DYNEX POWER INC.

ANNUAL REPORT 2004

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This annual report may contain forward looking statements that involve a number of risks and uncertainties, including statements regarding the outlook for the Corporation's business and results of operations. 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 & Analysis of this report as discussed in public disclosure documents filed with the Canadian Regulatory Authorities. Dynex disclaims any intention or obligation to update or revise any forward looking statement whether as a result of new information, future events or otherwise.

All figures in Canadian dollars except as otherwise stated.

Company Profile

Dynex is one of the world's leading suppliers of specialist, high power semiconductor products. Dynex Semiconductor Ltd is its main operating business and is based in Lincoln, England in a facility housing the fully integrated silicon fabrication, assembly and test, sales, design and development operations. Dynex primarily designs and manufactures high power bipolar discrete semiconductors, power modules, including insulated-gate bipolar transistors (IGBTs), and high power electronic assemblies. Dynex products are used world wide in power electronic applications including electric power generation, transmission and distribution, marine and rail traction drives, aircraft, electric vehicles, industrial automation and controls. The Company continues to produce and sell certain high reliability integrated circuits (IC's) for use in specialist applications

Company facts

- Dynex Semiconductor Ltd formed in January 2000
- Original business founded in Lincoln UK in 1957
- Prior trade names:
  - AEI Semiconductors Ltd (AEI)
  - Marconi Electronic Devices Ltd (MEDL)
  - GEC-Plessey Semiconductors Ltd. (GPS)
- 197 employees (December 2004)
- ISO9001:2000 and ISO14001 approved
- URL at www.dynexsemi.com

Products

- High Power Bipolar Discrete Semiconductors
- High Power IGBT and Bipolar Modules
- High Power Electronic Assemblies and components
- High reliability Silicon on Sapphire ICs and SAW filters

Customers & markets

Our customers are electronic equipment manufacturers and maintenance providers in the following sectors:

- Electric power transmission and distribution
- Alternative and distributed power generation
- Marine and rail propulsion and on board systems
- Heavy industries such as steel and mining
- Factory automation
- Aerospace
- Medical equipment
- Telecommunications and
- Electric vehicles

Highlights of 2004

Announcements and Highlights 2004

May	Released first products in a new range of high performance, high voltage thyristor products (i^2 thyristor range).
August	Completed a private placement with gross proceeds of $2.5million
August	Appointed Mr. Daniel Owen to the Board as a non-executive director.
September	Announced receipt of bookings to the value of more than $2.0million from Alstom Power Conversion Ltd. in the UK and Alstom Transport Inc. in the USA. The contracts are to supply components for the UK type 45 destroyer programme and the New York Metro System.
October	Announced restructuring initiatives and cost savings including 40 job losses and short term management pay cut.
November	Paul Taylor appointed as President and CEO
December	Received an incremental $1.5million in debt and equity financing.

Selected Financial Information

All figures in millions of Dollars unless stated otherwise

	2004	2003
Revenue	23.9	23.6
Gross margin	2.4	0.8
Gross margin %	10.0%	3.6%
Net loss from continuing operations	(5.4)	(7.5)
Total assets	14.7	14.9
Working capital	1.7	4.2
Debt --Long term	0.3	0.0
--Short term	5.3	4.0
Shareholders' deficit	(0.1)	2.6
Basic loss per share from continuing operations (cents)	(0.23)	(0.38)
Basic loss earnings per share (dollars)	(0.23)	(0.11)
Common shares issued and outstanding	26,917,354	20,708,729
Weighted average number of shares	23,336,696	19,714.917
Average number of employees	225	253

Letter to Shareholders

2004 at Dynex will be remembered as a year of change: re-structuring our operations against a backdrop of growing market opportunity, flat revenues, the urgent need for liquidity and reductions in our cost base. This was our first full year following the sale of the microwave sensors business and the sale and leaseback of our land and buildings. These changes gave us the opportunity to reorganise the factory workspace, operational management and support functions, and thus to apply both greater focus onto the high power semiconductor business and remove redundant overhead costs.

My appointment in November 2004 as President and Chief Executive marked the end of several years' intensive design and development of a range of new products, IGBT and diode modules, and the new range of i^2 thyristors, under my leadership as Chief Technology Officer. At the same time many of the engineers previously working in our Research and Development group were set new objectives within newly defined Power Product Groups of Bipolar, Electronic Assemblies and Modules. These objectives, based on our high power semiconductor competence, placed renewed emphasis on cost control and production lead times, in addition to achieving production ramp up for the range of new products. This now sets a firm product foundation for our future and gives us an opportunity to reap the benefits of our excellent technologies.

The new product group structure, in contrast to the previous functional organisation, also allowed us to reduce head count, particularly in management and support functions. As a result we reduced our numbers through the year by 33 employees (14%). In parallel, we have been reducing our office space, closing down redundant manufacturing areas, leading to savings in overhead costs, and working hard to secure new low cost sources for many of our component piece parts. The net effect of all these changes has been to create a leaner, more efficient Dynex and this will facilitate our return towards profitability in 2005. Particularly encouraging was the fourth quarter of 2004, where we successfully achieved a small profit, before the exceptional restructuring costs. This was the first time in recent quarters that we have delivered a profit from on our continuing operations and it demonstrates the potential of our new operating model.

Although the year began with strong revenues, continuing working capital constraints and delayed or lost orders for our Power Electronic Assemblies product group combined to depress revenues below expectations, particularly in the latter half of the year. This in turn further limited cash availability and resulted in significant problems with our suppliers. We forecast that revenues will remain depressed through the first half of 2005 until we recover our supply chains and the confidence of our suppliers and our customers. Nevertheless it is pleasing to report that the revenue for the full year ended marginally ahead of that for 2003 for continuing operations. It is even more encouraging to see that core Bipolar and Power Module Groups both reported solid revenue growth over 2003, totalling 10%, and positive book to bill ratios.

Market indicators remain positive. Data from IMS (Intex Market Services Ltd) indicated a discrete power semiconductor market of US$9.4million for 2004 growing at a compound annual growth rate of 10% over the next 5 years, continuing the trend we have seen over the past year. SIA (Semiconductor Industry Association) data announced in January 2005 that the world wide sales of semiconductors reached a record US$213 billion in 2004 with an expected compound annual growth rate of 11.7%. More importantly, forecasts from our own customer base supports continued growth due to demands for high power semiconductor products in electric power transmission and distribution, electric and hybrid vehicles (including road, rail, marine and air) and factory automation of heavy machines and high power factory power supplies.

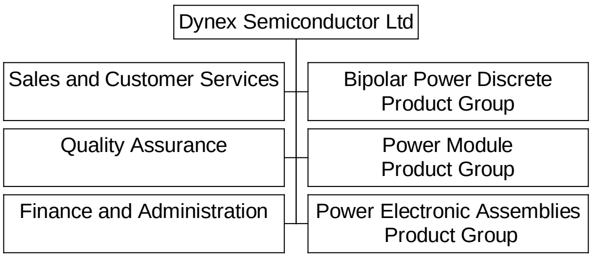
It is a pleasure to have the opportunity to lead the new Dynex in such an exciting time. Our market sector is growing and Dynex is making progress in responding to the need to become more competitive. There is much to do to build on the restructuring of recent months and to recover the confidence of our stakeholders. At Dynex we have the benefit of a motivated and highly skilled group of employees, the backing of our key customers and loyal suppliers and we look forward to success in the coming year with your continued support.

PDTaylor

Paul D Taylor
President & CEO

Description of Operations

During the last Quarter of 2004 we have significantly restructured our operations. Prior to this Dynex was organised into functional units: manufacturing, marketing, sales, technology etc. Subsequently the organisation has been re-structured around product groups. Each product group includes manufacturing, engineering, research and development, and marketing and has product gross margin responsibility. The three main product groups are Bipolar Discrete Products, Power Modules, and Power Electronic Assemblies. The Integrated Circuit Product lines are retained as a product group, but are now managed within the Power Module Group.



The benefits of the new structure are only just beginning to be seen. It is providing greater focus on maintaining quality standards, improving product gross margins and profitability and providing more rapid response to our customers.

Bipolar Discrete Product Group

2004 Activities

The Bipolar Discrete Product Group includes all the high power phase control thyristors, rectifier diodes, fast thyristors, fast diodes, gate turn off thyristors (GTOs) and transistors.

Billings for the Bipolar Discrete Product Group were $14million, a steady growth of 5% on the figure for 2003. Material supply shortages limited the growth in billings and led to an increase in delivery lead times to our customers. Sales of GTOs and phase control thyristors increased in excess of 15% over the year, but this was offset by a decline in the sales of rectifier diodes and transistors. A beneficial effect of the change in product mix was a favourable enhancement in gross margins for the group. Bookings also improved compared to 2003, delivering a book to bill ratio of 1.06, and reflecting steady growth in this product group.

Key Issues

A number of key issues faced the Group during 2004 and some of them remain to be tackled as we enter

2005. The primary aim is to improve the working relationships with our suppliers that will allow us to improve on-time delivery and lead times. Through better lead times and greater control over incoming materials we also anticipate improvements in stock management and product availability. We further aim to improve the cost competitiveness of all products by focusing on lower component costs, lower overheads and higher production yields. As the largest Product Group, it has a strong part to play in reducing the overall factory running costs and working with our sub-contractors to find greater efficiencies and to eliminate waste.

Business Development

The Group continues to explore areas where new technology can enhance the performance and manufacturing capability of our bipolar products. Through 2004 the focus of R&D activity has been the completion of the development phase of the new range of aluminium ion implant (i^2) converter thyristors, and the transfer of the technology to production. This technology offers the benefits of even higher power from a given area of silicon. Product development will not stop there. Plans are in place to enhance further the capability of the i^2 thyristor in 2005/6 by improved contacting technology.

The market for Dynex Bipolar Discrete products is predominantly industrial and includes industrial drives and soft-start equipment, rectifier equipment for track-side sub-stations, electrochemical plant and aluminium smelting, High Voltage Direct Current (HVDC) transmission, static compensators, static transfer switches, aerospace systems and spares for traction equipment.

The introduction of the new i^2 product range announced in May gives Dynex access to new markets in medium voltage drives with the 6.5kV and 8.5kV products, and to equipment for direct connection to 690V with the introduction of the 2200V range. The rest of the i^2 product range is designed to substitute existing products with product of improved performance, which on a size for size basis is as good as, or better than our competitors.

The Group continued to supply a wide range of products to the marketplace during 2004 with over 500 different bipolar product types sold. Our strategy remains that of introducing new products and extending our range while maintaining support for our traction thyristor and GTO product ranges in order to gain market share where other suppliers are withdrawing products. The Group prides itself on maintaining a high level of technical support to customers and responding efficiently to any new technical opportunity.

Power Module Product Group

2004 Activities

The Power Module Product Group includes the insulated gate bipolar transistor modules (IGBTs), fast diode and thyristor power modules, and the Integrated Circuit (ICs) products that are reported separately below.

The total billings for this group, excluding ICs, reached $3.3 million in 2004. At the start of the year there was continuation in the steady growth in IGBT and bipolar module revenues. The year ended with billings 41% higher than the previous year, mainly driven by improved performance for the IGBT product lines. Despite the strong growth, revenue was constrained throughout the year by material supply shortages. However the indications are that IGBTs will continue to deliver improved revenues, at a steady growth rate, as design wins for the new products turn into production sales. Bookings were also up and delivered a book to bill ratio of 1.10 that underpins the anticipated growth in revenues.

A large range of new products, including the 1200V and 1700V trench gate IGBTs, 3.3kV soft punch through IGBTs and medium power modules (W and B outlines), were transferred into full scale production for the first time. These new products are a material factor leading to improved customer bookings and higher revenues. In addition, as announced in the press in September 2004. a further major order for the high voltage IGBT module requirements for the Type 45 destroyer programme was received.

Key Issues

During 2004, the Power Module product portfolio has been focused onto high power and high voltage IGBT and diode modules, reflecting the competence of the business in high power and high reliability components. The move to high power modules was also in response to price pressures on the lower power product, where gross margins are low. The higher power products, with lower volumes and greater specialisation, not only deliver higher margins, but also provide a better fit to our customer and market base.

The market continues to require keen pricing, high product reliability and exacting technical performance. Our engineering teams are now well placed, following the completion of the product development programmes, to focus on improvements in assembly and test procedures which will increase our capacity, improve quality, and reduce costs so that we can present a more efficient power module capability to our customers.

Business Development

The special strengths of the Group lie in high power, high reliability, modules, and in its ability to offer a flexible approach to our customers' requirements. Sales representatives and distributors act as a link between customers and our UK based power module technical support team, whose role is to facilitate customers' design and development processes. In 2004 the Group saw particular success in the Far East with a strong up take of the latest IGBT products. Business development has also been successful in Europe and the USA with several new design wins and new customers.

To ensure that the Group remains up to date with the latest developments in power module technology we maintain an active research and development programme in power modules, and nurture strong links to innovative research teams across UK and the rest of Europe. Examples of this are the FSDG (Fan Shaft Driven Generator) project that is in its final year developing application specific IGBT modules for aerospace and the completion of modules for the JSF aircraft announced in April 2003.

A feature of the year was the completion of the major IGBT module product developments and their transfer to production. In addition the R&D group produced sample types of 6.5kV IGBT modules and continued to work under customer contracts on a range of specialised modules. Examples of such custom modules include modules for switch reluctance drives, matrix converters, aerospace converters and silicon carbide devices.

Integrated Circuit Products

Dynex continues to supply a number of Integrated Circuit products to customers, although the development of new products has ceased. These include silicon-on-sapphire components for use in space and other high radiation environments, motor control circuits, and surface acoustic wave (SAW) filters for telecommunications. Billings reached $3.0million, 87% above the previous year. However the book to bill ratio was 0.76 reflecting a slow decline in demand for these older components.

Power Electronic Assemblies Group

2004 Activities

In contrast to the other Groups, the Power Electronic Assemblies Group (PEA) saw revenues down to 43% of those in 2003. This was due to the lack of bookings for project work on STATCOM and SVC assemblies for power utility applications (these are flexible AC transmission systems used to maintain power quality and efficiency in both utility and factory electric power supplies). This downturn largely reflected unforeseen delays in receipt of major contracts by our primary customer in this sector. However, the group remained profitable, making a strong contribution of $3.6million in billings to the business, with favourable margins throughout the year. PEA successfully built on its relationships with key customers to support them in SVC and HVDC manufacture and test (HVDC equipment is used to convert between AC and DC electric power in utility power transmission systems). This has enhanced the overall capability of the group providing a strong platform for 2005. The book to bill ratio remained positive at 1.08.

With a continuing background level of manufacturing and designs incorporating Dynex Semiconductor products, this 'added value' feature of the assemblies business has continued to help in understanding the applications and thermal management requirements of our power semiconductors. A number of novel and unique power assemblies have been produced for several applications. These include emerging opportunities in wind generation and motor drives as well as the more traditional power semiconductor applications.

Key Issues

The major challenge for 2004 was to remain profitable despite the downturn in business. This was successfully achieved through keeping costs at a minimum by releasing manpower to support other areas of the operation, whilst still providing essential support for the remaining PEA business.

The engineering team changed significantly at the end of 2004, due to restructuring and staff retirement. However, action has been taken to replace the key staff. Fresh approaches to new business that will build on the strong foundations already in place will be seen in 2005.

Business development

Looking forward, PEA will continue to act as a conduit for semiconductor sales with added value products. In addition, there are four key sectors where new business development will take place in 2005:

- New designs in emerging sectors of the power electronics industry (motor drive, alternative energy and energy management).
- Contract support for key customers
- Refurbishment and replacement of existing systems in the traction market
- Continued support for traditional power electronics assemblies.

The injection of the new engineering team, the development of strong links with Nottingham University through the award of a Knowledge Transfer Partnership by the UK Department of Trade and Industry (DTI), and increasing levels of sub-contract business from key customers are expected to build a stronger PEA group for the future.

Global Sales and Distribution

During 2004, Dynex Semiconductor took the decision to service a larger portion of its customer base, in areas outside Europe, by the use of distributors, agents, and sales representatives. Europe has always been the major market for the company’s products, accounting for around 70% of its sales in recent years, but emerging markets in Asia and particularly China are viewed to be essential for the company’s future growth as OEMs increasingly look to off-shore manufacturing sources in this region. As a result of this new strategy, orders from Asia rose by 35% to 18% of the order intake whilst those from the Americas rose by 20% to account for 21% of the total. Of special note we confirmed Sunny Electric Trading Co., Ltd., China as our Top Distributor for 2004. To win this award Sunny had contributed $2.0 million in new bookings in 2004 and a year on year growth of 100% compared to 2003. China and Hong Kong now ranks as the fourth largest market for the company behind the UK, France and the United States, pushing Germany and Switzerland into fifth place. During this same period the number of active accounts rose by around 5% with the Americas showing a 15% growth and Asia 23%.

These figures indicate that the distributors, agents and representatives chosen by Dynex have had a significant effect on the sales performance in the past year, improving the proportion of goods exported and reducing the dependency on our home markets. The focus for the coming year will be to strengthen further these new relationships that have been forged, build confidence in our ability to service their requirements, grow the value per account and the number of accounts.

This successful strategy of outsourcing the selling effort has meant that, during the fourth quarter, the company was able to reduce it's own sales force by three. The reduction in the headcount and travelling costs has also made a significant reduction in the overhead costs associated with the Sales & Marketing activity, thus releasing resources into the manufacturing heart of the operation

Quality and Environment

Dynex Semiconductor Ltd continues to hold and maintain accreditation for the Quality Management System (QMS) standard ISO9001:2000. In 2004 it passed the required independent audits without any noted nonconformity. The key elements of the QMS are:

- Understanding customer's requirements and expectations.
- Business planning which defines objectives and key performance indicators.
- Working in close partnership with suppliers to ensure requirements are fully understood and achieved.
- Participation of all employees in the process of continually improving the effectiveness of the management system.
- Provide through training and motivation of employees, a working environment that understands the importance of quality and its benefits in the growth and success of Dynex Semiconductor

Dynex also continues to hold and maintain accreditation for the Environmental Management System (EMS) standard ISO14001: 1996 and agrees to contribute to the preservation of the environment by establishing, implementing and continually improving this environmental management system as an integral part of good business practice. As part of the environmental policy, a general statement of compliance to the European Union's directive on the "Restriction of Hazardous Substances Directive" (RoHS) was issued in 2004

Research and Development

Advancing with new materials

Following the restructuring of Dynex Semiconductor Ltd into Product Groups, the Research and Development activities are managed and reported within the separate groups.
However a number of broader technology development activities, where the outcomes are generic and may be applied to any or all of the separate groups, are maintained.

2004 was the first year of work with Element 6 and Cambridge University in applying diamond semiconductor materials to power electronic devices. The first successes of the project were to demonstrate rectifying diode action in this new material, develop processes and techniques for ohmic contacts and to show compatibility with Dynex manufacturing capabilities. This new electronic material shows great promise for future products on the 5 to 10 year horizons. This work was funded by the DTI under the Basic Technologies for Industrial Applications (BTIA) programme

Collaboration also took place on the ESCAPEE project (Establish Silicon Carbide Applications for Power Electronics in Europe) which is now in its penultimate year. In this European Union funded programme, Dynex is working with AREVA, ALSTOM, Semelab, Ion Bean Services and a number of research groups across Europe. A feature of the programme so far has been the successful demonstration of high voltage Schottky diodes.

Following growing world wide interest in the applications of emerging nano-technology, a proposal was submitted to the DTI for funding under their micro and nano-technology manufacturing initiative. The concept of this proposal is to apply nano-powder technology to new methods for contacting power devices, thus giving improvement in power handling capability. In August 2004 it was announced by the DTI that Dynex had been allocated a grant subject to contract review. This award has since been confirmed.

Through silicon carbide, diamond and more recently nano-technology, Dynex has sustained its commitment to provide customers access to the latest developments in new materials for power semiconductor components.

Management Discussion & Analysis

The following discussion and analysis should be read in conjunction with the audited Consolidated Financial Statements and Notes of the Corporation for the year ended December 31st, 2004.

This 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 & Analysis of this report as discussed in public disclosure documents filed with Canadian regulatory authorities.

Overview

The last year, and the fourth quarter in particular, has proven to be extremely challenging. We started the year with revenue running close to $7 million per quarter. This was not sufficient to for us to be profitable given the level of fixed operating costs at that time. Our strategy was to grow the revenue during the year and so return the business to profitability. We recognised that a key requirement for success was to maintain access to sufficient working capital to enable the growth to be funded and to ensure that the supply chain could operate efficiently.

First quarter revenue of $6.7 million was down marginally from the level achieved in in the fourth quarter of 2003, but not such that it invalidated the basic strategy. What did become clear was that it would be the third quarter if not the fourth quarter of the year before the growth would begin to show itself in the revenue figures.

In anticipation of the need for a longer period until the benefits of growth came through, and the need to fund that growth when it did come, we opened up a relationship with a new financial institution that we believed could support us through this period. The new institution offered to replace our existing financier and to provide an additional $1.2 million finance line. However, delays by them in finalising the documentation meant that the new funds could not be accessed and the resulting shortage of working capital meant customer orders could not be completed on time. Second quarter revenue fell to $5.4 million, well below our break-even level. Perhaps the most disappointing aspect of these results was that there was significantly more business there to be done had we had the working capital available to be able to do it.

In order to provide additional funding, a private placement of equity was arranged that closed in July and August and which raised $2.3 million net of costs. The improved liquidity position allowed revenue to rise to $6.3 million in the third quarter, but again there was more business that could have been done but for the supply shortages resulting from the tight liquidity position in the second quarter. Our production cycle is several weeks and some key raw materials are on six to ten week lead times, so it can take several months to recover fully from a breakdown in the supply chain.

In late August and early September it became apparent that the growth we had forecast for the fourth quarter was not now going to take place. A number of major customers informed us that because of delays in orders being placed on them, they were delaying their orders on us and we should not expect the orders before the first or second quarters of 2005. In some cases this was twelve months later than we had been first told to expect the business. As a result of our continuing losses and a change in strategy by the financial institution, not only was their offer of an additional $1.2 million of funding withdrawn, but they reduced the existing funds availability. Consequently, the fourth quarter proved difficult. The shortage of liquidity meant that the supply chain was again disrupted, revenue for the quarter fell to $5.5 million and unfulfilled orders grew to nearly $2.5 million by the year end.

Early in the fourth quarter it became clear that the disruption to the supply chain would mean that the growth we had forecast could not take place either in the fourth quarters or even in the first two quarters of 2005. Furthermore, we did not have the resources to finance continued losses nor to finance the growth when it did come. A change in strategy was required.

A plan was developed and implemented in late October and early November to eliminate forty indirect positions from the organisation in order to save approximately $2.4 million per year in payroll costs. Changes were also introduced to save a further $1.5 million a year in non-payroll costs. As part of these changes, Michael LeGoff resigned from his position as President and CEO with Dr Paul Taylor succeeding him in those roles.

The cost of implementing this restructuring plan, approximately $1.5 million, added to our need at a difficult time. A small group of our shareholders provided medium term loans of $1.4 million to enable the restructuring plan to be implemented. The UK Government's Department of Trade and Industry provided a three year interest free loan of $420,000 to help with the redundancy costs. The Directors, senior managers and employees all provided direct support to the restructuring: the Directors have waived their fees for six months from October 2004 to March 2005, senior managers agreed to a 20% pay cut for the last quarter of 2004; and indirect employees moved to a four day week during November, December and January 2005. In addition to the pay cuts and reduced hours, the Corporation suspended its contributions to the pension fund for six months from October 2004 to March 2005.

As a result of these changes and cost savings, we were able to record a small profit (before taking account of the cost of the restructuring plan itself) in the fourth quarter. More importantly, we ended the year with a smaller fixed cost base and a much lower break-even level for the future.

Change in Accounting Policy

With effect from January 1st, 2004, the Canadian Institute of Chartered Accountants requires the Corporation to account for the fair value of all stock options issued since January 1st, 2002. The Corporation has done this in respect of the options issued in April 2003, which were the only options issued since January 2002 that had not previously been accounted for on the fair value method. The impact of the change in accounting policy is insignificant.

Revenue

Revenue for the fourth quarter of 2004 was $5.5 million, down by $0.7 million or 12% from the third quarter and down $1.4 million or 22% against the corresponding quarter of last year. Our cash position during the quarter impacted on our ability to bring raw materials into the factory in a timely manner and therefore our ability to meet customers' delivery requirements. At the end of the year there was nearly $2.5 million of overdue deliveries. Had we been able to deliver these on time, revenue in the fourth quarter would have been significantly higher.

Revenue for the full year of $23.9 million was $323,000 or 1.4% higher than in 2003 and would have been significantly higher if liquidity shortages had not compromised our ability to meet customer orders. Despite our internal problems, the marketplace and demand for our products remains relatively strong.

Gross Margin

Given the high fixed cost nature of the business, a fall in revenue usually results in a disproportionally larger fall in gross margin. However, due to tight financial control, the first fruits of the restructuring exercise and a large, high margin Silicon on Sapphire (SOS) product, a gross margin of $1.1 million was recorded in the fourth quarter. This was $845,000 or four times higher than that reported in the preceding quarter and $300,000 or 38% higher than in the corresponding quarter of last year.

The gross margin for the year of $2.4 million was $1.5 million or nearly three times higher than in 2003. The improvement came from better materials control, increased sales of high margin SOS products and the elimination of low margin products from our portfolio.

Expenses

Overhead expenses in the fourth quarter of $2.7 million included $1.5 million of restructuring costs. Excluding this amount, overhead expenses were $261,000 or 24% below the preceding quarter and $241,000 or 17% below the corresponding quarter of last year. The reduction reflects the first fruits of the restructuring exercise and the impact of some of the short term measures taken to save cash in the fourth quarter.

Overhead expenses for the full year were $7.8 million, some $259,000 or 3% below the figure for 2003. If the cost of the restructuring exercise is excluded from the 2004 figure, the reduction is $1.8 million or 22%, reflecting our continuing efforts to reduce the fixed cost of operation. These costs will fall further in 2005 as a result of the actions already taken.

Interest & Other Income

Interest and other income was $94,000 in the fourth quarter, up by $39,000 or 71% over the preceding quarter. A small loss had been recorded in the corresponding quarter of last year. The main constituent of other income continues to be the $45,000 quarterly release of deferred revenue.

For the full year, Interest and Other Income was $264,000 some $103,000 or 64% higher than in 2003. The main reason for the increase is that the release of deferred revenue only started in April of 2003.

Foreign Exchange Loss

The foreign exchange gain in the quarter of $44,000 reversed a loss in the preceding quarter of $199,000. A gain of $105,000 had been recorded in the corresponding quarter of last year. These gains and losses arise primarily on the intercompany loan from the Corporation to Dynex Semiconductor Limited, the UK operating business. By their nature, these gains and losses are unpredictable.

The loss for the year of $207,000 is significantly lower than the $824,000 recorded last year and reflects the deliberate attempt by management to reduce our exposure to such losses by capitalising the intercompany loan.

Income Taxes

In view of the losses in the quarter, neither the Corporation nor any of its subsidiaries will be paying any taxes in relation to the fourth quarter results. There was no tax payable in the previous quarter or in the corresponding quarter of last year.

During the year, the UK operating company finalised its tax return for 2001, which resulted in the payment of a small, unaccrued tax liability of $2,000. In 2003, there had been a release of a tax accrual of $428,000 that was no longer required.

Net Loss

The net loss in the fourth quarter of $1.4 million was identical to that recorded in the preceding quarter and some $350,000 or 32% higher than in the corresponding quarter of last year. However, if the cost of the restructuring is excluded, a small profit of $56,000 was recorded in the quarter.

The net loss for the year of $5.4 million is $2.1 million or 28% lower than the loss from continuing operations in 2003. If the cost of restructuring is excluded, the loss of $3.9 million is $3.6 million or 48% lower than the loss from continuing operations in 2003.

Segmental Analysis

Revenue for Power Units in the quarter of $3.1 million was $1.6 million or 33% lower than the previous quarter and $1.8 million or 36% lower than in the corresponding quarter of last year. Our inability to complete customer orders because of liquidity related disruptions to our supply chain was the main reason for the shortfall. For the year as a whole, revenue for Power Units of $17.3 million was $1.6 million or 10% higher than last year reflecting continuing strong demand for our products.

Revenue for Power Assemblies of $648,000 was $747,000 or 53% lower than in the preceding quarter and $1.1 million or 62% below the corresponding quarter of last year. The reduction was caused by order postponements from our main customers. For the full year revenue from Power Assemblies of $3.6 million was $2.7 million or 43% down on 2003. By its nature, the Power Assemblies business is built around a small number of large projects. Changes in the timing of these projects can cause large swings in revenue from one period or year to the next. The outlook for this business remains good.

Revenue from Integrated Circuits for the quarter of $1.8 million was up by $1.6 million or roughly ten times larger than in the preceding quarter. Revenue was up $1.5 million or roughly six times what it had been in the corresponding quarter of last year. For the full year revenue of $3.0 million was up by $1.4 million or 87% over last year. The improvement reflects continuing and improving demand for our silicon on sapphire products.

Seasonality

Management does not regard the business as seasonal. Significant changes in quarterly revenues in power devices in the past have reflected internal operating conditions. In the case of power assemblies and integrated circuits, small numbers of large contracts drive both these segments. The delivery of a large contract in a particular quarter can cause revenue to fluctuate significantly, giving the appearance of seasonality.

Liquidity & Capital Resources

The Corporation raised $2.5 million of new equity during the year net of costs. Over 90% of the new equity raised was by way of a private placement which closed in July and August.

A small strengthening of Sterling saw a positive translation adjustment of $128,000.

However, as a result of the losses for the year, shareholders' funds have fallen, despite the new equity and positive translation adjustment, by $2.7 million and now stand in a deficit position at negative $103,000.

The Corporation also raised $1.4 million of new loans during the year to help fund losses and to provide working capital.

Selected Financial Information

Selected quarterly financial information (taken from the unaudited quarterly reports) and annual information (taken from the annual reports) is presented on the next page. All amounts are stated in thousands of dollars except for earnings per share figures (EPS) which are stated in dollars per share. The figures for long term liabilities do not include deferred revenues, as these are not a liability of the Corporation.

	2004 Q4	2004 Q3	2004 Q2	2004 Q1	2003 Q4	2003 Q3	2003 Q2	2003 Q1	2004 FY	2003 FY	2002 FY
Revenue	**5,543**	**6,266**	**5,363**	**6,714**	**6,903**	**7,077**	**5,261**	**4,348**	**23,886**	**23,563**	**30,581**
Continuing operations:											
Net (loss)	(1,442)	(1,438)	(1,924)	(576)	(548)	(1,335)	(2,813)	(2,826)	(5,380)	(7,477)	(2,531)
Basic EPS	(0.05)	(0.06)	(0.09)	(0.03)	(0.02)	(0.07)	(0.14)	(0.18)	(0.23)	(0.38)	(0.14)
Diluted EPS	(0.05)	(0.06)	(0.09)	(0.03)	(0.02)	(0.07)	(0.14)	(0.18)	(0.23)	(0.38)	(0.14)
Total operations:											
Net earnings/(loss)	(1,442)	(1,438)	(1,924)	(576)	(650)	3,076	(1,762)	(2,751)	(5,380)	(2,087)	448
Basic EPS	(0.05)	(0.06)	(0.09)	(0.03)	(0.04)	0.15	(0.09)	(0.15)	(0.23)	(0.11)	0.03
Diluted EPS	(0.05)	(0.06)	(0.09)	(0.03)	(0.04)	0.15	(0.09)	(0.15)	(0.23)	(0.11)	0.02
Total assets	**14,669**	**14,916**	**15,004**	**16,680**	**14,862**	**15,116**	**16,363**	**17,581**	**14,669**	**14,862**	**24,391**
Long term liabilities	**271**	**0**	**4**	**9**	**13**	**18**	**22**	**433**	**271**	**13**	**3,006**
Cash Dividends paid	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**

The decline in revenue between 2002 and 2003 reflects the closure of various business lines, such as macrochip, and a recession in the demand for high power semiconductors. Annual revenue has stabilised in 2004 and is expected to grow in 2005. The quarterly revenue figures show a steady recovery in revenue throughout 2003. The fluctuating figures in 2004 primarily reflect liquidity problems within the Corporation.

Changes in the loss from continuing operations follow the changes in revenues but also show the impact of long term cost reduction initiatives. Results from total operations differ significantly from results from continuing operations in Q2 of 2003 due to very high volumes and good results in those quarters from the microwave sensors business. The difference in Q3 of 2003 between the results from continuing operations and the result from total operations reflects the profit on the sale of the microwave sensors business.

The large reduction in total assets between 2002 and Q1 of 2003 is a result of the sale and leaseback of the site in Lincoln, England. A significant amount of the proceeds from this transaction was used to reduce the long-term debt of the Corporation.

Risk Management

The level of world-wide demand for power semiconductors is one of the key uncertainties for the Corporation. Demand was at a relatively low level during 2002 and 2003. Recent power blackouts in both North America and Europe have led to widespread discussion of the need for significant investment in power generation, transmission and distribution. Such investment would benefit the Corporation and management has already seen the first stages of recovery in demand from such investment. The failure to carry through this investment would be detrimental to the future of the business.

As disclosed in the Financial Statements, the Corporation has one major customer who accounted for 18% of revenue in the year. Our relationship with this customer remains good.

Although the Corporation buys some materials in North America, continental Europe and the Far East, the bulk of its costs are incurred in Sterling. However, it sells into world markets with many sales denominated in Euros and US dollars. As a consequence, the Corporation’s results are affected by changes in exchange rates between these currencies. Management monitors these exposures but does not undertaking hedging of these exposures. The need to undertake such hedging is reviewed from time to time.

The Corporation's main operating business is in Lincoln, England and so the majority of its assets, liabilities, revenues, expenses and cash flows take place and are recorded in Sterling. These values have to be translated to Dollars for inclusion in the consolidated financial statements of the Corporation. Movements in the Dollar-Sterling exchange rate directly affect such values. The Corporation does not hedge such exposures.

The availability of cash to finance the working capital needs of the business has been the source of problems in the past. The need to obtain sufficient working capital to enable the business to operate efficiently remains a major task of management

Related Party Transactions

The Directors agreed to waive their fees for the last quarter of the year. As at December 31st, 2004 a total of $60,333 was payable to Directors in respect of their fees. The Directors' fees are recorded at negotiated amounts.

The Corporation has a loan from a Director totalling £600,000 ($1,390,020) which bear interest at 10% per annum compounded monthly and which is repayable in 2006.

Business Development

Management is forecasting similar levels of revenue in 2005 to that reported in the 2004. Greater emphasis is being placed by management on reducing costs to enable the Corporation to be profitable at these lower turnover levels rather than chasing growth to justify a higher level of costs.

Subsequent Events

In early March the Corporation raised $1.6 million by way of loans from two Directors. The loans are secured on the assets of the Corporation. The loans are repayable between March 2006 and March 2007. Interest is set at 7% with an interest holiday until July 2005.

Bob Lockwood. Director and Chief Financial Officer

Management's Responsibility for Financial Reporting

Management is responsible for the preparation and integrity of the financial statements as well as the information contained in this report. The following financial statements of Dynex have been prepared in accordance with Canadian generally accepted accounting principles which involve management's best estimates and judgement based on available information

Dynex's accounting procedures and related systems of internal control are designed to provide reasonable assurance that its assets are safeguarded and its financial records are reliable. In recognising that the Company is responsible for both the integrity and objectivity of the financial statements, management is satisfied that the financial statements have been prepared according to and within reasonable limits of materiality and that the financial information throughout this report is consistent with these.

The Corporation has an Audit Committee made up of outside directors which was set up after the Annual General Meeting in June 2001. The Committee meets periodically with management, as well as the external auditors, to discuss internal controls over the financial reporting process, auditing matters and financial reporting issues, to satisfy itself that each party is properly discharging its responsibilities, and to review the annual report, the consolidated financial statements and the external auditors report. The Committee reports its findings to the Board for consideration when approving the consolidated financial statements for issuance to shareholders. The Committee also recommends to the Board and the shareholders, the engagement or reappointment of the external auditors.

Deloitte & Touche LLP, Chartered Accountants, serve as Dynex's auditors. The Board of Directors, along with the management team, have reviewed and approved the financial statements and information contained within this report. Deloitte & Touche LLP's report on the accompanying financial statements follows. Their report outlines the extent of their examination as well as an opinion on the statements.

Paul Taylor
President & CEO

Bob Lockwood
CFO

Auditors' Report

To the Shareholders of

Dynex Power Inc.

We have audited the consolidated balance sheets of Dynex Power Inc. as at December 31, 2004 and 2003 and the consolidated statements of loss and deficit and of cash flows for each of the years then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2004 and 2003 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Signed by Deloitte & Touche LLP

Chartered Accountants
Ottawa, Ontario
May 11, 2005

DYNEX POWER INC.
Consolidated Balance Sheets
Year Ended December 31st, 2004, 2003

		Dec 31st 2004		Dec 31st 2003
CURRENT ASSETS				
Cash and cash equivalents	$	**250,375**	$	661,208
Accounts receivable		**4,550,173**		4,833,140
Inventories (Note 3)		**8,507,761**		7,888,166
Prepaid expenses and deposits		**697,477**		639,729
		14,005,786		14,022,243
CAPITAL ASSETS (Note 4)		**662,770**		840,231
	$	**14,668,556**	$	14,862,474
CURRENT LIABILITIES				
Accounts payable and accrued liabilities	$	**6,980,182**	$	5,698,044
Due to director (Note 5)		**1,390,020**		500,000
Due to shareholders (Note 6)		**580,211**		-
Short-term loan (Note 7)		**3,021,785**		3,458,309
Current portion of long-term debt (Note 8)		**154,609**		17,640
Current portion of deferred revenue (Note 9)		**179,174**		178,911
		12,305,981		9,852,904
CONTINGENCIES (Note 19)		**-**		-
LONG-TERM DEBT (Note 8)		**270,977**		13,230
LONG TERM DEFERRED REVENUE (Note 9)		**2,194,876**		2,370,566
		14,771,834		12,236,700
SHAREHOLDERS' (DEFICIT)EQUITY				
Share capital (Note 10)		**12,474,999**		9,950,035
Deficit		**(12,036,335)**		(6,654,380)
Cumulative translation adjustment		**(541,942)**		(669,881)
		(103,278)		2,625,774
	$	**14,668,556**	$	14,862,474

PDTaylor

Paul D. Taylor

RD Lockwood

Robert D. Lockwood

DYNEX POWER INC.
Consolidated Statements of Loss and Deficit
Year Ended December 31st, 2004, 2003

	2004	2003
Revenue	**$ 23,885,937**	$ 23,562,919
Cost of sales	**21,502,559**	22,724,658
Gross margin	**2,383,378**	838,261
Expenses		
General and administration	**4,403,203**	3,707,133
Sales and marketing	**1,710,742**	1,771,907
Research and development	**1,441,214**	2,014,770
Interest expense	**265,419**	585,910
	7,820,578	8,079,720
(Loss) before other income (expenses) and income taxes	**(5,437,200)**	(7,241,459)
Other income (expenses)		
Interest and other income	**264,179**	161,232
Foreign exchange (loss)	**(206,612)**	(824,252)
	57,567	(663,020)
(Provision for) recovery of income taxes (Note 11)		
Current	**(2,322)**	-
Future	**-**	427,741
	(2,322)	427.741
NET (LOSS) FROM CONTINUING OPERATIONS	**(5,381,955)**	(7,476,738)
NET EARNINGS FROM DISCONTINUED OPERATIONS (Note 12)	**-**	1,483,028
PROFIT ON DISPOSAL OF DISCONTINUED OPERATIONS	**-**	3,907,190
NET (LOSS)	**(5,381,955)**	(2,086,520)
DEFICIT, BEGINNING OF YEAR	**(6,654,380)**	(4,567,860)
DEFICIT, END OF YEAR	**$ (12,036,335)**	$(6,654,380)
(Loss) per share from continuing operations		
Basic	**($0.23)**	$(0.38)
Diluted	**($0.23)**	$(0.38)
(Loss) earnings per share		
Basic	**($0.23)**	$(0.11)
Diluted	**($0.23)**	$(0.11)
Weighted average number of shares		
Basic	**23,336,696**	19,714,917
Diluted (Note 13)	**23,336,696**	19,714,917

DYNEX POWER INC.
Consolidated Statements of Cash Flow
Year Ended December 31st, 2004, 2003

		2004		2003
OPERATIONS				
Net (loss)	$	**(5,381,955)**	$	(2,086,520)
<u>Items not affecting cash</u>				
Amortisation		**282,085**		343,270
Gain on disposal of capital assets		**(195,055)**		(155,217)
Gain on business disposals		**-**		(3,907,190)
Future income taxes		**-**		(427,741)
Shares and options issued for services		**118,050**		147,665
Amortisation of deferred finance charges		**-**		231,000
Changes in non-cash operating working capital (Note 15)		**921,071**		(2,345,353)
		(4,255,804)		(8,200,086)
FINANCING				
Shares issued for cash		**2,406,914**		211,500
Decrease in due from shareholder		**-**		28,171
Increase in loans from shareholders		**594,112**		-
Increase in loans from a director		**923,325**		500,000
Decrease in short term debt		**(456,598)**		(3,695,285)
Increase (decrease) in long-term debt		**409,007**		(2,312,061)
		3,876,760		(5,267,675)
INVESTMENTS				
Proceeds on disposal of capital assets		**11,588**		8,085,587
Purchase of capital assets		**(99,158)**		(123,350)
Proceeds from business disposals		**-**		4,479,408
		(87,570)		12,441,645
NET (DECREASE) IN CASH POSITION		**(466,614)**		(1,026,116)
Effect of foreign currency translation on cash flow		**55,781**		560,289
Cash, beginning of year		**661,208**		1,127,035
CASH, END OF YEAR	**$**	**250,375**	$	661,208
Supplementary Information:				
Interest paid	**$**	**265,419**	$	354,910
Income taxes paid during year	**$**	**2,322**		-

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 consolidation

The consolidated financial statements include the accounts of the Corporation and its wholly-owned subsidiaries, Dynex Semiconductor Limited and Dynex SARL, in accordance with Canadian generally accepted accounting principles.

Currency of reporting

All figures are in Canadian dollars except as otherwise stated.

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. Examples of such estimates include the anticipated useful lives of assets and the provisions required against inventory and accounts receivable. 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 realisable 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 allocated overheads. Inventory is 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 unless the Corporation has orders or a realistic expectation of orders for those parts.

Capital assets

Capital assets are recorded at cost. Amortisation is calculated using the straight-line method over the anticipated useful lives of the assets as follows:

Equipment	3-8 years

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Deferred Revenue

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

Revenue recognition

The Corporation recognises product revenues from sales to end-customers and to its distributors at the time of shipment provided that all significant contractual obligations, including customer acceptance, 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 its wholly owned subsidiaries, Dynex Semiconductor Limited and Dynex SARL, to be self-sustaining subsidiaries 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 unrealised 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 capitalised. Development costs are expensed as incurred.

Income taxes

The Corporation and its subsidiaries account for income taxes using the liability method. Under this method, current income taxes are recognised for estimated income taxes payable for the current year. Future income tax assets and liabilities are recognised 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 realised.

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. Effective January 1st, 2004, these recommendations require that the Corporation account for its stock-based compensation, for awards and modification subsequent to January 1st, 2002 based on the fair-value method. The CICA Handbook Section 3870 requires that this change in accounting policy be implemented retroactively, however the Corporation did not have any significant stock-based compensation related to grants to employees and previously accounted for its grants to non-employees using the fair-value based method. As a result, there was no impact on the financial statements of prior periods. Any consideration paid by employees on the exercise of stock options is recorded as share capital.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Sale of Sensors business

The Corporation sold its Sensors business for cash on August 22nd, 2003. Consequently, the net earnings of the Sensors business for the year ended December 31st, 2003 are reported separately after the results of the continuing operations.

3. INVENTORIES

	2004	2003
Raw materials	**$ 1,681,924**	$ 2,172,189
Work in progress	**5,637,370**	4,654,172
Finished goods	**1,188,467**	1,061,805
	$ 8,507,761	$ 7,888,166

Inventory is stated net of a provision of $7,422,530 (2003 - $8,189,208) for obsolescence.

4. CAPITAL ASSETS

	2004			2003
	Cost	Accumulated Amortisation	Net Book Value	Net Book Value
Equipment	**$ 2,166,323**	**$ 1,503,553**	**$ 662,770**	$ 840,231
	$ 2,166,323	**$ 1,503,553**	**$ 662,770**	$ 840,231

5. DUE TO DIRECTOR

The Corporation has one loan payable to a director of the Corporation of £600,000 ($1,390,020) (2003 – $500,000) which bears interest at 10% per annum compounded monthly. The loan is repayable in four equal instalments between June 30th, 2006 and September 30th, 2006. The loan is secured under a general security agreement. No interest is payable on the loan until July 1st, 2005.

6. DUE TO SHAREHOLDERS

The Corporation has three loans from individual shareholders totalling £100,000 ($231,671) (2003 - $nil) and $348,540 (2003 - $nil). The loans bear interest at 10% per annum compounded monthly. The loans are repayable in 4 equal instalments between June 30th, 2006 and September 30th, 2006. These loans are secured under a general security agreement. No interest is payable on the loan until July 1st, 2005. The Corporation granted warrants to allow one of these loans to be converted into shares, details of which are set out in Note 10. The fair value of these warrants is being expensed over the life of the loan.

7. SHORT-TERM LOAN

The Corporation has a short term loan of $3,021,785 (2003 - $3,458,309) secured by a first charge on all capital assets, inventory, cash and cash equivalents and accounts receivable. The loan is repayable on demand and is subject to a variable interest rate.

8. LONG-TERM DEBT

		2004		2003
Loan payable in monthly instalments of $1,470 to September, 2005 bearing interest at 13.7% and secured under a general security agreement.	$	13,230	$	30,870
Interest free unsecured loan payable in equal monthly instalments to November, 2007		412,356		-
		425,586		30,870
Current portion		154,609		17,640
	$	270,977	$	13,230

Principal payments

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

2005	154,609
2006	141,379
2007	129,598
	$ 425,586

9. DEFERRED REVENUE

On March 25th, 2003 the Corporation's subsidiary entered into a sale and leaseback of its Lincoln, England land and buildings. The gain realised on the sale has been deferred. Amortisation of this gain, amounting to $183,467, is included in other income for the year ended December 31st, 2004 (2003 - $134,809).

10. SHARE CAPITAL

Authorised:
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:

		2004	2003
Common shares	- amount	**$ 12,474,999**	$ 9,950,035
	- number	**26,917,354**	20,708,729

The Corporation has no issued and outstanding preferred shares.

Common share and warrant transactions

During the year 25,000 of the options issued in June 1999 were exercised.

On July 16th, 2004 the Corporation issued 4,637,145 shares on the first closing of a private placement offer. Each share issued had one half warrant attached. Each full warrant entitles the holder to subscribe for one new share at an issue price of $0.60 at any time from the date of issue to July 15th, 2006. The issue price for each share plus attached half warrant was $0.45.

On July 16th, 2004 the Corporation issued 363,715 warrants to McFarlane Gordon as part of their compensation for arranging the private placement. Each warrant entitles McFarlane Gordon to subscribe for one new share at an issue price of $0.60 at any time from the date of issue to July 15th, 2006.

On August 9th, 2004 the Corporation issued 215,640 shares to the independent directors for their services in 2003. Of the total 81,000 were issued under the Independent Directors' Share Plan at a price of $0.28 per share. The remaining 134,640 were issued at $0.50 per share. The fair value of the shares has been recorded as an expense and a credit to share capital

On August 9th, 2004 the Corporation issued 74,800 shares for cash to the Chairman, David Banks at $0.50 per share.

10. SHARE CAPITAL (Continued)

On August 15th, 2004 the Corporation issued 918,411 shares on the second and final closing of the private placement offer. Each share issued had one half warrant attached. Each full warrant entitles the holder to subscribe for one new share at an issue price of $0.60 at any time from the date of issue to August 14th, 2006. The issue price for each share plus attached half warrant was $0.45.

On August 15th, 2004 the Corporation issued 91,841 warrants to McFarlane Gordon as part of their compensation for arranging the private placement. Each warrant entitles McFarlane Gordon to subscribe for one new share at an issue price of $0.60 at any time from the date of issue to August 14th, 2006.

On December 9th, 2004 the Corporation issued warrants to a shareholder who had lent money to the Corporation (see Note 6) entitling them to subscribe for up to 15,000 shares at an issue price of $0.35 at any time from the date of issue to September 30th, 2006. The Corporation also granted the shareholder the right to convert his loan into 357,143 shares at an issue price of $0.35 at any time prior to September 30th, 2006.

On December 21st, 2004 the corporation issued 337,629 shares for cash to the Chairman, David Banks at $0.35 per share and warrants entitling him to subscribe for 15,000 shares at an issue price of $0.35 at any time from the date of issue to September 30th, 2006.

Stock option plan

A total of 2,650,000 (2003 - 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. The movements in stock options issued under the plan are summarised below:

	Number of Options	Weighted Average Exercise Price
Outstanding at December 31st, 2002	1,641,000	$ 1.02
Granted	160,000	$ 0.34
Exercised	(50,000)	$ 0.20
Cancelled	(47,500)	$ 1.78
Outstanding at December 31st, 2003	1,703,500	$ 0.93
Granted	-	$ -
Exercised	(25,000)	$ 0.30
Cancelled	(214,500)	$ 0.39
Outstanding at December 31st, 2004	**1,464,000**	**$ 1.02**

The weighted average remaining life of the outstanding options is 1 year and 3 months. At December 31st, 2004 there are 1,230,667 options exercisable with a weighted average exercise price of $1.15 and a weighted average remaining life of 1 year and 1 month.

10. SHARE CAPITAL (Continued)

Stock option plan (Continued)

At December 31st, 2004 the following stock options are outstanding:

	Number of Options	Exercise Price	Grant Date	Expiry Date
Officers	130,000	$ 0.60	January 19, 2000	January 18, 2005
	30,500	$ 2.00	January 1, 2001	December 31, 2005
	150,000	$ 0.23	April 28, 2003	April 27, 2008
Directors who are not officers	50,500	$ 2.00	January 1, 2001	December 31, 2005
	75,000	$ 1.59	June 6, 2001	June 5, 2006
	400,000	$ 0.50	January 1, 2002	December 31, 2006
All other employees	250,000	$ 0.60	January 19, 2000	January 18, 2005
	378,000	$ 2.00	January 1, 2001	December 31, 2005
Total outstanding	1,464,000	$ 1.02		

Stock-based compensation

As a result of accounting for stock based compensation related to options granted to employees using the fair-value based method, the Corporation recorded $4,527 of stock based compensation in general & administrative expenses in the year ended December 31st, 2004 (2003 - $nil).

11. INCOME TAXES

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

	2004	2003
Current	$ 2,322	$ -
Future	-	(427,741)
	$ 2,322	$ (427,741)

The provision for income taxes reported differs from the amount computed by applying the Canadian statutory rate to earnings before income taxes for the following reasons:

	2004	2003
Loss before income taxes	$ (5,379,633)	$ (2,514,261)
Expected tax recovery	(1,968,940)	(920,722)
Increase (decrease) resulting from:		
Prior year losses utilised	-	-
Other	-	(85,234)
Unrecorded benefit of tax loss	1,968,940	492,981
Foreign tax differential	2,322	85,234
Reported income tax provision (recovery)	$ 2,322	$ (427,741)

Future income taxes consist of the following temporary differences:

	2004	2003
Differences between tax and book value of capital assets	$ (609,184)	$ (653,582)
Loss carry forwards	(3,113,524)	(1,698,597)
Differences between tax and accounting value of provisions	(368,832)	(132,735)
	(4,091,540)	(2,484,914)
Less: valuation allowance	4,091,540	2,484,914
	$ -	$ -

11. INCOME TAXES (Continued)

The Canadian statutory tax rate of 36.1% (2003 - 36.1%) is comprised of Federal income tax at approximately 22.1% (2003 – 22.1%) and Provincial income tax at approximately 14% (2003 – 14%). The United Kingdom statutory rate is 30% (2003 – 30%)

As at December 31st, 2004 the Corporation has undeducted research and development expenditures of approximately $43,000 which are available without expiry to reduce future years' Canadian Federal and Provincial taxable income.

As at December 31st, 2004 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
2004	**$ 159,000**	**$ 159,000**
2005	**1,000**	**1,000**
2006	**520,000**	**520,000**
2007	**424,000**	**424,000**
2008	**421,000**	**421,000**
2010	**688,000**	**688,000**
2011	**138,000**	**138,000**

As at December 31st, 2004 the Corporation has United Kingdom tax loss carry forward of $7,728,000 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. NET EARNINGS FROM DISCONTINUED OPERATIONS

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

	2004	2003
Revenue	**$ -**	$ 4,153,107
Gross margin	**-**	1,762,358
Net Earnings before and after tax	**-**	1,483,028

13. (LOSS) EARNINGS PER SHARE

For the year ended December 31st, 2004 the number of shares that could potentially dilute basic earnings per share in future but which were not included in the computation of diluted earnings per share because to do so would have been anti-dilutive was 4,851,144(2003 – 1,651,774).

14. COMMITMENTS

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

2005	**$ 692,869**
2006	**612,048**
2007	**556,008**
	$ 1,860,925

15. CHANGES IN NON-CASH OPERATING WORKING CAPITAL ITEMS

	2004	2003
Accounts receivable	**$ 296,929**	$ 2,153,262
Inventories	**(622,569)**	(1,062,288)
Prepaid expenses and deposits	**(58,040)**	(301,557)
Accounts payable and accrued liabilities	**1,304,751**	(3,134,770)
	$ 921,071	$ (2,345,353)

16. ECONOMIC SIGNIFICANCE

For the year ended December 31st, 2004 the Corporation had one (2003 - one) customer that accounted for approximately 18% of revenue (2003 – 33%). The customer is a group of related companies and not a single entity.

17. 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 short-term loans and amounts due to directors and shareholders 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 their fair values.

18. BUSINESS SEGMENT INFORMATION

Business area

The business operates in three distinct customer areas - power devices (the design and manufacture of power semiconductors), power assemblies (the design and assembly of power devices into stacks) 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 December 31st, 2004 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.

Geographic area

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

		2004		2003
Revenue:				
Business segment				
Power units	**$**	**17,274,594**	$	15,636,787
Power assemblies		**3,605,756**		6,317,628
Integrated circuits		**3,005,587**		1,608,504
	$	**23,885,937**	$	23,562,919
Geographic area				
Europe	**$**	**15,650,330**	$	16,251,908
North America		**4,873,437**		4,656,597
Far East and other		**3,362,170**		2,654,414
	$	**23,885,937**	$	23,562,919

Capital assets

		2004		2003
Geographic area				
Europe	**$**	**662,541**	$	839,278
North America		**229**		953
	$	**662,770**	$	840,231

19. CONTINGENCIES

An action against the Corporation has been commenced in the Italian courts by a former supplier, for $198,000 plus interest, claiming breach of contract. The Corporation believes that it may have to make a payment in order to settle this claim and 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 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. Consequently, no amount has been accrued for the settlement of this claim. However, the outcome is not determinable at this time.

20. PENSION PLAN

The Corporation incurred expenses of $200,661 (2003 - $537,264) 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 December 31st, 2004 $176,069 (2003 - $426,257) is included in accrued liabilities.

21. RELATED PARTY TRANSACTIONS

The Corporation incurred expenses of $60,333 (2003 - $90,000) with respect to fees payable to directors. As at December 31st, 2004, $60,333 is payable to directors (2003 - $90,000). The directors fees are recorded at the negotiated amounts.

Corporate Information

Board of Directors

David F. Banks
Chairman

Bob Lockwood
Director, VP Finance & CFO

Debbie Weinstein *†
Director & Company Secretary

Michael A. LeGoff
Director

Richard Bertrand *
Director

Richard Carl †
Director

Keith Ralls *†
Director

Daniel Owen
Director

* Members of Audit Committee
† Members of Compensation Committee

Senior Officers, VP's & Senior Managers

Dr. Paul D. Taylor
President & CEO

Bob Lockwood
VP Finance & CFO

Bill McGhie
Power Electronic Assemblies Business Manager

Mark Kempton
Bipolar Discretes Business Manager

Stock Exchange Listing

Toronto Ventures Exchange
Symbol: DNX

Auditors

Canada – Deloitte & Touche LLP
UK – Deloitte & Touche LLP

Legal Counsel

LaBarge Weinstein LLP, Ottawa, Ontario

Transfer Agent

Computershare Trust Company of Canada

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