**1,451,854**	**3,164,444**	3,924,061
Leasehold improvements	**0**	**0**	**0**	0
	$ 8,396,537	**1,690,163**	**6,706,374**	$ 7,625,079

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 June 30th, 2002, the short-term loan had a balance of $4,463,368. 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 June 30th, 2002, the inventory loan had a balance of $1,250,950. 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

		June 30th, 2002	June 30th, 2001
GMAC Commercial Credit Limited facility	**$**	**4,851,219**	5,817,331
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		**67,392**	114,964
Loan payable in monthly installments of $1,470 to August 2004, bearing interest at 13.7%, and secured under a general security agreement		**47,040**	55,860
		4,965,651	5,988,155
Current portion		**1,649,341**	1,340,146
		3,316,310	$4,648,009

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 (July to December)	**818,636**
2003	**1,760,552**
2004	**738,687**
2005	**798,218**
2006	**858,558**
Thereafter	**0**
	$ 4,965,561

Bank covenants

At June 30th ,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:

	June 30, 2002	June 30, 2001
Common shares/ Warrants - amount	**8,755,385**	7,063,334
- number	**17,232,718**	13,937,260

There are no issued and outstanding preferred shares.

Common share and special warrant transactions

In May, 2002, the TSX Venture Exchange authorised the issue of 1,500,000 Common Shares at an issue price of $0.65. 450,000 shares were issued at $0.65 under a private placement with cash received by the Company in 2002. 1,050,000 shares are to be issued as compensation for the loss of salary incurred by employees in Quarter 1 of 2002.

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.

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.

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 2,657,316 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. The increase of 907,316 shares was approved at the Annual General Meeting held June 4th. 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 31st, 2002	1,624,500	$ 1.02
Granted	400,000	**$ 0.50**
Canceled	(36,500)	**$ 1.23**
Outstanding at June 30th, 2002	**1,988,000**	**$ 0.90**

At June 30th, 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
	400,000	0.50	Jan 1, 2002	Jan 2, 2007
New directors	100,000	1.59	Jun 6, 2001	Jun 6, 2006
Employees	56,000	0.30	Jun 2, 1999	Jun 2, 2004
Employees	130,000	0.60	Jan 19, 2000	Jan 19, 2005
Employees	363,500	2.00	Jan 1, 2001	Jan 1, 2006
Total	1,988,000			

9. RESEARCH AND DEVELOPMENT

		June 30, 2002		June 30, 2001
Gross research and development	**$**	**398,061**	$	638,710
Less: Investment tax credits		**0**		0
Net research and development	**$**	**398,061**	$	638,710

10. COMMITMENTS

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

2002	**$**	**78,948**
2003		**43,649**
2004		**12,102**
2005		**680**
2006		**0**
	$	**135,379**

11. CHANGES IN NON-CASH OPERATING WORKING CAPITAL ITEMS

	June 30,2002	June 30, 2001
Accounts receivable	**$ (1,159,111)**	$ 2,134,408
Refundable investment tax credits	**0**	0
Inventories	**470,336**	(994,030)
Prepaid expenses and deposits	**75,929**	(206,125)
Accounts payable and accrued liabilities	**(103,413)**	3,177,636
Income tax payable	**(8,471)**	(62,891)
	$ (724,730)	$ 4,061,169

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 June 30th, 2002, the Corporation had one 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	$	**6,442,355**
	Automotive		**1,767,674**
	Integrated Circuits		**1,783,579**
		$	**9,993,608**
	Europe		**6,200,240**
	North America		**3,221,900**
	Far East and other		**571,468**
		$	**9,993,608**

15. BUSINESS SEGMENT INFORMATION(continued)

Capital Assets

Europe	**$ 6,681686**
North America	**24,688**
Far East and other	**0**
	$ 6,706,374

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 June 30th, 2002 the Corporation made provision in the accounts for an expense of $158,254 (March 31, 2001: $ 186,441) 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 of the Board
Michael A. LeGoff
Director, 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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