

Dynex Power Inc.

Report for the quarter ended 31st March 2003





Dear Shareholder,

The seminal event for the quarter was the re-financing through the \$8.4m sale and leaseback transaction completed on 25th March 2003. With these funds we have been able to pay down long-term loans, reduce short-term loans and repay part of the shareholder loans. We have also been able to bring the amounts owing to suppliers back into line with the agreed credit terms. While we have more to do, I believe that we are now better positioned to execute our strategic plans as well as perform profitably for the remainder of the year.

However, revenues for the first quarter were appreciably below the first quarter revenues for 2002 and well below our expectations. The contraction in revenues was due to the severe lack of liquidity. Exacerbating the results were a \$642,111 foreign exchange translation loss and a one-time inventory write-down of \$406,500. Loans of approximately \$1.95 million were arranged in February from members of the Board and a major shareholder to mitigate the cash shortage. Then, as stated previously, the liquidity constraints were eased at the end of March through a sale and leaseback transaction.

Other than the refinancing, we were also able to progress a number of other projects during the quarter:

- Developing a new range of IGBT modules and bipolar products.
- Setting up the new test facility for the Static Compensator Systems. We expect deliveries of sub-systems to begin in Q2. We also anticipate further orders in Q2 for these new power quality sub-systems.
- Achieving the new ISO9001:2000 quality management certification.

Looking ahead, the commercial markets appear to be firming. We are seeing renewed interest for our products from large defence contractors and industrial drives manufacturers. We are also working with one of our key customers on a number of large infrastructure projects. I expect that the improvements in the market will gain momentum and our order book will continue to improve as these larger infrastructure contracts are awarded.

In the coming quarters, we will continue to pursue our plan for the year. We are committed to being a leading supplier of power semiconductors and will improve revenues from this product group. We are investigating opportunities to improve further our manufacturing efficiency and our gross profit margins. We have begun the process of bringing to market a new range of bipolar products, which will include 125mm bipolar devices, and new high energy low loss IGBT modules.

Although the sale and leaseback has improved our immediate cash position, this is by no means a panacea. We will remain focused on improving sales and revenues. To that end we will be exhibiting in May at the PCIM power semiconductor exhibition in Nuremberg, Germany and have hired an additional salesman for the US market.

I also have the pleasure of welcoming Mr. Bob Lockwood to our team as your new Chief Financial Officer and member of the Board of Directors. He was formerly with Coopers & Lybrand, after which he was Group Treasurer for both Rowntree Plc and Pilkington Plc. I hope you will have the opportunity to meet Bob at our AGM on 30th May 2003 in Toronto.

With the sale and leaseback in place our financial situation is significantly improved. The markets are continuing to improve and our order book grew by 15% over this first quarter. I am optimistic about our prospects for the remainder of the year and look forward to reporting improved results in the coming quarters.

Respectfully yours,

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

Michael LeGoff
President and Chief Executive Officer
23rd May 2003



MANAGEMENT DISCUSSION & ANALYSIS

The following discussion and analysis should be read in conjunction with the unaudited Consolidated Financial Statements and Notes for the Corporation for the quarter ended 31st March 2003.

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

Revenue for the quarter of \$5.7m compares with revenue of \$9.7m for the previous quarter and \$8.6m for the corresponding quarter of last year. As a consequence of the decline in revenue, the Group recorded a small loss at the gross margin level of \$0.2m compared to a profit of \$3.1m in the previous quarter and \$1.0m in the corresponding quarter of last year. Overhead expenses of \$1.9m were well below the \$2.7m recorded in the previous quarter but slightly ahead of the \$1.8m for the corresponding quarter of last year. The Group incurred a foreign exchange loss of \$0.6m in the quarter, which resulted in a loss before tax of \$2.7m compared to a profit of \$0.6m in the previous quarter and a loss of \$0.9m in the corresponding quarter of last year. As no significant amounts of tax were payable in respect of any of these periods, the figures were the same for the profits and losses after tax.

Management believes that although the market remains subdued, the first signs of recovery in the demand for the Group's products are beginning to show. There is evidence that several major infrastructure projects in power and transportation, which provide the major demand for the core products and which had been put on hold or delayed in previous periods, may at last be being progressed.

Unfortunately, in the first quarter, the Group was unable to take advantage of firming market demand, particularly in short term orders, due to a severe liquidity shortage and addressing this issue was a major focus of management attention in the first quarter.

Addressing the Shortage of Liquidity

On 25th March 2003 the Group entered into a sale and leaseback relating to the property in Lincoln, England. The factory, office block and surrounding land was sold to a local property company for \$8.4m. At the same time a lease for the factory for a minimum period of 15 years was entered into. Over the next nine months, the offices will be relocated into under-utilised parts of the factory. The sale proceeds were used to reduce the long and short term debt of the Group, to pay trade creditors who had been extending credit beyond their normal terms and to provide additional liquidity so that the Group can respond more easily and more quickly to customer demands. Whilst the completion of the transaction represents a major step in improving the Group's liquidity, further improvements in this area are required if the Group is to be able to meet its full potential and this will be addressed in the second and third quarters.



Revenues

Revenue of \$5.7m in the quarter was disappointing. The principal decline was in power semiconductors where sales fell from \$6.3m in the previous quarter to \$3.5m in the current quarter. The main cause of this decline was our inability to service the short term business. The Group's financial position during the latter part of 2002 and our resulting inability to quote competitive lead times due to raw material shortages hampered the flow of new orders. A more modest decline in integrated circuits saw revenue fall from \$1.2m to \$0.8m. In the sensors business, revenue fell from \$2.2m to \$1.4m. This fall in revenue arose primarily from reduced shipping to a major customer who was seeking to reduce excess stock of parts that had built up at the end of 2002.

Gross Margin

Much attention had been given last year to improving manufacturing efficiency which had resulted in gross margin improving from minus 5% to plus 32% over the course of last year. The shortfall in revenue in the first quarter of this year, however, was such that the improvement was reversed and a small loss of \$225k was incurred at the gross margin level. Nevertheless, the Group remains well placed to benefit from the pick up in sales expected in the coming months.

Overhead Costs

Overhead costs of \$2.0m for the quarter were running 7% below the level of the previous year and 15% lower than during 2001. Nevertheless, the overall level of such costs remains too high for the business to sustain going forward and attention will be given during the remainder of this year to reducing these costs significantly.

General & Administration

General and administration costs at \$ 0.9m were significantly lower than the \$1.5m recorded in the previous quarter. As a proportion of revenue they had risen from 16% to 17%. Improvements in revenue and the actions to reduce overheads referred to above will improve this ratio in future quarters.

Sales and marketing

Sales and marketing costs of \$0.4m were also lower in absolute terms than the figure for the previous quarter of \$0.7m. In both quarters it represented 7% of revenue which was a commendable outcome given the fall in revenue.

Research and Development

Net research and development costs of \$0.5m were in line with the previous quarter but as a result of the shortfall in revenue had risen from 5% to 9% of revenue. The Group remains committed to expenditure on research and development in order to meet customer expectations. Efforts are being made to have customers finance product development projects and to obtain research grants to offset research and development costs.

Foreign Exchange Loss

The major foreign exchange exposure arises from revaluing the loans made by the parent company to Dynex Semiconductors Limited which are denominated in Sterling. A loss of \$736k was made on this revaluation in the quarter compared to a profit of \$236k in the previous quarter. This is a non-cash cost and so it has no impact on the operations of the group. Nevertheless, the exposure gives rise to random and uncontrolled fluctuations in profit and consideration is being given to ways of eliminating such profits and losses in future.



A foreign exchange gain, amounting to \$94k compared to \$7k in the previous quarter, arises from the fact that the Group's costs are predominantly in Sterling whereas sales are made in a variety of currencies including Sterling, US Dollars and Euros. The Group has not used any hedging techniques during the quarter but monitors the need to use such techniques continually.

Earnings before Income Taxes

The Group reported a loss before tax of \$2.7m compared to a profit in the last quarter of \$0.6m and a loss in the corresponding quarter of the previous year of \$0.9m.

Outlook

As has already been noted, the poor results in the first quarter arose almost entirely from the shortfall in sales that resulted from the shortage of liquidity. The sale and leaseback transaction represents the first major step in correcting the shortage of working capital and there should be a recovery in sales starting during the second quarter. Nevertheless, the liquidity shortage has already had an affect on the early part of the second quarter and it may not be until the second half of the year before the business returns to profitability.

A handwritten signature in black ink that reads "Bob Lockwood". The signature is written in a cursive style and is underlined with a single horizontal line.

Bob Lockwood
Chief Financial Officer
23rd May 2003

Consolidated Financial Statements (Unaudited) of

DYNEX POWER INC.

Quarter Ended March 31st, 2003

DYNEX POWER INC.
Consolidated Balance Sheet (Unaudited)
Quarter Ended March 31st, 2003

	Mar 31st 2003	Dec 31st 2002
CURRENT ASSETS		
Cash and cash equivalents	\$ 3,251,983	\$ 1,127,035
Accounts receivable	4,903,742	7,665,930
Inventories	7,789,189	8,168,645
Due from shareholders	28,171	28,171
Prepaid expenses and deposits	623,520	371,069
	16,596,605	17,360,850
CAPITAL ASSETS		
	984,756	7,029,837
	\$ 17,581,361	\$ 24,390,687
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	\$ 8,531,745	\$ 9,700,257
Due to shareholders	1,894,685	-
Short-term loans	2,385,210	5,840,027
Current portion of long-term debt	86,004	2,012,757
Current portion of deferred revenue	178,439	-
	13,076,083	17,553,041
LONG-TERM DEBT	9,136	2,538,484
LONG TERM DEFERRED REVENUE	2,498,150	-
FUTURE TAX PAYABLE	423,516	467,342
	16,006,885	20,558,867
SHAREHOLDERS' EQUITY		
Share Capital	9,449,870	9,359,870
Retained earnings (deficit)	(7,318,948)	(4,567,860)
Cumulative translation adjustment	(556,446)	(960,190)
	1,574,476	3,831,820
	\$ 17,581,361	\$ 24,390,687

DYNEX POWER INC.
Consolidated Statement of Profit and Loss (Unaudited)
Quarter Ended March 31st, 2003

	3 months	3 months
	Mar 31st	Mar 31st
	2003	2002
Revenue	\$ 5,716,996	\$ 8,646,082
Cost of sales	5,941,502	7,611,217
Gross margin	(224,506)	1,034,865
Expenses		
General and administration	949,819	1,066,022
Sales and marketing	399,620	366,163
Research and development	535,835	342,709
	1,885,274	1,774,894
Earnings (loss) before other income (expenses) and income taxes	(2,109,780)	(740,029)
Other income (expenses)		
Interest and other income	4,338	2,902
Foreign exchange gain (loss)	(642,111)	(111,846)
	(637,773)	(108,944)
Earnings (loss) before income taxes	(2,747,553)	(848,973)
Provisions for income taxes	3,535	6,912
NET EARNINGS (LOSS)	(2,751,088)	(855,885)
RETAINED EARNINGS (DEFICIT), BEGINNING OF YEAR	(4,567,860)	(5,015,980)
RETAINED EARNINGS (DEFICIT) END OF YEAR	\$ (7,318,948)	\$ (5,871,865)
Earnings (loss) per share		
Basic	(\$0.15)	(\$0.05)
Fully diluted	(\$0.15)	(\$0.05)
Weighted average number of shares		
Basic	18,933,729	16,157,568
Fully diluted	18,933,729	16,157,568

DYNEX POWER INC.
Consolidated Statement of Cash Flow (Unaudited)
Quarter Ended March 31st, 2003

	3 months	3 months
	Mar 31st	Mar 31st
	2003	2002
OPERATIONS		
Net earnings (loss)	\$ (2,751,088)	\$ (855,885)
<u>Items not affecting cash</u>		
Amortization	91,461	186,451
(Gain)/loss on disposal of capital assets	(4,923)	(7,435)
Shares issued for services	90,000	-
Changes in non-cash operating working capital	1,146,695	4,504,462
	<u>(1,427,855)</u>	<u>3,827,593</u>
FINANCING		
Increase (decrease) in short-term debt	(4,907,429)	4,172
(Increase) decrease in due from shareholder	1,894,685	(2,987,282)
Increase (decrease) in long-term debt	(2,418,971)	(441,278)
	<u>(5,431,715)</u>	<u>(3,424,388)</u>
INVESTMENTS		
Proceeds on disposal of capital assets	8,422,236	7,474
	<u>8,422,236</u>	<u>7,474</u>
Foreign exchange movements	562,282	147,861
INCREASE (DECREASE) IN CASH POSITION	2,124,948	558,540
Cash (Bank Indebtedness) at start of period	1,127,035	528,939
CASH (BANK INDEBTEDNESS) AT END OF PERIOD	<u>\$ 3,251,983</u>	<u>\$ 1,087,479</u>
Supplementary Information:		
Interest paid	\$ 162,223	\$ 251,008
Income taxes paid during year	-	-

DYNEX POWER INC.

Notes to the Consolidated Financial Statements

Quarter ended March 31st, 2003

1. DESCRIPTION OF BUSINESS

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of consolidation

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

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.

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.

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 have not moved in six months and if work in progress or finished goods have 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

DYNEX POWER INC.

Notes to the Consolidated Financial Statements

Quarter ended March 31st, 2003

Deferred Revenue

On March 25th, 2003 the Corporation's subsidiary sold its premises in Lincoln, England to a property company and entered into a contract to lease back the factory for a period of at least 15 years. The profit on the sale of the site, which belongs to the shareholders, has been recorded as a liability on the balance sheet and will be released to the profit and loss account over the next 15 years on a straight line basis, as required by generally accepted accounting principles.

Revenue recognition

The Corporation recognises 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 Corporation's sales to distribution partners are recognised at the time of shipment to the distributor when all contractual obligations have been satisfied and collection is reasonably assured. Any potential for warranty claims is provided for at the time of sale, based on warranty terms and prior claims experience.

Foreign currency translation

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

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

Research and development costs

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

DYNEX POWER INC.
Notes to the Consolidated Financial Statements
Quarter ended March 31st, 2003

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income taxes

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

Stock-based compensation

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

3. INVENTORIES

	<u>Mar 31st, 2003</u>	<u>Dec 31st, 2002</u>
Raw materials	\$ 2,191,865	\$ 2,601,796
Work in progress	4,334,294	4,223,986
Finished goods	1,263,030	1,342,863
	<u>\$ 7,789,189</u>	<u>\$ 8,168,645</u>

Inventory is presented net of a provision of \$11,491,295 (Dec 31st, 2002 - \$12,357,127).

4. DUE FROM SHAREHOLDERS

Amounts due from Michael LeGoff bear a nominal interest rate and are expected to be repaid in 2003.

DYNEX POWER INC.
Notes to the Consolidated Financial Statements
Quarter ended March 31st, 2003

5. CAPITAL ASSETS

	Mar 31st, 2003			Dec 31st, 2002
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Land	\$ -	\$ -	\$ -	\$ 524,306
Buildings	-	-	-	3,337,181
Equipment	1,953,114	968,358	984,756	3,168,350
	\$ 1,953,114	\$ 968,358	\$ 984,756	\$ 7,029,837

On March 25th, 2003 the Corporation disposed of its land and buildings for a cash consideration of £3.5 million to a third party. The site consists of land, a factory building and an office building. The Corporation simultaneously entered into a 25-year lease agreement with the purchasers to lease back the factory. Dynex offices will be relocated into the factory.

6. SHORT-TERM LOAN

The Corporation has a short term loan and an inventory loan with GMAC Commercial Finance Limited.

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

At March 31st, 2003 the short-term loan had a balance of \$1,780,552 (Dec 31st, 2002 - \$4,588,042). 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 31st, 2003 the inventory loan had a balance of \$604,658 (Dec 31st, 2002 - \$1,251,985). 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

	Mar 31st, 2003	Dec 31st, 2002
GMAC Commercial Finance Limited facility	\$ 20,796	\$ 4,463,534
Small business loan, repayable on or before May 24th, 2003 and secured under a general security Agreement	31,714	43,607
Loan payable in monthly instalments of \$1,470 to August 2004, bearing interest at 13.7%, and secured under a general security agreement	42,630	44,100
	95,140	4,551,241
Current portion	86,004	2,012,757
	\$ 9,136	\$ 2,538,484

DYNEX POWER INC.
Notes to the Consolidated Financial Statements
Quarter ended March 31st, 2003

Principal payments

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

(April to December) 2003	\$ 68,677
2004	17,641
2005	8,822
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	\$ 95,140
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Bank covenants

At March 31st, 2003 Dynex Semiconductor Ltd. was in breach of its earnings covenant with GMAC.

The Corporation has received a waiver of this covenant violation provided that (a) no other covenants are violated and (b) the Corporation pays interest at the default interest rate.

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>Mar 31st, 2003</u>	<u>Dec 31st, 2002</u>
Common shares	- amount	\$ 8,999,870	\$ 8,909,870
	- number	18,933,729	18,814,551
Special warrants	- amount	\$ 450,000	\$ 450,000
	- number	1,000,000	1,000,000

There are no issued and outstanding preferred shares.

Common share and special warrant transactions

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

DYNEX POWER INC.
Notes to the Consolidated Financial Statements
Quarter ended March 31st, 2003

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

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

Stock option plan

A total of 2,650,000 (2002 - 2,650,000) of the common shares of the Corporation outstanding from time to time are reserved for the issuance of stock options pursuant to the Corporation's stock option plan. Generally, options granted under the plan vest evenly over a three-year period commencing one year from the date of grant and expire five years from the date of the grant. Options are not assignable.

Stock options activity summarized below:

	<u>Number of Options</u>	<u>Weighted Average Exercise Price</u>
Outstanding at December 31st, 2000	956,000	\$ 0.42
Granted	653,000	\$ 1.92
Exercised	(173,000)	\$ 0.21
Cancelled	(134,000)	\$ 0.87
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Outstanding at December 31st, 2001	1,302,000	\$ 1.15
Granted	400,000	\$ 0.50
Exercised	(5,000)	\$ 0.30
Cancelled	(56,000)	\$ 1.50
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Outstanding at December 31st, 2002	1,641,000	\$ 1.02
Granted	10,000	\$ 2.00
Exercised	0	\$ 0.00
Cancelled	(7,000)	\$ 2.00
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Outstanding at March 31st, 2003	1,644,000	\$ 0.99

The weighted average remaining life of the outstanding options is 2.0 years.

DYNEX POWER INC.
Notes to the Consolidated Financial Statements
Quarter ended March 31st, 2003

8. SHARE CAPITAL (continued)

At March 31st, 2003 the following stock options are outstanding:

	<u>Number of Options</u>	<u>Exercise Price</u>	<u>Grant Date</u>	<u>Expiry Date</u>
Officers	127,000	\$ 0.30	June 2, 1999	June 2, 2004
	260,000	\$ 0.60	January 19, 2000	January 19, 2005
	121,500	\$ 2.00	January 1, 2001	January 1, 2005
Directors who are not officers	50,000	\$ 0.20	August 21, 1998	August 21, 2003
	50,000	\$ 0.30	June 2, 1999	June 2, 2004
	100,000	\$ 1.59	June 6, 2001	June 6, 2006
	400,000	\$ 0.50	January 1, 2002	January 1, 2007
All other employees	51,000	\$ 0.30	June 2, 1999	June 2, 2004
	130,000	\$ 0.60	January 19, 2000	January 19, 2005
	354,500	\$ 2.00	January 1, 2001	January 1, 2005

As at March 31st, 2003 there are 730,000 options exercisable.

Stock-based compensation

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

Net earnings, (loss) as reported	\$ (2,841,279)
Pro forma net earnings (loss)	(2,841,279)
Earnings per share, as reported	\$ (0.15)
Pro forma earnings per share	\$ (0.15)
Weighted average common shares outstanding at March 31st, 2003	18,933,729

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

DYNEX POWER INC.
Notes to the Consolidated Financial Statements
Quarter ended March 31st, 2003

9. INCOME TAXES

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

	<u>Mar 31st, 2003</u>	<u>Mar 31st, 2002</u>
Current	\$ 3,535	\$ 6,912
Future	-	-
	<u>\$ 3,535</u>	<u>\$ 6,912</u>

As at March 31st, 2003 the Corporation also has Canadian tax loss carry forwards available to reduce future years' income for tax purposes. These loss carry forwards expire as follows:

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

As at March 31st, 2003 the Corporation has United Kingdom tax loss carry forward of \$2,993,000 available to reduce future years' income for tax purposes. These tax loss carry forwards have no expiry date.

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

10. COMMITMENTS

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

2003	\$ 321,970
2004	566,455
2005	554,601
	<u>\$ 1,443,026</u>

11. CHANGES IN NON-CASH OPERATING WORKING CAPITAL ITEMS

	<u>Mar 31st, 2003</u>	<u>Mar 31st, 2002</u>
Accounts receivable	\$ 2,156,191	\$ 2,585,797
Inventories	(407,854)	1,012,638
Prepaid expenses and deposits	(300,924)	105,426
Accounts payable and accrued liabilities	(300,718)	793,665
Income tax payable	-	6,936
	<u>\$ 1,146,695</u>	<u>\$ 4,504,462</u>

DYNEX POWER INC.
Notes to the Consolidated Financial Statements
Quarter ended March 31st, 2003

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

For the quarter ended March 31st, 2003 the antidilutive effect excluded from the diluted net loss per share computation due to options to purchase common shares was Nil (March 31st, 2002 – 303,224).

13. ECONOMIC SIGNIFICANCE

For the quarter ended March 31st, 2003 the Corporation had one (March 31st, 2002 - none) 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 Euro.

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

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

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

15. BUSINESS SEGMENT INFORMATION

Business area

The business operates in three distinct customer areas - Power (design and manufacture of power semiconductors), Sensors (microwave and millimetre wave board level products for 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 March 31st, 2003 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.

DYNEX POWER INC.
Notes to the Consolidated Financial Statements
Quarter ended March 31st, 2003

15. BUSINESS SEGMENT INFORMATION (Continued)

Geographic area

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

	<u>Mar 31st, 2003</u>	<u>Mar 31st, 2002</u>
Revenue:		
Business segment		
Power	\$ 3,545,465	\$ 6,055,767
Sensors	1,371,493	1,641,140
Integrated Circuits	800,038	949,175
	<u>\$ 5,716,996</u>	<u>8,646,082</u>
Geographic area		
Europe	\$ 4,405,161	\$ 5,582,795
North America	761,825	2,514,773
Far East and other	550,010	548,514
	<u>\$ 5,716,996</u>	<u>\$ 8,646,082</u>

Capital assets

	<u>Mar 31st, 2003</u>	<u>Dec 31st, 2002</u>
Geographic area		
Europe	\$ 982,165	\$ 7,027,246
North America	2,591	2,591
	<u>\$ 984,756</u>	<u>\$ 7,029,837</u>

16. CONTINGENCIES

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

DYNEX POWER INC.
Notes to the Consolidated Financial Statements
Quarter ended March 31st, 2003

16. CONTINGENCIES (Continued)

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

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

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

17. PENSION PLAN

The Corporation incurred expenses of \$ 148,529 (March 31st, 2002 - \$149,835) with respect to a defined contribution pension plan in place at Dynex Semiconductor Limited. The Corporation instigated a six-month suspension of contributions into this plan, commencing November, 2001. The Corporation's stated intention is to reimburse the contribution shortfall after the six-month period, based on its financial position. At March 31st, 2003 6 months (March 31st, 2002 - 5 months) expense had been accrued.

18. RELATED PARTY TRANSACTIONS

The Corporation incurred expenses of \$ 22,500 (March 31st 2002 - \$22,500) with respect to fees payable to directors. As at March 31st, 2003, \$22,500 is payable to directors (December 31st 2002 -\$90,000). The director fees are recorded at negotiated amounts.



Shareholder and Corporate Information

Board Of Directors

David F. Banks

Chairman of the Board

Michael A. LeGoff

Director, President and
Chief Executive Officer

Robert Lockwood

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 Deloitte & Touche

Legal Counsel

LaBarge Weinstein LLP, Ottawa, Ontario

Dynex Locations

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United Kingdom

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Corporate Website

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