

Dynex Power Inc.

Report for the quarter ended 30th September 2003



Dear Shareholder,

The third quarter of the year is typically quiet with lower revenues and reduced order intake activity. Many European companies close for July or August and activity in the Americas and the Far East is generally restrained. Although our power revenues increase by 34% over the previous quarter, the 34% growth is coming from a sluggish first half-year start. We did complete delivery of the StatCom order in September on schedule and have started delivery of the initial batches of IGBT modules for the Type 45 frigate to Alstom in Rugby. We also continued with our efforts to reduce overhead costs and consolidate our facilities in Lincoln. Following the completion of the factory integration work by early 2004 we should see some significant savings in overhead costs that will improve gross profit margins on power sales. Our target of 30% gross profit margins by end of 2004 is on track and will be achieved with sustained growth in revenues.

We continued to exercise our plan to focus this company on what we do best as we completed the sale of the microwave sensor business for \$5.0 million in August. The sale to e2v technologies allowed our sensor employees to make a relatively easy transition to e2v's Lincoln facility while maintaining the business and economic benefit in the local area. We used the proceeds from the sale to repay shareholder and bank loans, reduce amounts owing to suppliers and make some key investments in the factory.

You will notice when reviewing the quarter's results that due to the sale of the sensors group our financial statements have been reconfigured to separate the revenues from the ongoing business from the earnings from the discontinued business. To enable a fair assessment of our progress we have also adjusted the figures for the comparative periods in the previous year. Power revenues of \$7.08 million this quarter were well ahead of the \$5.28 million in Q2 of this year, although 14% lower than the \$8.26 million reported in Q3 of 2002.

Intense sales efforts have continued throughout this quarter. A number of significant opportunities are being optimistically pursued. These include four separate multi-million dollar power quality projects in North America and Europe.

We announced the release of our new IGBT modules and new bipolar thyristor products at the Power Systems World trade show in Long Beach, California. Both new product groups have generated considerable interest and samples of the IGBTs are being provided to potential customers and distributors. The new thyristor devices will be available in the first quarter of 2004.

As we look ahead into 2004, our particular high-energy power markets appear to be growing. Analysts' reports and industry coverage point to billions of dollars being invested in the power quality and power transmission and distribution sector. This is our particular niche market generating our best margins. Based on all of the opportunities there is a brighter future ahead and we must remain diligent to close on these specific opportunities. I am highly confident that we will close sufficient orders in the fourth quarter to provide good order book coverage for 2004.

As a final point, I regret to announce that Brian Boomer, VP Sales and Marketing has decided to take his retirement in December of this year. Brian has worked for this business for 29 years and will be sorely missed. He is a highly respected member of the senior management team and has built some impressively strong relationships with our customers. I have enjoyed working with Brian over the past four years and our increase in power sales has been attributable to his efforts. On behalf of the Board, the company and the shareholders, I would like to take this opportunity to pass to Brian our deepest appreciation for his hard work and dedication to this business and to wish him a long and happy retirement.

Respectfully yours,



Michael LeGoff
President and Chief Executive Officer
28th November 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 September 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 Corporation'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.

Disposal of the Microwave Sensors Business

On August 26th, 2003 the Corporation announced the sale of its microwave sensors business for \$5.0m. Completion of this sale enables management to concentrate on improving sales and earnings from the core business of high power semiconductors. As a result of the disposal, the revenue, cost of sales and expense figures reported in these financial statements and discussed below relate solely to the continuing operations. The net earnings from the microwave sensors business are reported as a single figure below the results from the continuing operations. Comparative figures have been restated accordingly.

Revenue

Revenue for the quarter of \$7.1m represents a 34% increase over the previous quarter's figure of \$5.3m which had already shown a 21% increase over the first quarter. This strong recovery in revenue is welcome and gives management confidence that the worst of the recession in the high power semiconductor industry is finally over.

Nevertheless, revenues have still not recovered to the level seen in the corresponding quarter of last year.

Gross Margin

Gross margin for the quarter was \$840,000 or 12% of sales revenue. This represents a significant improvement compared to the loss at this level in the previous quarter of 3% and a loss of 14% in the first quarter. The improvement is a direct result of the strong growth in revenue, the good contribution on the products we sell and tight control of indirect costs. Nevertheless, the gross margin is still below the 22% seen in the comparative quarter of last year.

General & Administrative Expenses

General & administrative expenses of \$1.3m were some \$400,000 below the previous quarter despite the fact that the quarter included a one-off charge of \$188,000. This charge arose from the release of the deferred financing charge on the early cancellation of some share warrants, as set out in Note 8 of the Financial Statements. However, the previous quarter had included a one-off cost of \$645,000 relating to redundancies. Without the release of the deferred finance charge, general & administrative expenses would have been in line with the figure for the preceding quarter excluding redundancy costs and also with the figure for the corresponding quarter of last year.

Sales & Marketing

Sales and marketing costs of \$416,000 were \$25,000 below the previous quarter but \$21,000 above the first quarter. At 6% of revenue, this is the lowest so far this year, but not yet down to the 4% seen in the corresponding quarter of last year.

Research & Development

Net research and development costs of \$546,000 is above the figures for the first and second quarter of this year, although at 8% of the quarter's revenue it represents the lowest percentage so far this year and is comparable to the rate in the corresponding quarter of last year.

Other Income

Other income in the quarter was higher than normal at \$130,000. Items of particular note were the release of \$44,000 of the deferred revenue which arose on the sale and leaseback of the Corporation's premises in Lincoln, England (and which will be repeated in future quarters) and rental of \$80,000 paid by the new owners of the microwave sensors business for occupation of part of the factory from the date of purchase until mid November. That business has now transferred to another site in Lincoln.

Foreign Exchange Loss

The foreign exchange loss of \$48,000 represents a significant reduction on previous quarters as the Canadian dollar's slide against Sterling has halted. By its nature, this figure is unpredictable.

Loss from Continuing Operations

Although a loss from continuing operations is disappointing, the figure of \$1.3m is approximately half of what it was in the previous quarter and around 40% of the figure for the first quarter. The quarter's figure indicates that slow but steady progress is being made on the road to profitability.

Earnings from Discontinued Operations

The result for the current quarter includes a one-off release of provisions amounting to \$340,000. The underlying earnings (excluding this release) of \$90,000 relate to the seven week period prior to the disposal.

Profit on Disposal of Discontinued Operations and Net Earnings

The Corporation realized a profit of \$4.0m on the disposal of the microwave sensors business that enabled us to report net earnings for the quarter of \$3.1m

Outlook

The results from the continuing operations represent a continuation of the trend seen in earlier quarters of this year. Sales of high power semiconductors are increasing whilst indirect and overhead expenditure is being kept in check. The business expects this trend to continue and to return to profitability in the second half of next year.

A handwritten signature in black ink, reading "Bob Lockwood", is written over a horizontal line. To the right of the signature is a vertical line.

Bob Lockwood
Chief Financial Officer
28th November, 2003

Consolidated Financial Statements (Unaudited) of

DYNEX POWER INC.

Quarter Ended September 30th, 2003

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

	Sept 30th 2003	Dec 31st 2002
CURRENT ASSETS		
Cash and cash equivalents	\$ 518,716	\$ 1,127,035
Cash in Escrow	568,950	-
Accounts receivable	4,844,154	7,665,930
Inventories	7,836,941	8,168,645
Due from shareholders	-	28,171
Prepaid expenses and deposits	522,268	371,069
	14,291,029	17,360,850
CAPITAL ASSETS		
	824,829	7,029,837
	\$ 15,115,858	\$ 24,390,687
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	\$ 5,437,703	\$ 9,700,257
Short-term loans	3,846,004	5,840,027
Current portion of long-term debt	17,640	2,012,757
Current portion of deferred revenue	173,237	-
	9,474,584	17,553,041
LONG-TERM DEBT	17,640	2,538,484
LONG TERM DEFERRED REVENUE	2,338,695	-
FUTURE TAX PAYABLE	-	467,342
	11,830,919	20,558,867
SHAREHOLDERS' EQUITY		
Share Capital	9,754,870	9,359,870
Deficit	(6,004,498)	(4,567,860)
Cumulative translation adjustment	(465,433)	(960,190)
	3,284,939	3,831,820
	\$ 15,115,858	\$ 24,390,687

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

	3 months	3 months	YTD	YTD
	Sept 30th	Sept 30th	Sept 30th	Sept 30th
	2003	2002	2003	2002
Revenue	\$ 7,077,278	\$ 8,260,987	\$ 16,660,225	\$ 23,448,023
Cost of sales	6,236,862	6,465,128	16,641,548	19,843,288
Gross margin	840,416	1,795,859	18,677	3,604,735
Expenses				
General and administration	1,295,157	1,092,499	3,939,824	3,187,121
Sales and marketing	416,141	358,618	1,197,817	1,106,353
Research and development	546,111	689,696	1,488,207	1,266,343
	2,257,409	2,140,813	6,625,848	5,559,817
(Loss) before other income (expenses) and income taxes	(1,416,993)	(344,954)	(6,607,171)	(1,955,082)
Other income (expenses)				
Interest and other income	130,248	3,401	190,436	10,200
Foreign exchange (loss) gain	(48,067)	337,261	(929,020)	232,658
	82,181	340,662	(738,584)	242,858
(Loss) before income taxes	(1,334,812)	(4,292)	(7,345,755)	(1,712,224)
Recovery of (provision for) income taxes	-	(3,253)	416,655	(13,355)
NET (LOSS) FROM CONTINUING OPERATIONS	(1,334,812)	(7,545)	(6,929,100)	(1,725,579)
NET EARNINGS FROM DISCONTINUED OPERATIONS	437,177	352,106	1,518,686	1,548,803
PROFIT ON DISPOSAL OF DISCONTINUED OPERATIONS	3,973,776	-	3,973,776	-
NET EARNINGS (LOSS) FROM OPERATIONS	3,076,141	344,561	(1,436,638)	(176,776)
DEFICIT, BEGINNING OF PERIOD	(9,080,639)	(5,537,317)	(4,567,860)	(5,015,980)
DEFICIT, END OF PERIOD	\$ (6,004,498)	\$ (5,192,756)	\$ (6,004,498)	\$ (5,192,756)
(Loss) per share from continuing operations				
Basic	(\$0.07)	(\$0.00)	(\$0.36)	(\$0.10)
Fully diluted	(\$0.07)	(\$0.00)	(\$0.36)	(\$0.10)
(Loss) earnings per share				
Basic	\$0.15	\$0.02	(\$0.07)	(\$0.01)
Fully diluted	\$0.15	\$0.02	(\$0.07)	(\$0.01)
Weighted average number of shares				
Basic	20,225,396	16,687,538	19,515,563	16,687,538
Fully diluted	20,540,365	16,687,538	19,515,563	16,687,538

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

	3 months	3 months	YTD	YTD
	Sept 30th	Sept 30th	Sept 30th	Sept 30th
	2003	2002	2003	2002
OPERATIONS				
Net earnings(loss)	\$ 3,076,141	\$ 344,561	\$ (1,436,638)	\$ (176,777)
<u>Items not affecting cash:</u>				
Amortization	88,787	189,095	268,796	568,170
Future tax payable	-	(747)	(420,190)	(2,282)
Amortization of deferred finance charges	185,000	-	231,000	-
(Gain) on disposal of capital assets	(46,225)	(6,464)	(112,185)	(13,899)
(Gain) on disposal of discontinued operations	(3,973,776)	-	(3,973,776)	-
Changes in non-cash operating working capital	(1,625,607)	302,776	(2,515,198)	4,084,044
	(2,295,680)	829,221	(7,958,191)	4,459,256
FINANCING				
Shares issued for cash	10,000	24,000	74,000	316,500
(Decrease) in short-term debt	(1,751,176)	(838,984)	(3,925,339)	(3,523,337)
Increase (decrease) in amount due to shareholder	(196,829)	-	528,171	290
(Decrease) in long-term debt	(4,410)	(490,741)	(2,410,467)	(1,263,864)
	(1,942,415)	(1,305,725)	(5,733,635)	(4,470,411)
INVESTMENTS				
Proceeds on disposal of capital assets	1,914	27,446	8,440,228	34,920
Purchase of capital assets	(14,853)	-	(48,065)	-
Proceeds on the disposal of discontinued operations	4,536,717	-	4,536,717	-
	4,523,778	27,446	12,928,880	34,920
Effect of foreign currency translation on cash flow	10,332	(374,862)	723,577	(321,531)
INCREASE (DECREASE) IN CASH POSITION	296,015	(823,920)	(39,369)	(297,766)
Cash, beginning of period	791,651	1,055,093	1,127,035	528,939
CASH, END OF PERIOD	\$ 1,087,666	\$ 231,173	\$ 1,087,666	\$ 231,173
Supplementary Information:				
Interest paid	\$ 231,320	\$ 257,406	\$ 393,543	\$ 724,974
Income taxes paid during year	-	-	-	-

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

1. DESCRIPTION OF BUSINESS

The Corporation is engaged in the design and manufacture of high power semiconductors.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Accounting Policies

The Consolidated Financial Statements presented here are prepared using the same accounting policies as were used last year, details of which are set out in the Annual Report for 2002.

Basis of presentation of 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.

Sale of Sensors Business

As reported in the Chief Executive's letter and the Management Discussion & Analysis, the Corporation sold its Sensors business for cash on August 22nd, 2003. Consequently, the net earnings of the Sensors business and the profit on sale are reported separately after the results of the continuing operations.

Deferred Revenue

The gain on the sale and leaseback of the land and buildings (note 7) has been deferred and is being amortized over the 15 year minimum term of the resulting lease.

3. INVENTORIES

	<u>Sept 30th, 2003</u>	<u>Dec 31st, 2002</u>
Raw materials	\$ 2,130,767	\$ 2,601,796
Work in progress	4,862,373	4,223,986
Finished goods	843,801	1,342,863
	<u>\$ 7,836,941</u>	<u>\$ 8,168,645</u>

Inventory is presented net of a provision of \$11,184,285 (Dec 31st, 2002 - \$12,357,127).

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

4. CAPITAL ASSETS

	Sept 30th, 2003			Dec 31st, 2002
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Land	\$ -	\$ -	\$ -	\$ 524,306
Buildings	-	-	-	3,337,181
Equipment	1,938,803	1,113,974	824,829	3,168,350
	\$ 1,938,803	\$ 1,113,974	\$ 824,829	\$ 7,029,837

5. SHORT-TERM LOAN

The Corporation has two loans from a director of the Corporation totalling \$500,000 (Dec 31st, 2002 – \$Nil) which bear interest at 4% per annum compounded monthly and are repayable on December 30th, 2003. The Corporation granted warrants to acquire shares in conjunction with these loans, details of which are set out in Note 8.

The Corporation has a short term loan of \$3,346,004 (Dec 31st, 2002 - \$5,840,027) secured by a first charge on all capital assets, inventory, cash and cash equivalents and accounts receivable. The loan is repayable on demand. At September 30th, 2003 Dynex Semiconductor Ltd. was in breach of the covenant on this loan. The Corporation has received a waiver of this covenant violation.

6. LONG-TERM DEBT

Long-term debt outstanding

	Sept 30th, 2003	Dec 31st, 2002
Commercial finance facility	\$ -	\$ 4,463,534
Small business loan	-	43,607
Loan secured under a general security agreement	35,280	44,100
	35,280	4,551,241
Current portion	17,640	2,012,757
	\$ 17,640	\$ 2,538,484

Principal payments

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

(October to December) 2003	4,410
2004	17,640
2005	13,230
	\$ 35,280

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

7. DEFERRED REVENUE

On March 25th, 2003 the Corporation's subsidiary entered into a sale and leaseback of its land and buildings in Lincoln, England. The profit realized on the sale of \$2,612,747 has been deferred. Amortization of this gain, amounting to \$44,312 is included in other income for the quarter ended September 30th, 2003

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:

		Sept 30th, 2003	Dec 31st, 2002
Common shares	- amount	\$ 9,754,870	\$ 8,909,870
	- number	20,250,396	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 18).

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

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 per share was granted in conjunction with this loan. The warrant was exercised on May 13th, 2003.

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 an exercise price of \$0.24 per share. The loan has now been repaid and the warrant has been cancelled.

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

On August 21st, 2003 a warrant to acquire 50,000 common shares at an exercise price of \$0.20 was exercised by a director of the company.

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

8. SHARE CAPITAL (continued)

Stock option plan

A total of 2,650,000 (December 31st 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 since last year end is summarized below:

	<u>Number of Options</u>	<u>Weighted Average Exercise Price</u>
Outstanding at December 31st, 2002	1,641,000	\$ 1.02
Granted	160,000	\$ 0.34
Exercised	(50,000)	\$ 0.20
Cancelled	(8,500)	\$ 2.00
Outstanding at September 30th, 2003	<u>1,742,500</u>	<u>\$ 0.94</u>

The weighted average remaining life of the outstanding options is 2 years and 1 month. At September 30th, 2003 there are 1,134,333 options exercisable with a weighted average exercise price of \$0.98

At September 30th, 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
	150,000	\$ 0.23	April 28, 2003	April 28, 2008
Directors who are not officers	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	1,742,500	\$ 0.94		

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

8. SHARE CAPITAL (continued)

Stock-based compensation

The CICA Handbook Section 3870 requires the disclosure of pro forma net earnings as if the Corporation had accounted for its stock-based compensation issued subsequent to January 1st, 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 Sept 30th 2003	3 months Sept 30th 2002	YTD Sept 30th 2003	YTD Sept 30th 2002
Net earnings, (loss) as reported	\$ 3,076,141	\$ 334,561	\$ (1,436,638)	\$ (176,776)
Pro forma net earnings (loss)	3,074,927	334,561	(1,440,280)	(176,776)
Earnings per share, as reported	\$ 0.15	\$ 0.02	\$ (0.07)	\$ (0.01)
Pro forma earnings per share	0.15	0.02	(0.07)	(0.01)

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 1st, 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 September 30th, 2003. The amount of the stock-based compensation 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 dividend.

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 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 in share capital. Of this amount, \$46,000 was charged to general and administrative expense in the second quarter. The remaining \$185,000 has been expensed in this quarter.

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

9. INCOME TAXES

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

	3 months Sept 30th 2003	3 months Sept 30th 2002	YTD Sept 30th 2003	YTD Sept 30th 2002
Current	\$ -	\$ 3,253	\$ 3,535	\$ 13,355
Future	-	-	(420,190)	-
	\$ -	\$ 3,253	\$ (416,655)	\$ 13,355

As at September 30th, 2003 the Corporation 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 September 30th, 2003 the Corporation has United Kingdom tax loss carry forward of \$1,507,000 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. NET EARNINGS FROM DISCONTINUED OPERATIONS

The following are the revenue, gross margin and net earnings figures for the discontinued operations:

	3 months Sept 30th 2003	3 months Sept 30th 2002	YTD Sept 30th 2003	YTD Sept 30th 2002
Revenue	\$ 795,396	\$ 1,716,200	\$ 4,189,831	\$ 5,158,854
Gross margin	540,933	445,522	1,791,432	1,878,826
Net earnings	437,177	352,106	1,518,687	1,548,803

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

10. NET EARNINGS FROM DISCONTINUED OPERATIONS (continued)

The Board of Directors concluded that the Corporation did not have sufficient resources to develop properly both the high power semiconductor business and the microwave sensors business. Following a review of the future prospects of the two businesses, a decision was taken to dispose of the microwave sensors business and to invest the cash released by the sale into the development of the high power semiconductor business. The microwave sensors business was sold for cash on August 26th, 2003. Included in the sale were fixed assets with a net book value of \$6,000, inventories with a carrying value of \$591,000 and a liability for future warranty claims of \$34,000

11. COMMITMENTS

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

2003	\$ 183,911
2004	655,275
2005	643,559
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	\$ 1,482,745
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12. CHANGES IN NON-CASH OPERATING WORKING CAPITAL ITEMS

	3 months Sept 30th 2003	3 months Sept 30th 2002	YTD Sept 30th 2003	YTD Sept 30th 2002
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Accounts receivable	\$ 432,536	\$ 449,628	\$ 2,073,041	\$ 1,876,315
Inventories	211,481	835,035	(1,276,852)	2,318,009
Prepaid expenses and deposits	(36,006)	6,308	(215,152)	187,663
Accounts payable and accrued liabilities	(2,233,618)	(988,195)	(3,096,235)	(297,943)
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	\$ (1,625,607)	\$ 302,776	\$ (2,515,198)	\$ 4,084,044
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13. ECONOMIC SIGNIFICANCE

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

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

14. FINANCIAL INSTRUMENTS

There is financial risk to the Corporation's earnings that arises from fluctuations in foreign exchange 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, accounts payable and short-term loans 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, in the market, for loans with similar terms, conditions and maturities. The carrying value amount of all long term debt was similar to their fair

15. BUSINESS SEGMENT INFORMATION

Following the disposal of the Sensors business, the Corporation now concentrates solely on the manufacture and sale of high power semiconductors and as such no longer presents data by business area.

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 Sept 30th 2003	3 months Sept 30th 2002	YTD Sept 30th 2003	YTD Sept 30th 2002
Revenue:				
Europe	\$ 5,310,573	\$ 4,171,641	\$ 11,674,767	\$ 12,502,022
North America	1,282,272	2,720,470	3,286,196	8,457,143
Far East and other	484,433	1,368,876	1,699,262	2,488,858
	\$ 7,077,278	\$ 8,260,987	\$ 16,660,225	\$ 23,448,023
Assets:			Sept 30th, 2003	Dec 31st, 2002
Europe			\$ 822,238	\$ 7,027,246
North America			2,591	2,591
			\$ 824,829	\$ 7,029,837

DYNEX POWER INC.
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Quarter ended September 30th, 2003

16. 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.

An action against the Corporation was commenced by a former consultant to the Corporation in the Ontario Superior Court of Justice on February 4th, 2002 for payment of \$321,000 CDN 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 differ from the amount accrued.

17. PENSION PLAN

The Corporation incurred expenses of \$ 137,786 (September 30th, 2002 - \$172,199) 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 September 30th, 2003 \$319,073 (December 31st, 2002 - \$362,568) is included in accrued liabilities.

18. RELATED PARTY TRANSACTIONS

The Corporation incurred expenses of \$67,500 (September 30th, 2002 - \$67,500) with respect to fees payable to directors. As at September 30th, 2003, \$67,500 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 LLP

UK Deloitte & Touche LLP

Legal Counsel

LaBarge Weinstein LLP, Ottawa, Ontario

Dynex Addresses

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