Dynex Power Inc.

Report for the quarter ended 30th June 2003

Dear Shareholder,

Throughout the second quarter we continued to adhere to our long-term plan. The proceeds from the sale and leaseback transaction completed in the first quarter were used to eliminate the impediments to operations, reduce debt and improve our order book. While revenues for the second quarter and the first half-year results were well below those of the same periods last year, second quarter revenues grew 27% over those in first quarter. The order book has also grown over the first half year with orders booked at 1.24 times our billing.

Revenues of $7.26 million are slightly below our expectations for this quarter. The improvement in manufacturing efficiencies, achieved late in the quarter, and back ordered deliveries from suppliers hampered our ability to ship against customers' orders. The loss of $1.76 million for the quarter was also slightly more than expectations from operations and is exacerbated by a one-time redundancy cost of $645,000 and the non-cash translational exchange loss of $239,000. Gross margins for the quarter are low at 9%, but we have been able to improve a total of $877,772 in gross margins from a negative gross margin of ($224,506) to a margin of $653,266 in the second quarter on an improvement of revenues of only $1,543,390 from Q1 to Q2. This means once revenues do return to forecasted levels our gross margins will be much closer to our target of 30%. We made fifteen redundancies in engineering and support services and moved seven engineers and technicians to be directly involved in manufacturing that when combined will take approximately $1.15 million from next year's overhead costs. We continue to look for ways to move indirect technicians and support engineers into direct manufacturing roles to take overhead costs out of the factory. Plans for further overhead cost cutting includes the factory consolidation that will be implemented throughout the remaining periods of this year. Other necessary factory improvements are being implemented to improve efficiencies.

We made a few management changes in the quarter in addition to our new CFO, Bob Lockwood. We re-created the senior management position of Logistics Manager and selected Jane Quibell for that position. The addition of Bob and Jane to our senior management team has brought some fresh and bold ideas to the fore. Two new management committees have been created within the senior management team; Business Delivery and Business Development. The Business Delivery Committee is chaired by the CFO and comprises the Logistics Manager and VP Manufacturing. The Business Development Committee is chaired by the CEO and comprises the VP Sales and Marketing and the CTO. The two committees meet weekly with the intention that the most senior levels of management will be working closely to improve product quality, on-time delivery, production efficiencies and bookings.

Looking ahead, our power semiconductor markets appear to be firming. Major industrial infrastructure projects and major military defence contracts have been tendered and awarded. We continue to see an increasing amount of interest for our products from large industrial drives' manufacturers and power quality systems integrators. Meetings and informal discussions with the most senior members of our major competitors, suppliers and customers and several smaller producers and users of power semiconductors tend to support our view of the market place.

The recent power outage in August affecting the north-east US and parts of Canada highlights, in part, why there should be and will be increased demand for our components and sub-systems.

Going into the second half of the year, with the changes to senior management, the improvement in efficiencies in the factory and a motivated sales force with new cutting edge products, we will be in good shape to take advantage of the improvements in the market.

Respectfully yours,

Michael LeGoff
President and Chief Executive Officer
29th August 2003

1. 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 June 30th 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.

2. Overview

Revenue for the quarter of $7.3m compares with revenue of $5.7m for the previous quarter and $10.0m for the corresponding quarter of last year. The recovery in revenue led to a profit being recorded at the gross margin level of $0.7m compared with a loss of $0.2m in the previous quarter and a profit of $2.2m in the corresponding quarter of last year. Overhead expenses of $2.7m were significantly higher than the $1.9m recorded both in the previous quarter and the corresponding quarter of last year. A non-recurring redundancy cost of $0.6m caused this increase. The Group incurred a foreign exchange loss in the quarter of $0.2m but was able to release a provision for deferred tax of $0.4m so that the loss for the quarter was $1.8m. This was a significant improvement over the loss reported in the previous quarter of $2.7m. However, further improvement is needed to match the profit of $0.3m reported in the corresponding quarter of last year.

Management believes that the early signs of recovery in the world market place for our products that was seen for the first time at the end of the last quarter has continued to take place slowly and that this was the driving force behind the reduction in net losses. This improvement, together with actions taken since the quarter end to release further funds to finance working capital, should bring about a further rise in revenue and earnings in the third quarter. The third quarter will, however, be impacted by the European holiday season in July and August which reduces customer orders for those months.

3. Addressing Further the Shortage of Liquidity

In the last quarter, we reported the completion of the sale and leaseback of the Group's premises in Lincoln, England as the first step in overcoming the shortage of liquidity in the business. On August 26, 2003, the Group announced the sale of the microwave sensors business for $5.0m. This business, although profitable, had long been regarded by management as non-core and its disposal completes the second stage of our progamme to release capital to invest in improving our power semiconductor business. Completion of this transaction enables management to concentrate on improving sales and profits from the core business of power semiconductors. The sale has been reported as a subsequent event in these financial statements and will be accounted for in the third quarter.

4. Revenue

Revenue of $7.2m in the quarter represented a 27% increase over the previous quarter. This increase came from the slow but clear improvement in the marketplace for power semiconductors and the return to more normal raw material supplies following the improvement in the Group's liquidity position at the start of the quarter. The improvement in the raw material supplies was not instantaneous and so the problem continued to impact negatively on the business in the early part of the quarter. The improvement in revenue was even more marked in our core power semiconductor business where a rise of 45% was recorded. A similar rise of 45% was recorded in the microwave sensors business prior to its disposal. Revenue in integrated circuits, a non-core business that is being closed down slowly, fell from $800k to $135k. Sales in this area are sporadic and are in long-term decline.

5. Gross Margin

The increase in sales enabled the gross margin to recover to $653k or 9% from the loss at this level in the previous quarter of $225k or (5%) fully justifying our confidence that we were well placed to benefit from a pick-up in revenue expressed in the previous financial statements. Gross margin should benefit in the next quarter from a further increase in revenue.

6. Overhead Costs
Overhead costs of $2.7m for the quarter were some $800k or 29% above the level in the previous quarter. However, the figure includes $645k of non-recurring redundancy costs in the current quarter. Without this cost, overheads would have been in line with the previous quarter,. The redundancy programme will result in overhead savings of approximately $275k per quarter in future periods.

7. General & Administration
The figure of $1.7m reported was some 74% above the previous quarter, but this increase fell to just 6% if the non-recurring redundancy costs were excluded. With these one off costs excluded, general and administrative expenses fell from 17% of revenue to 14%. It should fall further as revenue continues to recover.

8. Sales & Marketing
Sales and marketing costs of $449k were some 12% higher than the previous quarter, primarily as the result of hiring an additional salesman. Despite this rise, sales and marketing costs as a proportion of revenue fell to 6% from 7% in the previous quarter.

9. Research & Development
Net research and development costs fell from $536k in the previous quarter to $508k in the current quarter. Expressed as a percentage of revenue, the fall was from 9% to 7%. The reduction comes from increased contributions from third parties and in no way represents a reduction in our commitment to this important activity.

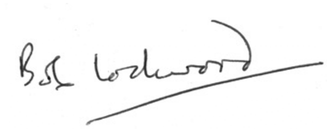
10. Foreign Exchange Loss
A foreign exchange loss of $213k arose in the current quarter as a result of revaluing the loans made by the Corporation to Dynex Semiconductor Limited that are denominated in Sterling. The loss in the previous quarter was $736k. Both these losses are non-cash costs and so have no impact on the operations of the Group. The Board has approved in principle the conversion of these loans into equity. The conversion will remove such gains and losses from the profit and loss account in future. A small loss of $26k arose in relation to sales that are made in a variety of currencies whereas the costs of the Group are predominantly in Sterling. The loss compares to gain in the previous quarter of $94k. The Group has not used any specific hedging techniques during the quarter but monitors the need to use such techniques continually.

11. Taxation
The Group released a provision for deferred tax of $420k in the UK during the quarter. The UK company has unutilised tax losses available for carry forward indefinitely which exceed any liability to deferred tax.

12. Loss After Tax
The Group reported a loss after tax of $1.8m compared to a loss in the previous quarter of $2.7m. Whilst such a loss is clearly unsatisfactory, the reduction in the loss by 36% is a movement in the right direction. Management is committed to growing revenue in the core market further and close control of all costs in order to turn this loss into a profit.

13. Subsequent Event
The Group announced the sale of the microwave sensors business on August 26, 2003 for $5m. This business, which was profitable and provided stable revenue for the Group, was identified as being non-core and its disposal frees up management time and capital resources to be used in the core power semiconductor business. The sale proceeds will be used to pay down loans and provide additional working capital enabling the progress of the business to be maintained.

14. Outlook
The results in the current quarter, whilst not satisfactory in themselves, represent a significant improvement over the previous quarter. The sale of the microwave sensors business provides the capital necessary to continue this improvement and the gradually improving world market place for our products gives us some confidence that the improvement in revenue and profitability will be continued.



Bob Lockwood
Chief Financial Officer
29th August 2003

Consolidated Financial Statements (Unaudited) of

DYNEX POWER INC.

Quarter Ended June 30th, 2003

DYNEX POWER INC.
Consolidated Balance Sheet (Unaudited)
Quarter Ended June 30th, 2003

	Jun 30th 2003	Dec 31st 2002
CURRENT ASSETS		
Cash and cash equivalents	**$ 791,651**	$ 1,127,035
Accounts receivable	**5,294,644**	7,665,930
Inventories	**8,667,128**	8,168,645
Due from shareholders	**28,171**	28,171
Prepaid expenses and deposits	**489,000**	371,069
	15,270,594	17,360,850
DEFERRED FINANCE CHARGES	**185,000**	-
CAPITAL ASSETS	**907,454**	7,029,837
	$ 16,363,048	$ 24,390,687
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	**$ 7,693,380**	$ 9,700,257
Due to shareholders	**725,000**	-
Short-term loans	**5,094,031**	5,840,027
Current portion of long-term debt	**17,640**	2,012,757
Current portion of deferred revenue	**174,150**	-
	13,704,201	17,553,041
LONG-TERM DEBT	**22,050**	2,538,484
LONG TERM DEFERRED REVENUE	**2,394,563**	-
FUTURE TAX PAYABLE	**-**	467,342
	16,120,814	20,558,867
SHAREHOLDERS' EQUITY		
Share Capital	**9,744,870**	9,359,870
Deficit	**(9,080,639)**	(4,567,860)
Cumulative translation adjustment	**(421,997)**	(960,190)
	242,234	3,831,820
	$ 16,363,048	$ 24,390,687

DYNEX POWER INC.
Consolidated Statement of Profit and Loss (Unaudited)
Quarter Ended June 30th, 2003

	3 months Jun 30th 2003	3 months Jun 30th 2002	**YTD Jun 30th 2003**	YTD Jun 30th 2002
Revenue	**$ 7,260,386**	$ 9,993,608	**$ 12,977,382**	$ 18,639,690
Cost of sales	**6,607,120**	7,786,293	**12,548,622**	15,397,510
Gross margin	**653,266**	2,207,315	**428,760**	3,242,180
Expenses				
General and administration	**1,694,848**	1,028,600	**2,644,667**	2,094,622
Sales and marketing	**448,873**	454,057	**848,493**	820,220
Research and development	**508,434**	398,061	**1,044,269**	740,770
	2,652,155	1,880,718	**4,537,429**	3,655,612
(Loss) earnings before other income (expenses) and income taxes	**(1,998,889)**	326,597	**(4,108,669)**	(413,432)
Other income (expenses)				
Interest and other income	**55,850**	3,897	**60,188**	6,799
Foreign exchange (loss) gain	**(238,842)**	7,243	**(880,953)**	(104,603)
	(182,992)	11,140	**(820,765)**	(97,804)
(Loss) earnings before income taxes	**(2,181,881)**	337,737	**(4,929,434)**	(511,236)
Recovery of (provision for) income taxes	**420,190**	(3,190)	**416,655**	(10,102)
NET (LOSS) EARNINGS	**(1,761,691)**	334,547	**(4,512,779)**	(521,338)
DEFICIT, BEGINNING OF PERIOD	**(7,318,948)**	(5,871,865)	**(4,567,860)**	(5,015,980)
DEFICIT, END OF PERIOD	**$ (9,080,639)**	$ (5,537,318)	**$ (9,080,639)**	$ (5,537,318)
(Loss) earnings per share				
Basic	**($0.09)**	$0.02	**($0.24)**	($0.03)
Fully diluted	**($0.09)**	$0.02	**($0.24)**	($0.03)
Weighted average number of shares				
Basic	**19,400,395**	16,232,718	**19,170,193**	16,232,718
Fully diluted	**19,400,395**	20,438,068	**19,170,193**	16,232,718

DYNEX POWER INC.
Consolidated Statement of Cash Flow (Unaudited)
Quarter Ended June 30th, 2003

	3 months Jun 30th 2003	3 months Jun 30th 2002	**YTD Jun 30th 2003**	YTD Jun 30th 2002
OPERATIONS				
Net (loss) earnings	**$ (1,761,691)**	$ 334,547	**$ (4,512,779)**	$ (521,338)
Items not affecting cash				
Amortization	**88,549**	192,624	**180,010**	379,076
(Gain) on disposal of capital assets	**(61,037)**	-	**(65,960)**	(7,435)
Amortisation of deferred finance charges	**46,000**	-	**46,000**	-
Changes in non-cash operating working capital	**(2,546,478)**	(724,730)	**(1,309,782)**	3,779,733
	(4,234,657)	(197,559)	**(5,662,511)**	3,630,036
FINANCING				
Shares issued for cash	**64,000**	292,500	**64,000**	292,500
Increase (decrease) in short-term debt	**1,571,030**	302,929	**(2,174,163)**	(2,684,353)
Increase (decrease) in due to shareholder	**(7,448)**	(3,882)	**725,000**	290
Increase (decrease) in long-term debt	**12,914**	(331,845)	**(2,406,057)**	(773,124)
	1,640,496	259,702	**(3,791,220)**	(3,164,687)
INVESTMENTS				
Proceeds on disposal of capital assets	**16,078**	-	**8,438,314**	7,474
Purchase of capital assets	**(33,212)**	-	**(33,212)**	-
	(17,134)	-	**8,405,102**	7,474
Effect of foreign currency translation on cash flow	**150,963**	(94,529)	**713,245**	53,331
(DECREASE) INCREASE IN CASH POSITION	**(2,460,332)**	(32,386)	**(335,384)**	526,154
Cash, beginning of period	**3,251,983**	1,087,479	**1,127,035**	528,939
CASH, END OF PERIOD	**$ 791,651**	$ 1,055,093	**$ 791,651**	$ 1,055,093
Supplementary Information:				
Interest paid	**$ 143,258**	**$ 216,559**	**$ 305,481**	$ 467,567
Income taxes paid during year	-	-	-	-

DYNEX POWER INC.
Notes to the Consolidated Financial Statements
Quarter ended June 30th, 2003

1. DESCRIPTION OF BUSINESS

The Corporation is engaged in the design and manufacture of industrial power equipment.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation for interim financial statements

In the opinion of management, all adjustments consisting of normal recurring adjustments, considered necessary for a fair presentation of the Corporation's financial position, results of operations and cash flows have been included. Operating results for the interim period presented are not necessarily indicative of the results to be expected for any subsequent quarter or for the full fiscal year ending December 31st, 2003.

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

Deferred Revenue

The gain on the sale and leaseback of the land and buildings (note 9) is being amortized over the 15 year minimum term of the resulting lease.

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

The Corporation considers the wholly owned subsidiary, Dynex Semiconductor Limited, to be a self-sustaining subsidiary and the accounts in foreign currency are translated into Canadian dollars using the current rate method of foreign currency translation. 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 period. Net unrealized exchange adjustments arising on translation of foreign currency are included in shareholders' equity as cumulative translation adjustment.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Research and development costs

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

Income taxes

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

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 for 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 10.

3. INVENTORIES

	Jun 30th, 2003	Dec 31st, 2002
Raw materials	**$ 2,612,250**	$ 2,601,796
Work in progress	**4,693,628**	4,223,986
Finished goods	**1,361,250**	1,342,863
	$ 8,667,128	$ 8,168,645

Inventory is presented net of a provision of $11,261,250 (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.

5. CAPITAL ASSETS

	Jun 30th, 2003			Dec 31st, 2002
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Land	**$ -**	**$ -**	**$ -**	$ 524,306
Buildings	**-**	**-**	**-**	3,337,181
Equipment	**1,940,040**	**1,032,586**	**907,454**	3,168,350
	$ 1,940,040	**$ 1,032,586**	**$ 907,454**	$ 7,029,837

6. DUE TO SHAREHOLDERS

The Corporation has three loans to finance working capital from a director of the Corporation. Two of the loans totalling $500,000 (Dec 31st, 2002 – $Nil) bear interest at 4% per annum compounded monthly and are repayable on December 30th, 2003. The third loan is for $225,000 (Dec 31st, 2002 - $Nil), bears interest at 10% per annum compounded monthly and is repayable on the earlier of April 2nd, 2004 or the sale of substantial assets of the Corporation. The Corporation granted warrants to acquire shares in conjunction with all of these loans, details of which are set out in Note 10.

7. SHORT-TERM LOAN

The Corporation has a short term loan and an inventory loan, totalling $4,531,531 (Dec 31st, 2002 - $5,840,027) secured by a first charge on all capital assets, inventory, cash and cash equivalents and accounts receivable. The short-term loan and the inventory loan are repayable on demand.

The Corporation also has a short term loan of $562,500 (Dec 31st, 2002 - $Nil) which is repayable on the earlier of April 2nd, 2004 or the sale of or substantial assets of the Corporation. The loan is guaranteed by an officer and a director of the Corporation.

Bank covenants

At June 30th, 2003 Dynex Semiconductor Ltd. was in breach of the inventory loan covenant.
The Corporation has received a waiver of this covenant violation.

8. LONG-TERM DEBT

Long-term debt outstanding

	Jun 30th, 2003	Dec 31st, 2002
Commercial finance facility	**$ -**	$ 4,463,534
Small business loan, repayable on or before May 24th, 2003 and secured under a general security Agreement	**-**	43,607
Loan payable in monthly instalments of $1,470 and secured under a general security agreement	**39,690**	44,100
	39,690	4,551,241
Current portion	**17,640**	2,012,757
	$ 22,050	$ 2,538,484

Principal payments

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

(July to December) 2003	**$ 8,820**
2004	**17,640**
2005	**13,230**
	$ 39,690

9. DEFERRED REVENUE

On March 25th, 2003 the Corporation's subsidiary entered into a sale and leaseback for its Lincoln, England, land and buildings. The gain realized on the sale of $2,612,747 has been deferred. Amortization of this gain, amounting to $44,753 is included in other income for the periods ended June 30, 2003

10. 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:

			Jun 30th , 2003		Dec 31st, 2002
Common shares	- amount	**$**	**9,744,870**	$	8,909,870
	- number		**20,200,396**		18,814,551
Special warrants	- amount	**$**	**-**	$	450,000
	- number		**-**		1,000,000

There are no issued and outstanding preferred shares.

Common share, special warrant and warrant transactions

On January 1st, 2003 the Corporation issued 119,178 shares to non executive directors in lieu of payments for their services provided during 2002 (note 19).

On February 14th and 20th, 2003 the Corporation received loans of $300,000 and $200,000, respectively, from a director of the Corporation. The Corporation granted warrants to acquire 275,000 and 183,333 common shares at a price of $0.30 per share in conjunction with these loans.

On March 19th, 2003 the Corporation received a loan from a non-related party of $1,125,000 to finance working capital. The Corporation granted a warrant to acquire up to 1,333,333 common shares at a price of $0.24 per share. On May 6th, 2003 $562,500 of the loan was repaid and the warrant to acquire 666,666 of the common shares was cancelled.

On March 19th, 2003 the Corporation received a loan of $225,000 from a director of the Corporation. A warrant to acquire 266,667 common shares at an exercise price of $0.24 was granted. The warrant was exercised on May 13th, 2003.

On June 1st, 2003 1,000,000 special warrants issued during 2000 were converted into 1,000,000 shares for no cash consideration.

10. SHARE CAPITAL (continued)

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:

	Number of Options	Weighted Average Exercise Price
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
Outstanding at December 31st, 2002	1,641,000	$ 1.02
Granted	160,000	$ 0.34
Exercised	0	$ 0.00
Cancelled	(8,500)	$ 2.00
Outstanding at June 30th, 2003	**1,792,500**	**$ 0.95**

The weighted average remaining life of the outstanding options is 2.3 years. At June 30th, 2003 there are 1,184,333 options exercisable with a weighted average exercise price of $0.94

10. SHARE CAPITAL (Continued)

Stock option plan (Continued)

At June 30th, 2003 the following stock options are outstanding:

	Number of Options	Exercise Price	Grant Date	Expiry Date
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
	150,000	$ 0.23	April 28, 2003	April 28, 2008
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
	353,000	$ 2.00	January 1, 2001	January 1, 2005
Total outstanding	1,792,500	$ 0.95		

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:

	3 months Jun 30th 2003	3 months Jun 30th 2002	**YTD Jun 30th 2003**	YTD Jun 30th 2002
Net earnings, (loss) as reported	**$ (1,761,691)**	**$ 334,547**	**$(4,512,779)**	**$ (521,338)**
Pro forma net earnings (loss)	**(1,772,656)**	**324,795**	**(4,533,496)**	**(540,842)**
Earnings per share, as reported	**$ (0.09)**	**$ 0.02**	**$ (0.24)**	**$ (0.03)**
Pro forma earnings per share	**$ (0.09)**	**$ 0.02**	**$ (0.24)**	**$ (0.03)**
Weighted average common shares outstanding at June 30th, 2003	**19,400,395**	**16,232,718**	**19,167,063**	**16,232,718**

10. SHARE CAPITAL (Continued)

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.

During fiscal 2002, 400,000 options were granted to the Chairman of the Board of Directors to compensate for services to be performed in assisting the management of the Corporation. The options expire in five years, and vest over three years commencing January 1, 2003. The fair market value of these options has been determined using the Black-Scholes model based on the fair value of the common shares at June 30, 2003. The amount of stock-based compensation expense for the fiscal periods to date is not material. The following assumptions were used: five-year life, interest rate of 4%, volatility of 89%, and no dividends.

During fiscal 2003, warrants to acquire 2,058,333 common shares have been granted in conjunction with the Corporation receiving financing. The fair market value of these warrants has been determined using the Black Scholes model based on the fair value of the common shares at the date of issuance and the following assumptions: maximum life of the warrants, volatility of 89%, interest rate of 3% and no dividends. The resulting fair value of $231,000 has been recorded as an increase to share capital and a deferred financing charge, which is being amortized to general and administrative expense over the period of the underlying loans.

11. INCOME TAXES

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

	3 months Jun 30th 2003	3 months Jun 30th 2002	**YTD Jun 30th 2003**	YTD Jun 30th 2002
Current	**$ -**	$ 3,190	**$ 3,535**	$ 10,102
Future	**(420,190)**	-	**(420,190)**	-
	$ (420,190)	$ 3,190	**$ (416,655)**	$ 10,102

11. INCOME TAXES (Continued)

As at June 30th, 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:

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

As at June 30th, 2003 the Corporation has United Kingdom tax loss carry forward of $4,525,000 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.

12. COMMITMENTS

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

(July to December) 2003	**$ 286,997**
2004	**553,144**
2005	**541,449**
	$ 1,381,590

13. CHANGES IN NON-CASH OPERATING WORKING CAPITAL ITEMS

	3 months Jun 30th 2003	3 months Jun 30th 2002	**YTD Jun 30th 2003**	YTD Jun 30th 2002
Accounts receivable	**$ (515,687)**	$(1,159,111)	**$ 1,640,505**	$ 1,426,687
Inventories	**(1,080,479)**	470,336	**(1,488,333)**	1,482,974
Prepaid expenses and deposits	**121,778**	75,929	**(179,146)**	181,355
Accounts payable and accrued liabilities	**(651,900)**	(103,413)	**(862,618)**	690,252
Income tax payable	**(420,190)**	(8,471)	**(420,190)**	(1,535)
	$ (2,546,478)	$ (724,730)	**$ (1,309,782)**	$ 3,779,733

14. ECONOMIC SIGNIFICANCE

For the quarter ended June 30th, 2003 the Corporation had two (June 30th, 2002 - one) customers that represented more than 10% of total revenue.

15. 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.

16. BUSINESS SEGMENT INFORMATION

Business area

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 at June 30th, 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.

16. 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.

	3 months Jun 30th 2003	3 months Jun 30th 2002	**YTD Jun 30th 2003**	YTD Jun 30th 2002
Revenue:				
Business segment				
Power	**$ 5,126,895**	$ 6,442,355	**$ 8,672,360**	$12,498,122
Sensors	**1,998,576**	1,767,674	**3,370,069**	3,408,814
Integrated Circuits	**134,915**	1,783,579	**934,953**	2,732,754
	$ 7,260,386	$ 9,993,608	**$12,977,382**	$18,639,690
Geographic area				
Europe	**$ 5,353,468**	$ 6,200,240	**$ 9,758,629**	$11,783,035
North America	**1,242,099**	3,221,900	**2,003,924**	5,736,673
Far East and other	**664,819**	571,468	**1,214,829**	1,119,982
	$ 7,260,386	$ 9,993,608	**$12,977,382**	$18,639,690

Capital assets

	Jun 30th,2003	Dec 31st, 2002
Geographic area		
Europe	**$ 904,683**	$ 7,027,246
North America	**2,591**	2,591
	$ 907,454	$ 7,029,837

17. CONTINGENCIES

An action against the Corporation has been commenced in the Italian courts by a former supplier, claiming breach of contract. The Corporation has accrued the estimated amount of this liability, however, the ultimate liability may exceed the amount accrued..

17. CONTINGENCIES (Continued)

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.

The Corporation may be required to pay a success fee to GMAC in the event certain conditions are met or at the latest January 2005 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.

18. PENSION PLAN

The Corporation incurred expenses of $ 132,866 (June 30th, 2002 - $158,254) 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 June 30th, 2003 $320,756 (December 31st, 2002 - $362,568) is included in accrued liabilities.

19. RELATED PARTY TRANSACTIONS

The Corporation incurred expenses of $45,000 (June 30th, 2002 - $45,000) with respect to fees payable to directors. As at June 30th, 2003, $45,000 is payable to directors (December 31st 2002 -$90,000). The director fees are recorded at negotiated amounts.

20. SUBSEQUENT EVENTS

On August 22nd, 2003 the Corporation’s subsidiary, Dynex Semiconductor Ltd, sold its microwave sensors business for a cash consideration of $5.0m to a third party. The microwave business had turnover in the quarter of $1,998,576 (3 months to June 30th, 2002 - $1,767,674) and year to date of $3,370,069 (6 months to June 30th, 2002 - $3,408,814). Included in the sale were fixed assets with a net book value of $5,933 and stock of $675,000. The proceeds will be used to repay debt and provide additional working capital.

Shareholder and Corporate Information

Board of Directors

David F. Banks
Chairman

Michael A. LeGoff †
Director, President & CEO

Robert Lockwood
Director, VP Finance & CFO

Debbie Weinstein *†
Director & Company Secretary

Richard Bertrand *
Director

Richard Carl †
Director

Keith Ralls *†
Director

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

Stock Exchange Listing
Toronto Ventures Exchange

Symbol: DNX

Auditors
Deloitte & Touche

Legal Counsel
LaBarge Weinstein LLP, Ottawa, Ontario

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