

Dynex Power Inc.

Report for the Quarter ended
September 30th 2002



empowering your mind



Dear Shareholder,

The markets in which your company operates remain uncertain. There has been a very gradual improvement over the last 12 months. However, the kinds of decisions I am faced with everyday are in the context of an uncertain, short-term oriented market. We cannot change the market, so, we have had to change the way Dynex operates. The reaction by the management and staff has been positive by successfully responded to the challenge. Cutting costs and chasing elusive orders is not enjoyable, but we have had to do it.

We have again met our performance plans and returned a profit in the third quarter made difficult by a particularly slow July and August.

Even with the improved results and profitability for two quarters our share price remains under pressure. Clearly we do not believe the financial markets reflect our financial achievements. The low level of coverage for our Company in the equity markets has meant there has not been a corresponding strength on the buy-side to offset the natural sell-side pressure in reaction to our industry. During the quarter a new low of \$0.15 was reached at one critical stage. As we reached the end of the quarter it appeared that much of the overhang from the selling institutions had been removed although we are still trading at historic lows.

The results show that before the translational currency gain and other exceptional items we have achieved earnings before tax of \$67,000 on revenues of \$9,977,000. After the translational currency exchange gain, taxes and other exceptional items we reported a quarterly profit of \$345,000, bringing the loss year to date to (\$177,000); 46% better than the loss of (\$329,000) originally forecasted in March of this year. Our year to date revenues are \$28,617,000, which remain 6% behind forecasted revenues of \$30,459,000.

The gross margins were above the forecasted levels and remained at 22% as they were for the previous quarter. Contribution levels were up slightly at 55% of revenues because of the favourable product mix.

As the market gradually improves, we have expanded our focus from cost containment to improving our sales opportunities. We are exerting more pressure on our direct sales team and our reps and distributors to take advantage of opportunities in our chosen industry sectors. Critical longer-term strategy sessions were held at all levels with all our key accounts and distributors and representatives as our customers' markets are also marginally improving. The general sentiment has been that we will be unable to get through these tough markets unless we form stronger relations between suppliers and customers all the way up and down the supply channels.

Heading into the fourth quarter you can expect us to continue to look for ways to improve our gross margins and find ways to increase the utilization of our facilities. We are looking to form strategic relationships with other market sector participants using our facilities to build specialty high power semiconductor products. We will also be leasing available manufacturing and office space in the first half of 2003.

Our employees once again need to be given full credit and our gratitude for the remarkable progress made so far this year. You can expect your company to remain committed to the objectives set at the beginning this year and to be prepared to take advantage of the markets when they do improve.

Sincerely yours,

A handwritten signature in black ink, appearing to read "Michael A. LeGoff".

Michael A. LeGoff
President and Chief Executive Officer
November 20th 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 September 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 \$9.98 million, compares with \$9.9 million for the previous quarter and \$8.6 million for the first quarter of 2003. Revenues for the quarter are 14% lower than the same quarter in 2001. The efforts to reduce costs are reflected in the increase in gross margins from 11.2% in 2001 to 22.5% for the same period in 2002. With further reduction in the areas of sales and marketing, general and administration and research and development protected, the Corporation was able to report net earnings, before income tax of \$0.34 million.

Market conditions remain difficult with customers only providing short-term order cover for product. Not only does this limit visibility of when the market upturn is likely, it also exerts pressure on the manufacturing process to conform to aggressive cycle times required by many customers.

Results of Operation

Revenues for the third quarter of fiscal 2002 were \$9.98 million, compared with \$9.99 million for the previous quarter and \$11.39 million for the same period in 2001. Net earnings before tax at \$0.35 million were slightly ahead of internal plans prepared at the start of the year despite lower than planned revenues. The earnings figure includes the following charges for the quarter :-

- i. Interest payments of \$257,000 (\$780,000 year to date)
- ii. Amortisation of \$189,000 (\$568,000 year to date)
- iii. Foreign exchange, non cash profit on re-statement of the inter company loans of \$338,000 (\$279,000 year to date)
- iv. Financial re-structuring charges of \$119,000 (\$497,000 year to date)

Sales

Sales at \$9.98 million for Q3 were consistent with \$9.99 million achieved in Q2 and \$11.39 million for the same period in 2001.

Gross Margin

Gross margins were 22.5% for the quarter compared with 11.2% for the same period in 2001, despite a reduction in sales of 13%. A combination of the mix of product sold during the quarter, with high levels of silicon-on-sapphire and the reduction in fixed overhead more than compensated for the lower activity level.

General & Administration

General and administration costs at \$1.1 million were 11% of revenues and were lower than the \$1.2 million for the same period in 2001, despite the fact that a charge for financial restructuring costs of \$119,000 is included in this quarter.



Sales and marketing

Sales and marketing costs were \$386,000, or 3.9% of revenues, compared with \$454,000 for the previous quarter and \$692,000 for the same period in 2001.

Research and Development

Net research and development costs were \$756,000, or 7.6% of revenues, compared with \$398,000 in the previous quarter and \$657,000 for the same period in 2001. As stated in previous reports, grants and funded research programs were pulled forward into quarters 1 & 2 to improve cash flow.

Foreign Exchange Gain

The majority of the Corporation costs are incurred in Sterling with the preponderance of revenues invoiced in US dollars, Sterling and Euros. The Company has not used hedging as an instrument, but monitors the possible need. The relative weakness of the Canadian dollar to Sterling resulted in a transactional loss of \$89,000 during the quarter. Re-stating the inter-company loans, a non cash item, favourably impacted the earnings statement by \$428,000, again due to the weakness of the Canadian dollar during the period.

Earnings before Income Taxes

As highlighted in the Q1 and Q2 reports, the significant reduction in costs during the past 18 month has enabled the Company to report positive net earnings before tax on revenues, even with revenues 15% lower when compared with the 2001 year to date figures.

Outlook

Although gradually improving, the market for the Company's products remains very competitive with customers demanding both keen pricing and shortened lead times. Product inquiries, however, have increased during the past quarter. The short term task facing Dynex is to react positively to the shorter lead time customer demands in order that follow on orders can be captured. Constraints on working capital is making it difficult to take full advantage of the opportunities.

The forecast for the next three months remains less certain than the longer term outlook, which appears robust with markets gradually recovering and Dynex's working capital position improving over time.

A handwritten signature in black ink, appearing to read 'Bernard Gallagher'.

Bernard Gallagher
Chief Financial Officer

*Consolidated Financial Statements
(unaudited)*

DYNEX POWER INC.

Quarter ended September 30th, 2002

DYNEX POWER INC. CONSOLIDATED GROUP**Consolidated Balance Sheet (unaudited)****Quarter Ended September 30th, 2002**

	Sept 30th 2002	Sept 30th 2001
CURRENT ASSETS		
Cash and cash equivalents	231,173	1,081,770
Accounts receivable	7,871,058	11,671,904
Refundable investment tax credits	-	-
Inventories	8,768,774	13,383,897
Due from shareholders	57,792	100,000
Prepaid expenses and deposits	508,587	726,117
	17,437,384	26,963,688
CAPITAL ASSETS		
	6,942,739	7,326,987
	24,380,123	34,290,675
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	11,172,607	14,043,446
Income tax payable	(2,434)	1,220,742
Short-term loan	5,183,882	10,412,877
Current portion of long-term debt	1,819,219	1,484,022
	18,173,274	27,161,087
LONG-TERM DEBT	3,035,315	4,630,758
DUE TO RELATED PARTIES	-	22,527
FUTURE INCOME TAXES	452,386	127,697
	21,660,975	31,942,069
CONTINGENCY	-	-
SHAREHOLDERS' EQUITY		
Share Capital	8,779,385	7,063,334
Retained earnings (deficit)	(5,192,756)	(3,487,408)
Cumulative translation adjustment	(867,481)	(1,227,320)
	2,719,148	2,348,606
	24,380,123	34,290,675

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

	3 months Sept 30th 2002	3 months Sept 30th 2001	YTD Sept 30th 2002	YTD Sept 30th 2001
Revenue	9,977,187	11,394,841	28,616,877	33,433,896
Cost of sales	7,735,805	10,107,522	23,133,315	31,040,875
Gross margin	2,241,381	1,287,319	5,483,562	2,393,021
Expenses				
General and administration	1,092,499	1,178,399	3,187,121	4,935,108
Sales and marketing	385,918	692,441	1,206,139	2,291,822
Research and development	755,812	656,930	1,496,582	1,774,536
	2,234,229	2,527,770	5,889,842	9,001,466
Earnings (loss) before undernoted items	7,152	(1,240,451)	(406,280)	(6,608,445)
Other income (expenses)				
Interest and other income	3,401	5,754	10,200	49,415
Foreign exchange gain (loss)	337,261	378,889	232,659	798,784
	340,662	384,643	242,859	848,199
Earnings (loss) before income taxes	347,814	(855,808)	(163,421)	(5,760,246)
Provisions for income taxes	3,253	11,517	13,355	11,517
NET EARNINGS (LOSS)	344,561	(867,325)	(176,776)	(5,771,763)
RETAINED EARNINGS (DEFICIT) BEGINNING OF PERIOD	(5,537,317)	(2,620,083)	(5,015,980)	2,284,355
RETAINED EARNINGS (DEFICIT) END OF PERIOD	(5,192,756)	(3,487,408)	(5,192,756)	(3,487,408)
Earnings per share				
Basic	\$0.02	(\$0.06)	(\$0.01)	(\$0.41)
Fully diluted	\$0.02	(\$0.05)	(\$0.01)	(\$0.35)
Weighted average number of shares				
Basic	16,687,538	13,937,260	16,687,538	13,937,260
Fully diluted	16,687,538	16,671,230	16,687,538	16,671,573

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

	3 months	YTD	3 months	YTD
	Sept 30th	Sept 30th	Sept 30th	Sept 30th
	2002	2002	2001	2001
OPERATIONS				
Net earnings (loss)	344,561	(176,777)	(867,325)	(5,771,763)
<u>Items not affecting cash</u>				
Amortization	189,095	568,170	186,707	686,414
(Gain)/loss on disposal of capital assets	(6,464)	(13,899)	(2,672)	(25,967)
Future income taxes	-			
Changes in non-cash operating working capital	302,029	4,081,762	(868,360)	2,004,256
	829,221	4,459,256	(1,551,650)	(3,107,060)
FINANCING				
Shares and special warrants issued for cash	24,000	316,500		61,901
(Increase) decrease in due from shareholder	-	290		20,000
Increase (decrease) in short-term debt	(838,984)	(3,523,337)	2,578,989	1,665,656
Increase (decrease) in long-term debt	(490,741)	(1,263,864)	(378,911)	(1,294,058)
	(1,305,725)	(4,470,412)	2,200,078	453,499
INVESTMENTS				
(Purchase) disposal of capital assets	27,446	34,920	(39,901)	(268,471)
	27,446	34,920	(39,901)	(268,471)
Foreign exchange movements	(374,862)	(321,530)	(357,251)	(357,251)
INCREASE (DECREASE) IN CASH POSITION	(823,920)	(297,766)	251,276	(3,279,283)
CASH (Bank Indebtedness) at start of period	1,055,093	528,939	830,494	4,361,053
CASH (Bank Indebtedness) at end of period	231,173	231,173	1,081,770	1,081,770
Supplementary Information:				
Interest paid	257,406	724,974	323,993	1,020,880
Income taxes paid during year	-	-	-	-

DYNEX POWER INC.
Notes to the Consolidated Financial Statements
years ended December 31, 2001,2000 and Quarter ended September 30th 2002

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

DYNEX POWER INC.
Notes to the Consolidated Financial Statements
years ended December 31, 2001, 2000 and Quarter ended September 30th, 2002

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.

DYNEX POWER INC.
Notes to the Consolidated Financial Statements
years ended December 31, 2001,2000 and Quarter ended September 30th, 2002

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

	<u>Sept 30th, 2002</u>	<u>Sept 30th, 2001</u>
Raw materials	2,831,270	4,794,382
Work in progress	4,460,426	6,934,272
Finished goods	1,477,078	1,655,243
	<u>\$ 8,768,774</u>	<u>\$ 13,383,897</u>

Inventory is presented net of a provision of \$ (12,037,815) [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

	<u>Sept 30th, 2002</u>			<u>Sept 30th, 2001</u>
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Land	\$ 506,660	0	506,660	480,025
Buildings	3,528,036	279,640	3,248,396	3,124,564
Equipment	4,893,849	1,706,166	3,187,683	3,722,398
Leasehold improvements	0	0	0	0
	<u>\$ 8,928,545</u>	<u>1,985,806</u>	<u>6,942,739</u>	<u>\$ 7,326,987</u>

DYNEX POWER INC.
Notes to the Consolidated Financial Statements
years ended December 31, 2001, 2000 and Quarter ended September 30th, 2002

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 September 30th, 2002, the short-term loan had a balance of \$3,908,468. 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 September 30th, 2002, the inventory loan had a balance of \$1,275,414. 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

	<u>Sept 30th, 2002</u>	<u>Sept 30th, 2001</u>
GMAC Commercial Credit Limited facility	\$ 4,751,994	5,960,259
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	55,500	103,071
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	51,450
	<hr/> 4,854,534	<hr/> 6,114,780
Current portion	<hr/> 1,819,219	<hr/> 1,484,022
	<hr/> 3,035,315	<hr/> \$4,630,758

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").

DYNEX POWER INC.
Notes to the Consolidated Financial Statements
years ended December 31, 2001, 2000 and Quarter ended September 30th, 2002

7. LONG-TERM DEBT (Continued)

Principal payments

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

2002 (October to December)	451,534
2003	1,874,9932
2004	787,617
2005	842,342
2006	898,109
Thereafter	<u>0</u>
	<u>\$ 4,854,534</u>

Bank covenants

At September 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:

	<u>Sept 30, 2002</u>	<u>Sept 30, 2001</u>
Common shares/ Warrants - amount	8,779,385	7,063,334
- number	16,687,538	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.

DYNEX POWER INC.
Notes to the Consolidated Financial Statements
years ended December 31, 2001, 2000 and Quarter ended September 30th, 2002

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.

DYNEX POWER INC.
Notes to the Consolidated Financial Statements
years ended December 31, 2001, 2000 and Quarter ended September 30th,2002

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 <u>Options</u>	Weighted Average <u>Exercise Price</u>
Outstanding at December 31, 1999	625,000	\$ 0.24
Granted	450,000	\$ 0.60
Exercised	(80,000)	\$ 0.21
Canceled	(39,000)	\$ 0.30
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Outstanding at December 31, 2000	956,000	\$ 0.42
Granted	653,000	\$ 1.92
Exercised	(173,000)	\$ 0.21
Canceled	(134,000)	\$ 0.87
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Outstanding at December 31, 2001	1,302,000	\$ 1.15
Granted	730,000	\$ 0.50
Canceled	(43,000)	\$ 0.83
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Outstanding at June 30th, 2002	1,988,000	\$ 0.90
Exercised	(5,000)	\$ 0.30
Canceled	(31,500)	\$ 1.67
Outstanding at September 30th, 2002	1,951,500	\$ 0.90

At September 30th, 2002, the following stock options are outstanding:

	Number of <u>Options</u>	Exercise <u>Price</u>	Grant <u>Date</u>	Expiry <u>Date</u>
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	75,000	1.59	Jun 6, 2001	Jun 6, 2006
Employees	51,000	0.30	Jun 2, 1999	Jun 2, 2004
Employees	130,000	0.60	Jan 19, 2000	Jan 19, 2005
Employees	357,000	2.00	Jan 1, 2001	Jan 1, 2006
Total	1,951,500			

DYNEX POWER INC.
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9. RESEARCH AND DEVELOPMENT

	<u>Sept 30, 2002</u>	<u>Sept 30, 2001</u>
Gross research and development	\$ 755,812	\$ 656,930
Less: Investment tax credits	0	0
Net research and development	<u>\$ 755,812</u>	<u>\$ 656,930</u>

10. COMMITMENTS

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

2002	\$ 44,416
2003	62,587
2004	12,758
2005	680
2006	0
	<u>\$ 120,441</u>

11. CHANGES IN NON-CASH OPERATING WORKING CAPITAL ITEMS

	<u>Sept 30, 2002</u>	<u>Sept 30, 2001</u>
Accounts receivable	\$ 449,628	\$ (1,612,871)
Refundable investment tax credits	0	11,517
Inventories	835,035	553,773
Prepaid expenses and deposits	6,308	(183,802)
Accounts payable and accrued liabilities	(988,195)	363,023
Income tax payable	(747)	0
	<u>\$ (302,029)</u>	<u>\$ (868,360)</u>

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 September 30th, 2002, the Corporation had one customer that represented more than 10% of total revenue.

DYNEX POWER INC.
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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	\$	6,105,181
	Automotive		1,714,987
	Integrated Circuits		<u>2,157,019</u>
		\$	<u>9,977,187</u>
	Europe		65,887,841
	North America		2,720,470
	Far East and other		<u>1,368,876</u>
		\$	<u>9,977,187</u>

DYNEX POWER INC.
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15. BUSINESS SEGMENT INFORMATION(continued)

Capital Assets

Europe	\$ 6,938,1256
North America	4,614
Far East and other	<u>0</u>
	<u>\$ 6,942,739</u>

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 September 30th, 2002 the Corporation made provision in the accounts for an expense of \$172,199 (Sept 30th, 2001: \$ 181,593) 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 and
Chief Financial Officer

Richard Bertrand

Director

Debbie Weinstein

Director & Company Secretary

Keith Ralls

Director

Richard Carl

Director

Auditors

Canada Deloitte & Touche

UK Hurst Morrison Thompson

Legal Counsel

LaBarge Weinstein, Ottawa, Ontario

Dynex Locations

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Corporate Website

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