Dynex Power Inc.

Report for the quarter ended June 30th 2004

powerful ideas at work

LETTER FROM THE PRESIDENT – SECOND QUARTER 2004

Dear Shareholder;

Our year-to-date performance represents an improvement over last year. However, the results did not meet our plans and expectations for two reasons. Large orders that we expected in the quarter ending June 2004 were delayed until later in the year and we did not have the liquidity to take advantage of short-term revenue opportunities. In the second half of the year we expect better results, in line with the expectations and the encouraging results of the first quarter and the level of the order book during the second quarter.

Our markets and the demand for our products continue to recover, with the $5.4 million in revenue for the second quarter of 2004 slightly ahead of the second quarter of the previous year of $5.3 million. We are more than 25% higher year-to-date than we were in 2003. Our production costs and overhead costs were between 10 and 11% lower than we forecasted. The loss from continuing operations was $1.9 million in the second quarter, which was a 32% improvement on the loss from continuing operations of $2.8 million recorded in the second quarter of the previous year.

As mentioned, a shortage of working capital produced the lower than forecasted revenues. At the end of June 2004 we had more than $1.5 million in arrears in booked orders that could have been shipped in the second quarter had we had sufficient working capital. The book to bill ratio for the quarter was 1.3 to 1, which meant the order book at the end of June grew and bookings in the quarter were ahead of order intake for the same quarter in 2003. We forecasted higher orders in the quarter. The shortfall was primarily due to the orders coming late from the power transmission and distribution sectors.

The problems due to the lack of working capital have been mitigated through the infusion of approximately $2.5 million of new equity. The improved liquidity provides the means for us to realise further revenue opportunities and improve gross profit margins.

The order book has continued to grow and remains strong for the remainder of the year. Management is looking for ways to have piece parts delivered ahead of schedule and we have started on overtime work to maximise revenue for the coming quarters. Management and all employees remain committed to the success of your Company and to improving results for the second half of the year.

Respectfully yours,

Michael A. LeGoff
President and Chief Executive Officer
August 2004

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 quarter ended June30th, 2004.

This quarterly report may contain certain forward-looking statements that involve a number of risks and uncertainties, including statements regarding the outlook for the Group's business and results of operation. By nature, these risks and uncertainties could cause actual results to differ materially from those indicated. Such factors include, without limitation, the various factors set forth in the Management Discussion & Analysis of this report as discussed in public disclosure documents filed with Canadian regulatory authorities.

Overview

A shortage of liquidity meant that some customer orders could not be completed on time and that the business was not able to react to short term opportunities in the market place. Revenue in the second quarter of 2004 at $5.4 million does not cover the fixed manufacturing costs and a loss of $296,000 arose at the gross margin level. Although overhead costs were below budget, a net operating loss of $1.9 million was incurred.

Change in Accounting Policy

With affect from January 1, 2004, the Canadian Institute of Chartered Accountants requires the Corporation to account for the fair value of all stock options issued since January 1, 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 second quarter of 2004 was $5.4 million down by $1.3 million or 20% against the first quarter although it was $101,000 or 2% ahead of the corresponding quarter of last year. The shortage of liquidity meant that we could not complete customer orders on time and some short-term market opportunities were lost. There was a significant backlog in deliveries at the end of the quarter including a delay in the completion of. a major assembly contract to July rather than in June.

Gross Margin

The negative gross margin of $296,000 was disappointing in comparison with the positive gross margins reported in the previous three quarters. It represents a fall of 123% from the gross margin of $1.3 million in the first quarter but is a 37% improvement on the gross margin loss of £471,000 reported in the corresponding quarter of last year. The product sold in the quarter continued to deliver a good contribution over variable cost, but the volume achieved was insufficient to cover the high fixed manufacturing cost inherent in running semiconductor fabrication plants.

General & Administration

General & Administrative costs of $867,000 are $21,000 or 3% higher than in the first quarter but represent a 46% reduction on the figure for the corresponding quarter of last year. Notwithstanding the figure had included one-off redundancy costs of $650,000, a further 4% reduction has been achieved year-on-year.

Sales & Marketing

At $457,000, Sales & Marketing costs were 9% above the figure in the preceding quarter and 11% higher than the figure for the corresponding quarter of last year. Second quarter costs are usually higher than those for the first quarter due to exhibiting at the PCIM conference in Nurnberg, Germany. The increase over last year represents the cost of a decision to invest more resources in sales and marketing

Research & Development

The net Research & Development cost of $311,000 represents a 40% reduction in the figure reported in the first quarter and a 34% reduction on the figure for the corresponding quarter of last year. The lower figure represents the fact that Government grants and commercial funding of our research, which is accounted for when received, increased significantly in the quarter. It in no way reflects a lower level of, nor commitment to, our research activities.

Interest Expense

Interest expense of $61,000 was 3% below the $63,000 reported in the last quarter and 58% below the $143,000 reported in the corresponding quarter of last year. This improvement results from the significant reduction achieved in debt during last year.

Interest & Other Income

Interest and other income of $65,000 was up by 25% from the $51,000 reported in the first quarter and up 16% from the $56,000 reported in the corresponding quarter of last year. The main constituent in all three quarters was the release of deferred revenue arising on the sale and leaseback of the land and buildings in Lincoln, England that took place last year.

Foreign Exchange Loss

Following the conversion of the inter-company debt between the Corporation and its subsidiary, Dynex Semiconductor Ltd, into equity last December, only foreign exchange gains and losses on trading transactions still go through the Profit and Loss Account. This has reduced the volatility in reported earnings. In the second quarter of 2004 a small gain of $4,000 was recorded. In the previous quarter a loss of $52,000 had been reported and in the corresponding quarter of last year before the inter-company loan had been converted, the loss was $239,000

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 second quarter results.. There was no tax payable in the previous quarter. In the corresponding quarter of last year there had been a one-off release of a deferred tax provision of $420,000, which was deemed no longer necessary.

Net Loss

The net loss was $1.9 million both before and after discontinued operations. It was $1.3 million or more than three times larger than the loss in the first quarter. It was $900,000 or 32% lower than the loss before discontinued operations in the corresponding quarter of last year. After discontinued operations it was $162,000 or 8% worse than the loss in the corresponding quarter of last year.

Segmental Analysis

Revenue for Power Units of $4.6 million would have been higher than the previous quarter had it not been for the backlog and customer delays. As it was, it was $255,000 or 5% below that of the previous quarter and some $957,000 or 26% higher than in the corresponding quarter of last year.

The delay in Power Assembly contracts saw revenue fall by $443,000 or 47% against the first quarter of 2004 and by $924,000 or 62% compared to the corresponding quarter of last year. The second quarter of 2003 had benefited from completion of a large assembly order.

Revenue from Integrated Circuits was down $653,000 or 24% from the previous quarter, which had the benefit of a large silicon on sapphire order worth approximately $800,000. Revenue was up $68,000 or 50% over the corresponding quarter of last year.

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

A small strengthening of Sterling saw a positive translation adjustment of $29,000. However, this was insufficient to affect the overall result and Shareholder's Funds fell by $1.9 million to $293,000

The losses arose mainly from an inability to complete orders on time. The failure to deliver orders on time was also a key reason for the rise in inventory. It rose by $1.6 million since the end of the last quarter

The loss and the increase in inventory were financed by a reduction in accounts receivable of $1.1 million and an increase in creditors of $2.6 million. The increase in creditors put significant strain on the supply chain during the quarter.

Selected Financial Information

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

	2004	2004	2003	2003	2003	2003	2002	2002	2003	2002	2001
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3	FY	FY	FY
Revenue	5,363	6,714	6,903	7,077	5,261	4,348	7,133	8,261	23,563	30,581	37,000
Continuing operations:											
Net (loss)	(1,924)	(576)	(548)	(1,335)	(2,813)	(2,826)	(805)	(7)	(7,477)	(2,531)	(13,719)
Basic EPS	(0.09)	(0.03)	(0.02)	(0.07)	(0.14)	(0.18)	(0.04)	(0.00)	(0.38)	(0.14)	(0.98)
Diluted EPS	(0.09)	(0.03)	(0.02)	(0.07)	(0.14)	(0.18)	(0.04)	(0.00)	(0.38)	(0.14)	(0.98)
Total operations:											
Net earnings/(loss)	(1,924)	(576)	(650)	3,076	(1,762)	(2,751)	625	345	(2,087)	448	(7,300)
Basic EPS	(0.09)	(0.03)	(0.04)	0.15	(0.09)	(0.15)	0.04	0.02	(0.11)	0.03	(0.52)
Diluted EPS	(0.09)	(0.03)	(0.04)	0.15	(0.09)	(0.15)	0.03	0.02	(0.11)	0.02	(0.52)
Total assets	15,004	16,680	14,862	15,116	16,363	17,581	24,391	24,380	14,862	24,391	28,347
Long term liabilities	4	9	13	18	22	433	3,006	3,488	13	3,006	4,563
Cash Dividends paid	0	0	0	0	0	0	0	0	0	0	0

The decline in revenue over the last three years reflects the closure of various business lines, such as macrochip, and a recession in the demand for high power semiconductors. The quarterly revenue figures show a fall in revenue in Q1 of 2003 as a result of a severe liquidity shortage, followed by a steady recovery in revenue and a reduction in the loss from continuing operations. A tight liquidity situation in the last quarter and delays to some major orders has reversed that trend.

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 Q4 of 2002 and 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 Q4 of 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 worldwide demand for power semiconductors is one of the key uncertainties for the Corporation. Demand has been at a relatively low level for two years. 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 had two major customers who each accounted for 10% or more of revenue in the quarter. Relationships with both customers remain 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 sole operating unit 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 Corporation is now looking to grow its core business and the availability of cash to do this remains an area of management focus.

Related Party Transactions

The Corporation incurred expenses of $22,500 with respect to fees payable to directors. As at June 30th, 2004 a total of $135,000 was payable to directors. The directors' fees are recorded at negotiated amounts.

The Corporation has two loans from a director totalling $500,000 which bear interest at 8.5% per annum compounded monthly and which are repayable in June 2004. A third loan for $244,250 was taken from a director during the quarter. It bears interest at 9.5% per annum compounded monthly and is repayable in three equal instalments in February, March and April 2005.

On March 31st 2004, the Corporation settled a legal dispute to which a director of the company is due to contribute $53,607. That amount was outstanding at 30 June, 2004 but has since been repaid.

Business Development

Management is forecasting growth in revenues from IGBT's following recent improvements in the technology of our offerings and in assemblies. Whilst initial hopes were that we would see this in our revenues from the start of the third quarter, latest forecasts are that this is now more likely to occur later this year, thus delaying the improvement in our performance.

Subsequent Events

On August 5th 2004, the Corporation announced the appointment of Daniel Owen to the board.

On August 7th 2004, the total amount due from a director of $53,607 was repaid.

On August 15th 2004, the Corporation completed a $2.5 million equity placement. The net proceeds will be used to finance sales and marketing activities, to reduce the level of indebtedness to suppliers and to fund productivity enhancing capital expenditures.

Bob Lockwood
Director and Chief Financial Officer

Consolidated Financial Statements of

DYNEX POWER INC.

Quarter Ended June 30th, 2004

DYNEX POWER INC.
Consolidated Balance Sheet
Quarter Ended June 30th, 2004

	Jun 30th 2004 (unaudited)	Dec 31st 2003 (audited)
CURRENT ASSETS		
Cash and cash equivalents	**$ 135,067**	$ 661,208
Accounts receivable	**3,779,389**	4,833,140
Inventories	**9,494,640**	7,888,166
Due from director	**53,607**	-
Prepaid expenses and deposits	**724,743**	639,729
	14,187,446	14,022,243
CAPITAL ASSETS	**816,212**	840,231
	$ 15,003,658	$ 14,862,474
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	**$ 8,310,479**	$ 5,698,044
Due to director (Note 5)	**744,250**	500,000
Short-term debt (Note 6)	**3,036,704**	3,458,309
Current portion of long-term debt (Note 7)	**17,640**	17,640
Current portion of deferred revenue (Note 8)	**188,903**	178,911
	12,297,976	9,852,904
LONG-TERM DEBT (Note 7)	**4,410**	13,230
LONG TERM DEFERRED REVENUE (Note 8)	**2,408,513**	2,370,566
	14,710,899	12,236,700
SHAREHOLDERS' EQUITY		
Share Capital (Note 9)	**9,974,816**	9,950,035
Deficit	**(9,154,521)**	(6,654,380)
Cumulative translation adjustment	**(527,536)**	(669,881)
	292,759	2,625,774
	$ 15,003,658	$ 14,862,474

DYNEX POWER INC.
Consolidated Statement of Profit and Loss (Unaudited)
Quarter Ended June 30th, 2004

	3 months Jun 30th 2004	3 months Jun 30th 2003	YTD Jun 30th 2004	YTD Jun 30th 2003
Revenue	**$ 5,363,037**	$ 5,261,861	**$12,077,206**	$ 9,610,194
Cost of sales	**5,658,927**	5,732,461	**11,100,738**	10,475,410
Gross margin	**(295,890)**	(470,600)	**976,468**	(865,216)
Expenses				
General and administration	**867,465**	1,551,590	**1,712,857**	2,339,185
Sales and marketing	**456,899**	411,234	**876,005**	782,072
Research and development	**311,172**	473,098	**828,380**	942,943
Interest expense	**60,641**	143,258	**123,423**	305,481
	1,696,177	2,579,180	**3,540,665**	4,369,681
(Loss) before other income (expenses) and income taxes	**(1,992,067)**	(3,049,780)	**(2,564,197)**	(5,234,897)
Other income (expenses)				
Interest and other income	**64,539**	55,850	**116,027**	60,188
Foreign exchange gain (loss)	**3,632**	(238,842)	**(51,971)**	(880,953)
	68,171	(182,992)	**64,056**	(820,765)
(Provision for) recovery of income taxes (Note 10)				
Current	**-**	-	**-**	(3,535)
Future	**-**	420,190	**-**	420,190
	-	420,190	**-**	416,655
NET (LOSS) FROM CONTINUING OPERATIONS	**(1,923,896)**	(2,812,582)	**(2,500,141)**	(5,639,007)
NET EARNINGS FROM DISCONTINUED OPERATIONS (Note 11)	**-**	1,050,891	**-**	1,126,228
NET LOSS	**(1,923,896)**	(1,761,691)	**(2,500,141)**	(4,512,779)
DEFICIT, BEGINNING OF PERIOD	**(7,230,625)**	(7,318,948)	**(6,654,380)**	(4,567,860)
DEFICIT, END OF PERIOD	**$(9,154,521)**	$(9,080,639)	**$(9,154,521)**	$(9,080,639)
(Loss) per share from continuing operations				
Basic	**($0.09)**	($0.14)	**($0.12)**	($0.29)
Diluted	**($0.09)**	($0.14)	**($0.12)**	($0.29)
(Loss) earnings per share				
Basic	**($0.09)**	($0.09)	**($0.12)**	($0.24)
Diluted	**($0.09)**	($0.09)	**($0.12)**	($0.24)
Weighted average number of shares				
Basic	**20,726,916**	19,400,395	**20,721,724**	19,170,193
Diluted	**20,726,916**	19,400,395	**20,721,724**	19,170,193

DYNEX POWER INC.
Consolidated Statement of Cash Flow (Unaudited)
Quarter Ended June 30th, 2004

	3 months Jun 30th 2004	3 months Jun 30th 2003	**YTD Jun 30th 2004**	YTD Jun 30th 2003
OPERATIONS				
Net (loss) earnings	**$(1,923,896)**	$(1,761,691)	**$(2,500,141)**	$(4,512,779)
Items not affecting cash				
Amortization	**77,220**	88,549	**152,655**	180,010
(Gain) on disposal of capital assets	**(47,283)**	(61,037)	**(105,056)**	(65,960)
Amortization of deferred finance charges	**-**	46,000	**-**	46,000
Shares and options issued for services	**1,132**	-	**14,281**	90,000
Changes in non-cash operating working capital (Note 14)	**2,406,780**	(2,546,478)	**2,421,098**	(1,399,782)
	513,953	(4,234,657)	**(17,163)**	(5,662,511)
FINANCING				
Shares issued for cash	**6,000**	64,000	**10,500**	64,000
(Increase) in due from director	**-**	-	**(53,607)**	-
(Decrease) increase in due to shareholder	**-**	(7,448)	**-**	725,000
Increase in loans from a director	**244,548**	-	**244,548**	-
(Decrease) increase in short term debt	**(1,024,367)**	1,571,030	**(621,235)**	(2,174,162)
(Decrease) increase in long-term debt	**(4,410)**	12,914	**(8,820)**	(2,406,057)
	(778,229)	1,640,496	**(428,614)**	(3,791,219)
INVESTMENTS				
Proceeds on disposal of capital assets	**-**	16,078	**11,152**	8,438,314
Purchase of capital assets	**(30,947)**	(33,212)	**(83,179)**	(33,212)
	(30,947)	(17,134)	**(72,027)**	8,405,102
NET (DECREASE) IN CASH POSITION	**(295,223)**	(2,611,295)	**(517,804)**	(1,048,628)
Effect of foreign currency translation on cash flow	**(6,081)**	150,963	**(8,337)**	713,244
Cash, beginning of period	**436,371**	3,251,983	**661,208**	1,127,035
CASH, END OF PERIOD	**$ 135,067**	$ 791,651	**$ 135,067**	$ 791,651
Supplementary Information:				
Interest paid	**$ 60,641**	$ 143,258	**$ 123,423**	$ 305,481
Income taxes paid during year	**-**	-	**-**	-

1. DESCRIPTION OF BUSINESS

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

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 2003 and are in accordance with Canadian generally accepted accounting principles.

Currency of reporting

All figures are in Canadian dollars except as otherwise stated.

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.

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 periods presented. Actual results could differ from the estimates made by management.

Cash and cash equivalents

Cash and cash equivalents include investments that have terms of three months or less at the time of acquisition. Cash equivalents consist primarily of term deposits. The carrying amounts of cash and cash equivalents are stated at cost plus accrued interest, which approximates their fair market value.

Inventories

Raw materials and work in process are valued at the lower of cost and replacement cost, and finished goods at the lower of cost and net realizable value. Raw materials are valued at standard cost that accurately reflects their purchase cost. Work in process and finished goods are valued at the standard cost of direct material and labour plus allocated overheads. Inventory is fully provided for if raw materials have not moved in six months and if work in progress or finished goods have not moved in three months.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Capital assets

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

Equipment	3-8 years

Deferred Revenue

The gain on the sale and leaseback of the land and buildings (note 8) is being amortized over the 15 year minimum term of the resulting lease.

Revenue recognition

The Corporation recognizes 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 unrealized exchange adjustments arising on the translation of foreign currencies are included in shareholders' equity as cumulative translation adjustment.

Research and development costs

Research costs are expensed as incurred. Expenditures for research and development e
equipment are capitalized. 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 recognized for estimated income taxes payable for the current year. Future income tax assets and liabilities are recognized for temporary differences between the tax and accounting basis of assets and liabilities and for the benefits of tax losses available to be carried forward to future years if these are more likely than not to be realized.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 1, 2004, these recommendations require that the Corporation account for its stock-based compensation, for awards and modification subsequent to January 1, 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.

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 period to June 30th, 2003 are reported separately after the results of the continuing operations.

3. INVENTORIES

	Jun 30th, 2004	Dec 31st, 2003
Raw materials	**$ 2,222,675**	$ 2,172,189
Work in progress	**6,099,565**	4,654,172
Finished goods	**1,172,400**	1,061,805
	$ 9,494,640	$ 7,888,166

Inventory is stated net of a provision of $10,763,941 (Dec 31st, 2003 - $11,091,929) for obsolescence.

4. CAPITAL ASSETS

	Jun 30th, 2004			Dec 31st, 2003
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Equipment	**$ 2,264,116**	**$ 1,447,904**	**$ 816,212**	$ 840,231
	$ 2,264,116	**$ 1,447,90**	**$ 816,212**	$ 840,231

5. DUE TO DIRECTOR

The Corporation has two loans payable to a director of the Corporation totalling $500,000 (Dec 31st, 2003 – $500,000) which bear interest at 8.5% per annum compounded monthly and are repayable in December 2004.

The Corporation has a third loan payable to a director of the Corporation of $244,250 (Dec 31st, 2003 - $nil) which bears interest at 9.5% per annum compounded monthly and is repayable in three equal instalments in February, March and April 2005.

6. SHORT-TERM DEBT

The Corporation has a short term debt of $3,036,704 (Dec 31st, 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.

7. LONG-TERM DEBT

	Jun 30th, 2004	Dec 31st, 2003
Loan payable in monthly instalments of $1,470 to September, 2005 bearing interest at 13.7% and secured under a general security agreement.	**22,050**	30,870
	22,050	30,870
Current portion	**17,640**	17,640
	$ 4,410	$ 13,230

Principal payments

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

2004	**8,820**
2005	**13,230**
	$ 22,050

8. 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 realized on the sale has been deferred. Amortization of this gain, amounting to $47,320, is included in other income for the quarter ended June 30th, 2004 (June 30th, 2003 - $44,753).

9. SHARE CAPITAL

Authorized:
An unlimited number of common shares
An unlimited number of preferred shares issuable in series

Issued:
The Corporation's issued and outstanding share capital is as follows:

		Jun 30th, 2004	Dec 31st, 2003
Common shares	- amount	**$ 9,974,816**	$ 9,950,035
	- number	**20,733,729**	20,708,729

The Corporation has no issued and outstanding preferred shares.

Common share transactions

During the quarter 10,000 options were exercised.

As a result of accounting for stock-based compensation related to options granted to employees using the fair-value based method, the Corporation recorded $1,132 of stock-based compensation to general and administrative expense in the quarter ended June 30th, 2004 (Jun 30th, 2003 - $nil).

Stock option plan

A total of 2,650,000 (Dec 31st, 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 are summarized 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	(203,000)	$ 0.30
Outstanding at June 30th, 2004	**1,475,500**	**$ 1.03**

The weighted average remaining life of the outstanding options is 2 years and 1 month. At June 30th, 2004 there are 1,242,167 options exercisable with a weighted average exercise price of $1.14 and a weighted average remaining life of 1 year and 11 months.

9. SHARE CAPITAL (Continued)

Stock option plan (Continued)

At June 30th, 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 19, 2005
	81,000	$ 2.00	January 1, 2001	January 1, 2006
	150,000	$ 0.23	April 28, 2003	April 28, 2008
Directors who are not officers	75,000	$ 1.59	June 6, 2001	June 6, 2006
	400,000	$ 0.50	January 1, 2002	January 1, 2007
All other employees	250,000	$ 0.60	January 19, 2000	January 19, 2005
	389,500	$ 2.00	January 1, 2001	January 1, 2006
Total outstanding	1,475,500	$ 1.03		

10. INCOME TAXES

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

	3 months Jun 30th 2004	3 months Jun 30th 2003	**YTD Jun 30th 2004**	YTD Jun 30th 2003
Current	**$ -**	$ -	**$ -**	$ 3,535
Future	**-**	(420,190)	**-**	(420,190)
	$ -	$ (420,190)	**$ -**	$ (416,655)

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:

	3 months Jun 30th 2004	3 months Jun 30th 2003	**YTD Jun 30th 2004**	YTD Jun 30th 2003
(Loss) before income taxes	**$(1,923,896)**	$(1,761,691)	**$(2,500,141)**	$(4,512,779)
Expected tax (recovery)	**(704,145)**	(644,779)	**(915,052)**	(1,651,677)
Increase (decrease) resulting from:				
Unrecorded benefit of tax loss	**704,145**	224,589	**915,052**	1,231,487
Foreign tax differential				3,535
Reported income tax expense (recovery)	**$ -**	$(420,190)	**$ -**	$ (416,655)

10. INCOME TAXES (Continued)

The Canadian statutory tax rate of 36.6% (Jun 30th, 2003 - 36.6%) is comprised of Federal income tax at approximately 24.1% (Jun 30th, 2003 – 24.1%) and Provincial income tax at approximately 12.5% (Jun 30th, 2003 – 12.5%). The United Kingdom statutory rate is 30% (Jun 30th, 2003 – 30%)

As at June 30th, 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 June 30th, 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	**$ 160,000**	**$ 160,000**
2005	**2,000**	**2,000**
2006	**521,000**	**521,000**
2007	**424,000**	**424,000**
2008	**427,000**	**427,000**
2010	**1,074,000**	**1,074,000**

As at June 30th, 2004 the Corporation has United Kingdom tax loss carry forward of $4,416,000 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.

11. NET EARNINGS FROM DISCONTINUED OPERATIONS

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

	3 months Jun 30th 2004	3 months Jun 30th 2003	**YTD Jun 30th 2004**	YTD Jun 30th 2003
Revenue	**$ -**	$ 1,998,525	**$ -**	$ 3,367,188
Gross Margin	**-**	1,123,866	**-**	1,293,976
Net Earnings before and after tax	**$ -**	$ 1,050,891	**$ -**	$ 1,126,228

12. (LOSS) PER SHARE

At June 30th, 2004 the number of shares that could potentially dilute basic earnings per share in future but which were not included in the computation of the diluted loss per share because to do so would have been anti-dilutive was 1,475,500 (June 30th, 2003 - 1,983,777).

13. COMMITMENTS

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

2004	**$ 553,690**
2005	**779,343**
2006	**669,747**
	$ 2,002,780

14. CHANGES IN NON-CASH OPERATING WORKING CAPITAL ITEMS

	3 months Jun 30th 2004	3 months Jun 30th 2003	**YTD Jun 30th 2004**	YTD Jun 30th 2003
Accounts receivable	**$,122,777**	$ (515,687)	**$ 1,336,326**	$ 1,640,505
Inventories	**(594,373)**	(1,080,479)	**(1,159,303)**	(1,488,333)
Prepaid expenses and deposits	**14,350**	121,778	**(50,001)**	(179,146)
Accounts payable and accrued liabilities	**864,026**	(651,900)	**2,294,076**	(952,618)
Future income taxes	**-**	(420,190)	**-**	(420,190)
	$ 2,406,780	$ (2,546,478)	**$ 2,421,098**	$ (1,399,782)

15. ECONOMIC SIGNIFICANCE

For the quarter ended June 30th, 2004 the Corporation had one customer that accounted for approximately 14% of revenue and one customer that accounted for approximately 10% of revenue (Jun 30th, 2003 – one customer accounting for approximately 38% of revenue).

16. 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 directors, accounts payable, and short-term debt approximate fair market value because of the short maturity of these instruments.

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

17. 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 June 30th, 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.

17. BUSINESS SEGMENT INFORMATION (Continued)

Geographic area

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

	3 months Jun 30th 2004	3 months Jun 30th 2003	**YTD Jun 30th 2004**	YTD Jun 30th 2003
Revenue:				
Business segment				
Power units	**$4,600,049**	$ 3,642,878	**$ 9,455,183**	$ 6,644,035
Power assemblies	**560,014**	1,484,068	**1,563,073**	2,031,206
Integrated Circuits	**202,974**	134,915	**1,058,950**	934,953
	$5,363,037	$ 5,261,861	**$12,077,206**	$ 9,610,194
Geographic area				
Europe	**$3,320,711**	$ 3,354,943	**$ 7,471,198**	$ 6,391,441
North America	**1,109,803**	1,242,099	**2,738,711**	2,003,924
Far East and other	**932,523**	664,819	**1,867,297**	1,214,829
	$5,363,037	$ 5,261,861	**$12,077,206**	$ 9,610,194

Capital assets

	Jun 30th, 2004	Dec 31st, 2003
Geographic area		
Europe	**$ 815,259**	$ 839,278
North America	**953**	953
	$ 816,212	$ 840,231

18. CONTINGENCIES

An action against the Corporation has been commenced in the Italian courts by a former supplier, for US$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. However, the outcome is not determinable at this time.

19. PENSION PLAN

The Corporation incurred expenses of $123,312 (Jun 30th, 2003 - $132,866) with respect to a defined contribution pension plan in place at Dynex Semiconductor Limited. The Corporation instigated a six-month suspension of contributions into this plan, commencing November, 2001. The Corporation's stated intention is to reimburse the contribution shortfall after the six-month period, based on its financial position. At June 30th, 2004 $422,597 (Dec 31st, 2003 - $426,257) is included in accrued liabilities.

20. RELATED PARTY TRANSACTIONS

The Corporation incurred expenses of $22,500 (June 30th, 2003 - $22,500) with respect to fees payable to directors. As at June 30th, 2004 $135,000 is payable to directors (Dec 31st, 2003 - $90,000). The directors fees are recorded at the negotiated amounts.

The Corporation has three loans from a director. Details of these loans are set out in Note 5.

On March 31st, 2004 the Corporation settled a legal dispute in which a director of the Corporation is due to contribute $50,000. That amount was outstanding at June 30th, 2004, but was repaid prior to these accounts being approved by the Board.

21. SUBSEQUENT EVENTS

Subsequent to the completion of the second quarter, but prior to the release of the second quarter results, the Company completed the sale of 4,637,146 units at a price of $0.45 per unit for gross proceeds of $2,086,715 on July 16th, 2004. The agent selling the units also agreed to exercise its option over the next 30-days to arrange for the subscription of up to an additional 918,411 units at an issue price of $0.45 per unit. Each unit consists of one common share of Dynex and one-half of one common share purchase warrant. Each whole warrant entitles the holder to purchase one common share of Dynex at a price of $0.60 per share for a period of 24 months from issuance.

CORPORATE INFORMATION

Board of Directors

David F. Banks
Chairman

Michael A. LeGoff †
Director, President & CEO

Bob Lockwood
Director, VP Finance & CFO

Debbie Weinstein *†
Director & Company Secretary

Richard Bertrand *
Director

Richard Carl †
Director

Keith Ralls *†
Director

Daniel Owen
Director

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

Senior Officers, VPs & Senior Managers

Michael A. LeGoff
President & CEO

Bob Lockwood
VP Finance & CFO

Dr. Paul D. Taylor
VP Technology & CTO

Dr. Nick Mallinson
VP Sales & Marketing

Trevor Marsh
VP Manufacturing

Bill McGhie
Power Assemblies Business Manager

Jane Quibell
Logistics Manager

Trevor Boulding
Human Resources 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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