DYNEX POWER INC

ANNUAL REPORT 2005

Our objectives are

To grow and develop as a leading independent manufacturer of high power and high reliability electronic products

Our key values are

Customers

Delivering confidence in our products and services through applying high standards of quality and service whilst maintaining a personal and flexible approach to our customers.

Engineering

Enabling access to the best engineering skills and applying the highest technical standards to our customers' requirements.

Profitability

Sustaining and developing our business through directing efforts into the most profitable sectors of our business.

Integrity

Being honest, straightforward and reliable in dealing with people across all areas of our business.

Table of Contents

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.

Company Profile

Dynex is one of the world's leading independent 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. The Company designs and manufactures high power bipolar discrete semiconductors, high power insulated-gate bipolar transistor (IGBT) modules, high power electronic assemblies, and radiation hard silicon-on-sapphire integrated circuits (SOS IC's). Dynex power products are used world wide in power electronic applications including electric power transmission and distribution, renewable and distributed energy, marine and rail traction motor drives, aerospace, electric vehicles, industrial automation and controls and power supplies. Our IC products are used in demanding applications in the aerospace industry.

Company Facts

- Dynex Semiconductor Ltd was formed in January 2000
- Original business was founded in Lincoln UK in 1956
- Prior trade names include

AEI Semiconductors Ltd	(AEI)
Marconi Electronic Devices Ltd	(MEDL)
GEC-Plessey Semiconductors Ltd.	(GPS)

- 189 employees (December 2005)
- ISO9001 and ISO14001 approved
- Further information: www.dynexsemi.com

Products

- High power bipolar discrete semiconductors
- High power IGBT modules
- High power electronic assemblies and components
- High reliability silicon on sapphire ICs

Customers & Markets

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

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

Letter to Shareholders

Over the past year, few of us can have escaped the effects of increasing energy prices. For Dynex, as with many businesses, this has an immediate effect: not only do we consume energy in manufacturing semiconductor components, but also many of the materials we buy are sensitive to the cost of energy. We are committed to reduce any adverse impact on our customers, maintain our cost competitiveness, and mitigate the impact on our profits. In fact, despite the rise in the price of bought in goods and services, we have already made significant advances in an overall reduction in our cost base relative to our sales output, as you will see from our financial results. We continue to work hard to reduce costs in all areas through productivity improvement, overhead cost reduction, qualifying alternative and lower cost suppliers, and introducing new and more efficient product designs and processes.

..fuelling a robust double-digit growth rate in the world demand for power semiconductors..

Yet increased energy costs can also work to our benefit by driving improvements in energy efficiency that encourage global investment in better power electronic solutions. Coupling this with the need to reduce greenhouse gases, to have a sustainable supply of high quality electric power, and to be able to use economically the latest electronic equipment, makes power electronics a fertile sector for future growth. In fact it can be said that the provision of effective electric power management using power electronic systems is now a fundamental requirement of most aspects of economic activity. For example, it is estimated that motors take 50% of the world's electric energy and their users require energy saving, improved reliability, and better control features. Such requirements can be met by today's motor drive systems by incorporating efficient power semiconductor components and assemblies such as those produced by Dynex. Further growth is being delivered by developing economies such as India, China, and Russia as they continue to invest in basic infrastructure such as transport, electric power, mining, metals processing, oil, gas and cement. This, alongside the energy conservation, power availability and quality of life developments essential in the more advanced countries is already fuelling a robust double-digit growth rate in the world demand for power semiconductor devices that today exceeds 12 billion US dollars.

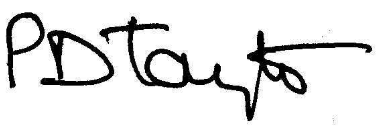
The robust growth and strong market conditions are excellent news for the future, yet were not fully reflected in our year on year sales. As we reported previously, the first quarter suffered from a shortage of cash and this seriously constrained our ability to trade. This was resolved with help from our loyal suppliers, that allowed us to defer payments and through loans from two of our directors who stepped forward to support our recovery plans.

As a result of these actions, and by an increase in our integrated circuit sales, revenues in the second half-year exceeded the first half by more than 30%. Indeed without the distortion due to the strengthening Canadian dollar, our second half sales exceeded the first half by over 44%.

..revenues in the second half year exceeded the first half by more than 30%.

Looking ahead to 2006, and having resolved many of our supply issues, we are planning for growth, although our silicon on sapphire revenue will initially be reduced in the first two quarters as we qualify a new material supply route, and the phasing of several major projects for power electronic assemblies and power modules will weight revenues heavily in favour of the final quarter.

However, as we continue to improve our product mix, manage our costs, and reduce our manufacturing lead times, we anticipate Dynex to grow year on year, as an independent specialist manufacturer of high power semiconductor, and silicon on sapphire products to the benefit of our shareholders, customers, suppliers and employees.



President and CEO

Review of Operations

Advanced Power Semiconductor Technology

In the UK, the Department of Trade and Industry (DTI) has recently highlighted power electronics as a priority area for investment and aims to accelerate advances in design and development in UK industry.

Dynex as a UK based independent power semiconductor manufacturer, with a strong and active research and development group, is ideally placed to build on this theme. In fact, as illustrated by the following examples, Dynex has for several years been developing a set of DTI supported collaborations to advance its basic power semiconductor and power electronic capabilities.

“CAPE” is a project working with Element 6 Ltd .and the engineering department of Cambridge University, to apply diamond semiconductor materials to power diodes. A 1700V diode has already been demonstrated and the project aims to achieve higher powers and demonstrate application to power modules before its completion in 2007.

A Knowledge Transfer Partnership was launched in 2005 with a leading power electronics group at Nottingham University, England to transfer knowledge relating to IGBT inverter controls. A prototype motor drive inverter is being developed using Dynex IGBT modules.

“IMPECT” is a project led by Dynex that was awarded in March 2005 and including Areva T&D UK Ltd, HC Stark Ltd and Sheffield University to apply innovative nano-technology solutions in bonding power contacts to high power thyristors. This will run until 2008 and aims to improve the power rating of high voltage thyristors for high power quality conditioning applications. It will be subsequently exploited in a new range of high power thyristors.

“MPM” was another project awarded by the DTI this year, partners being Goodrich Engine Controls Ltd., Raytheon Systems Ltd., SRDrives Ltd., Areva T&D UK Ltd, Semelab Ltd. and Greenwich University. The aim is to develop and exploit virtual reliability models to simulate operational wear out failure mechanisms in power modules. This combines the systems knowledge of leading UK power electronics companies and the power module design and manufacturing know-how of Dynex and Semelab with the modelling and simulation skills of the academic research partners.

Through these initiatives, and future opportunities within the DTI priority theme areas, Dynex funds and advances its technology development to offer our customers access to the latest thinking in high power semiconductor solutions.

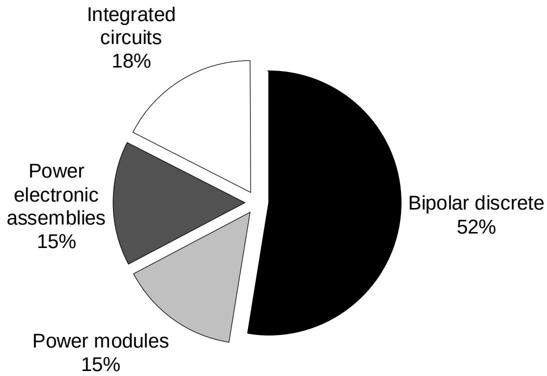
Overview of Product Groups

Dynex operations are based around four product groups:

- Bipolar discrete
- Power modules
- Power electronis assemblies
- Integrated circuits

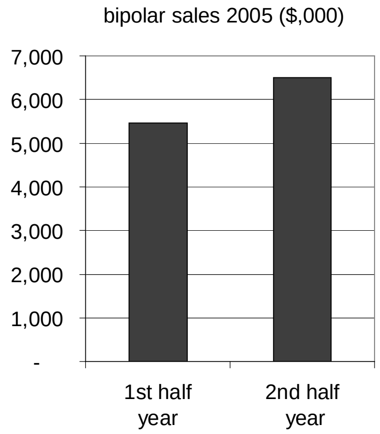
All operations are co-located in a purpose built 9,000m^2 fully integrated facility in Lincoln, England accredited to ISO9001 and ISO14001 standards.

Sales by Group in 2005



Bipolar Discrete

The bipolar discrete product group is the largest of the Dynex business groups and accounts for more than 52% of company sales. The group comprises high power phase control thyristors, rectifier diodes, fast thyristors, fast diodes, gate turn off thyristors (GTOs) and bipolar transistors and thus the broadest product range across a wide customer base



The predominant market for Dynex bipolar discrete devices is the industrial sector 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.

Growth in transistors, diodes and new products

At almost $12 million, the group's sales fell by 17% over 2004, mainly due to the strengthening Canadian dollar: in UK sterling terms this represented a fall of 5%. This was directly attributable to the limitations on the supply of materials at the start of the year that depressed sales of phase control thyristors and constrained growth in other products, but sales recovered well in the second half. Despite this, we saw more than 10% growth in sales of transistors and fast diodes, while the sale of new products, comprising i² thyristors, a new GTO and a new 15kV diode, accounted for around 8% of the total. Despite the fluctuating nature of the sales profile, bookings were consistent with 2004 and delivered a book to bill ratio of 1.11.

As we entered 2005, the primary issue to be addressed was to improve the working relationships with our suppliers in order to reduce lead times and improve on time delivery. Satisfactory progress was made but a continued laser beam focus is required to maintain these improved business partnerships to allow us to gain better control over incoming material, stock management and product availability. The last two years have seen a significant jump in energy prices that has had an adverse affect on both materials and overheads. We remain committed to minimising the impact of these increases on our customers and to improving the cost competitiveness of our products, by focusing on lower component costs, reducing overheads and improving production yields. We have concentrated resource on qualifying alternative suppliers and sub-contractors to maximise efficiency and to leave ourselves less exposed to fluctuations in world prices for key raw materials.

Higher power benefits without additional cost

We continue to explore areas where new technology can enhance the performance and manufacturing capability of our bipolar products. Throughout 2005 our primary R&D focus has been to orchestrate the transfer of our new ion implant (i²) converter thyristor technology from development into production and we have started the development of a new range of rectifier diodes based on the same i² technology. This technology delivers the benefits of even higher power from a given area of silicon. In addition, we have initiated plans to further enhance the capability of the i² thyristors and diodes by improved contacting technology and the development of a novel silicon edge profiling technique that promises even more robust devices with increased reliability.

These technologies are part of the roadmap that will take Dynex to the forefront of technology for the production of high power thyristors for our focus markets.

Increased product availability

The introduction of the new i² product range has given 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 2.2kV products. Interest in these new products has been encouraging with several significant design-ins which promise to mature into substantial business in the future. The rest of the i² product range is designed to substitute existing products with products of improved performance, which on a size for size basis is as good as, or better than, our competitors.

A programme of transfer of existing design-ins to the i² product range has been running for several months. When completed this will lead to a significant reduction in the number of silicon and device piece-parts that Dynex has to stock, whilst increasing the products available to our customers.

Looking forward to 2006 we will sustain our capability to supply a wide range of power semiconductor devices to the marketplace and this was demonstrated during 2005, with over 500 different bipolar product types being sold. We continue to maintain support for our traction thyristor and GTO products that provide us with opportunities in market sectors where other suppliers are withdrawing their products. Our strategy of developing new products and extending our current ranges gives us a solid foundation to build upon for the future.

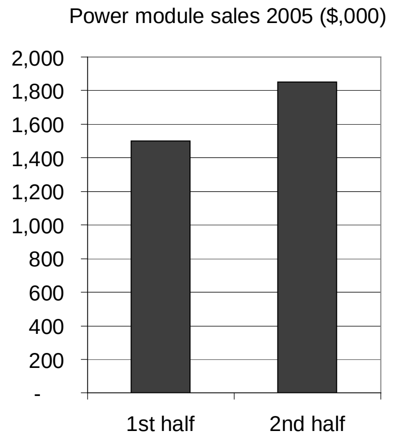
We pride ourselves on providing a high level of technical support to our customers and responding positively and efficiently to any new technical opportunity. Our outlook for 2006 is thus positive with anticipated sales growth across the bipolar group.

Power Modules

With sales of around $3.4 million, the power module group represents 15% of the company's business.
The group's main products are insulated gate bipolar transistors (IGBT) that are used in AC motor drives and power management systems.

Strong demand from China and Europe

Sales in 2005 returned a 16% growth over the previous year. In the first half of the year, sales were constrained by availability of silicon material but recovered sharply in the second half. New demand and design wins were particularly strong from China and Europe and we continued to supply modules to the main propulsion system for the UK type 45 destroyers



Following a detailed product review in 2005, Dynex has applied a particular market focus onto high voltage and high power products. These module products are best suited to our strengths in offering customers flexible and highly engineered solutions at a competitive price. This focus also benefits the use of Dynex in-house fabricated IGBT and fast diode silicon chips, giving the most competitive alignment with our focus applications sector. In line with this strategy, sales of high performance, soft punch through, 3.3kV products were particularly strong finding wide acceptance in markets in both the Far East and Europe. Dynex also took steps to suspend manufacture of bipolar pressure contact modules owing to low demand, increasing costs, and in line with the development of the new range of i2 bipolar products.

New modules released

We continued to offer customer specific modules, for example for ultra high voltage and for extreme operating environments such as aerospace, as well as on going design and development of new standard product ranges. We released new modules at 4.5kV and 6.5kV and at lower voltages cost-effective copper base modules that are now offering more price competitive solutions. In 2006 we plan to continue developments in these areas as well as work on specialist applications demanding high reliability, high voltage, and extreme environment operation.

Further sales growth is forecast through 2006 and beyond reflecting a market with double-digit growth and the competitive features of our high voltage modules.

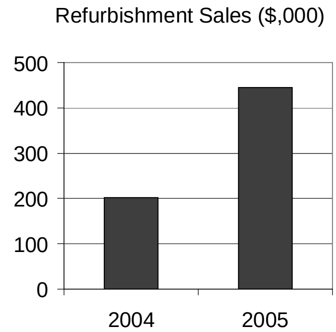
Power Electronic Assemblies

Representing 15% of the company’s business, the power electronic assembly group achieved sales totalling $3.4 million in 2005. Owing to the strengthening of the Canadian dollar, this is reported as a 5% reduction over 2004. However, the standard assembly business and refurbishment sales both showed good growth in 2005 and we continued to receive a steady level of specialist custom business including quality control systems for AC power transmission and equipment for pulsed power applications.

Strengthened motor drives capability

The new assemblies engineering team, established at the start of the year, is now delivering high quality responses to our customers’ enquiries. New designs are in place and we are offering a broader and more competitive range of assemblies. We have strengthened our capability in the motor drives sector, supplying the power blocks for drives up to 2MW using Dynex IGBT products. We are also working with end users of industrial drives, in both AC and DC systems, with a view to supplying inverter blocks in collaboration with motor control specialists. Our rail transportation converter module refurbishment business is gaining momentum, increased significantly over 2004 and is expected to grow further in 2006

Through strong engineering links with University research and development groups we are expanding



our skills portfolio and are further developing these networks through participation in national and international collaborations in power electronics. This will strengthen our technical capability and develop new opportunities for upward integration supplying more of our customers’ needs. Upward product integration is a key to our assemblies strategy: it connects the benefits of Dynex engineering directly into our customers’ business, delivering the benefits of our knowledge and competence in assembly, test and applications engineering and returns greater added value to Dynex products.

Looking forward to 2006, we anticipate increased sales, mainly in Europe, through continued growth in demand for our standard products, increased business for motor drives, rail refurbishment and for specialised power quality assemblies

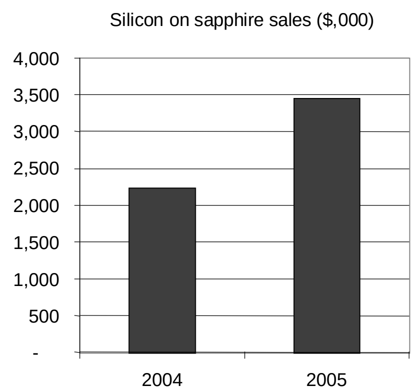
Integrated Circuits

The integrated circuit group contributed 18% and $4 million to the company’s sales revenue in 2005, a growth of 33% over 2004. Following a review of opportunities for integrated circuit products, Dynex has committed to continue the availability of its silicon-on-sapphire (SOS) range of integrated circuits for applications demanding high tolerance to radiation.

To sustain the product availability requires Dynex to qualify a new source of epitaxial material and preparation for the qualification began in the second half of 2005. It will be completed through the first half of 2006.

We have over 20 years of experience in supplying high reliability products to space programmes and an awareness of our decision to continue manufacture has stimulated an increase in the numbers of customers enquiring for these high performance parts.

The main growth application for SOS is in satellites to service the rapidly developing economies of Asia and the Far East although there are continuing opportunities from other regions for both space and terrestrial applications.



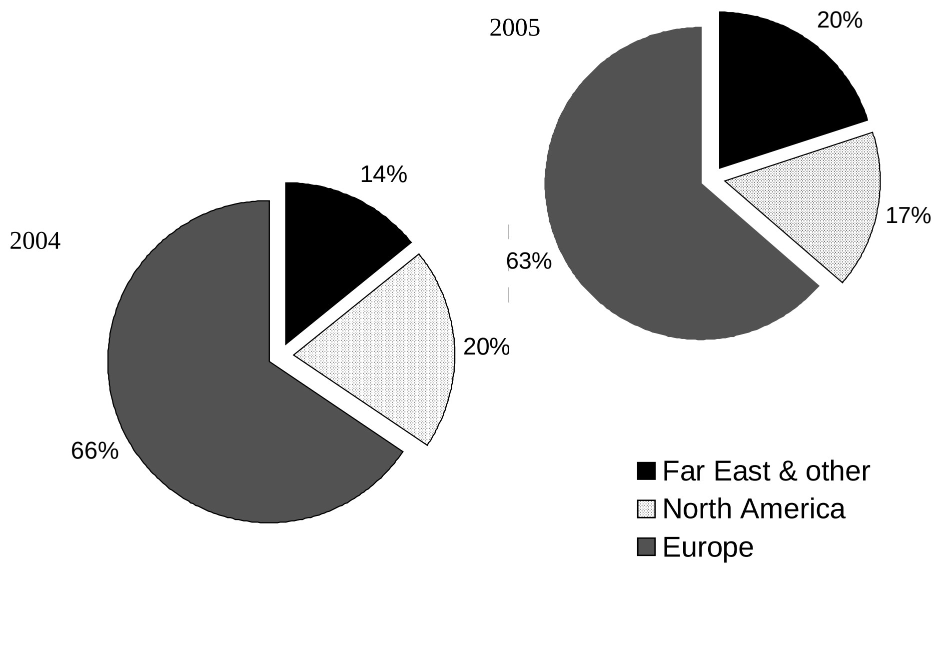
Sales and Distribution

Europe remained the major market for the company's products accounting for around 63% of the sales compared to 66% in the previous year. Although European sales decreased when reported in Canadian dollars, they remained steady in Sterling. Dynex continued its strategy of promoting sales outside of Europe through distribution and sales representatives. In the Far East, additional distribution outlets were added in China during 2005 in order to broaden the company's customer base. This approach was highly successful, leading to increased growth in the Far East where the sales expanded by more than 30% over the previous year and contributed almost 20% of the total. Sales into the North American market fell below expectation, owing to a weak demand for the company's products in that region that resulted from reduced local sales presence. Across the globe, France took the leading country position followed by Spain, UK and China with the USA in fifth place.

There was a major increase in sales to Spain during the year, promoting it to the second ranking position, largely due to the company's policy of distributing its Silicon of Sapphire integrated circuit range for the aerospace industry through one preferred specialist distributor. Sales demand for these product ranges were strong for end customers in Asia, the Far East and Italy.

Our specialised high power market continues to grow at around 10% per annum fuelled by global demands for more efficient generation, use and transmission of electric energy, by increased markets for high power motor drives and by the expanding global industrial infrastructure. Looking forward to 2006, we anticipate sales growth across all sectors and we will take steps to strengthen our sales presence in North America. Prices will continue to be either stable or marginally increase as rising energy prices filter through the supply chain against a backdrop of rising demand.

Sales by Region



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, 2005.

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 proved to be a much better one for the Company than 2004. We started the year with a shortage of liquidity that impacted on the flow of materials into the factory and therefore had a negative impact on our revenues in the first two quarters. With the help of our suppliers and two of our directors, we were able to overcome this shortage of liquidity and revenue rose each quarter throughout the year. Indeed, measured in Sterling, annual revenue was 2% higher than it had been in 2004, an encouraging result given the poor start to the year and the first such increase in annual revenue since Dynex Power Inc. acquired the Lincoln business. Revenue could have been significantly higher but for the liquidity problems at the start of the year. Unfortunately, due to the strengthening of the Canadian dollar during the year, this increase in revenue is not reflected in these accounts.

As a result of the cost reduction exercise carried out in late 2004 and an increase in revenue from our high margin Integrated Circuits business, there was a significant improvement in the gross margin and with tight control throughout the year of overhead costs, this translated into a much improved operating result for the year.

Reflecting the quarterly rise in revenue, the operating result also improved each quarter throughout the year and a profit after tax was recorded in the fourth quarter.

The result for the year was in line with the plan that had been set out at the start of the year and further growth in revenue is forecast for 2006.

Revenue

Revenue for the fourth quarter of 2005 was $7.4 million, up by $1.7 million or 29% from the third quarter and up by $1.8 million or 33% against the corresponding quarter of last year. It represented the highest quarterly revenue for over three years.

Revenue for the full year of $22.8 million was $1.1 million or 5% lower than in 2004. The fall in revenue was entirely due to the strengthening of the Dollar. Revenue of the UK operating business, measured in Sterling, rose by 2%., the first such rise since Dynex acquired the business

The marketplace and demand for our products remains relatively strong, although the fourth quarter of 2005 included revenue of over $2.5 million from Integrated Circuits which is significantly higher than can be expected in the next few quarters.

Gross Margin

Given the high fixed cost nature of the business, and the strong revenue from the high margin Integrated Circuit business, the increased revenue reported in the fourth quarter resulted in a gross margin of $2.3 million, up by $1.4 million or 157% from that reported in the third quarter and by $1.2 million or 103% compared to the corresponding quarter of last year.

The gross margin for the year of $2.9 million was $546,000 or 23% higher than in 2004. The improvement came from an increase in the high margin Integrated Circuit business and from the benefits obtained from the restructuring action carried out in late 2004.

Expenses

Overhead expenses in the fourth quarter of $1.6 million were $390,000 or 33% higher than in the third quarter but $1.2 million or 43 % below those reported in the corresponding quarter of last year. However, the figure for the corresponding quarter of last year included $1.5 million of one time restructuring charges partially offset by $382,000 of one time cost reductions. Excluding these amounts, overhead expenses were $36,000 or 2% lower than in the corresponding quarter of last year.

Overhead expenses for the full year were $4.8 million, some $3.0 million or 38% below the figure for 2004. If the cost of the restructuring exercise is excluded from the 2004 figure, the reduction in overhead expenses is $1.5 million or 24%, reflecting the positive impact of the restructuring action carried out in late 2004.

Interest & Other Income

Interest and other income was $93,000 in the fourth quarter, up by $49,000 or 111% over the preceding quarter. The figure was identical to that of 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 $237,000 some $27,000 or 10% lower than in 2004. The difference is not considered significant.

Foreign Exchange Loss

There was a foreign exchange loss in the quarter of $39,000, which was $18,000, or 32% lower than the figure reported in the third quarter. A profit of $44,000 was reported 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 foreign exchange loss for the year of $141,000 is lower than the $207,000 recorded last year and reflects the deliberate attempt by management to reduce our exposure to such losses by minimising the value of the intercompany loan.

Income Taxes

As a result of brought forward losses, no tax is payable on the profit reported in the quarter. No tax was payable on the losses reported in the third quarter or the corresponding quarter of last year.

The Company reported a loss for the year and so will not have any tax to pay. The UK Company had incurred a small $2,000 tax charge in 2004 as a result of the finalisation of its 2001 tax return. The finalisation of its 2002 tax return did not result in any adjustments. The 2003 tax return is now awaiting final clearance and no adjustments are expected as a result of the finalisation. The Company has sufficient tax losses brought forward to be confident that any adjustments to its 2004 or 2005 tax returns will not result in any tax liability.

Net Profit / Loss

The Company reported a net profit of $781,000 in the quarter, the first such quarterly profit reported on operations since before the microwave sensors business was sold in 2003. Net losses of $293,000 and $1.4 million had been reported in the third quarter and the corresponding quarter of last year.

The net loss for the year of $1.8 million is $3.6 million or 67% lower than the net loss reported in 2004. If the cost of restructuring is excluded from the 2004 figure, the reduction is $2.1 million or 54%. The improvement continues the trend established in 2004 when the net loss, excluding restructuring costs, fell by $3.6 million or 48% from that reported in 2003.

Segmental Analysis

Revenue for Bipolar Discrete Units in the quarter of $3.2 million was $104,000 or 3% lower than the previous quarter but $1.0 million or 46% higher than in the corresponding quarter of last year. For the year as a whole, revenue for Bipolar Discrete Units of $12.0 million was $2.4 million or 17% lower than last year. Bipolar Discrete Units had been the business most seriously affected by the problems in the supply chain in the first half of the year and this held sales back significantly.

Revenue for Power Modules in the quarter of $956,000 was $62,000 or 7% higher than in the third quarter and $17,000 or 2% higher than in the corresponding quarter of last year. For the year as a whole, revenue of $3.4 million was $461,000 or 16% higher than last year despite the supply chain problems, reflecting the slow but steady growth in this business from year to year

Revenue for Power Electronic Assemblies of $693,000 was $177,000 or 34% higher than in the preceding quarter and $45,000 or 7% higher than the corresponding quarter of last year. For the full year, revenue from Power Electronic Assemblies of $3.4 million was $165,000 or 5% down on 2004.

Revenue from Integrated Circuits for the quarter of $2.5 million was $1.5 million or 159% higher than in the preceding quarter. Revenue was $734,000 or 41% higher than it had been in the corresponding quarter of last year. The figure for the fourth quarter was unusually large and is not likely to be repeated in the next few quarters. For the full year, revenue of $4.0 million was up by $1.0 million or 33% over last year. Prospects for this business remain good following an announcement to customers that we are able to continue supporting the product, although it is unlikely that revenue in 2006 will be as high as it was in 2005 due to a temporary suspension in production as new materials are qualified.

Seasonality

Management does not regard the business as seasonal. Significant changes in quarterly revenues in bipolar discrete units and IGBT and power units in the past have reflected internal operating conditions. In the case of power electronic 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

As a result of the losses for the year, the deficit on shareholders' funds has risen from $103,000 to $1.3 million.

The total borrowings of the Company rose by $1.6 million during the year. At the same time the profile of the debt was lengthened with debt due within one year being reduced by $1.1 million and longer term debt increasing by $2.7 million.

.Selected Financial Information

Selected quarterly financial information (taken from the unaudited quarterly reports) and annual information (taken from the annual reports) is presented below. 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.

Annual revenue has been stabilised over the last three years and is forecast to grow in 2006. Fluctuations in the quarterly revenue figures primarily reflect liquidity problems within the Corporation.

The reduction in the annual loss from continuing operations is encouraging and clearly shows the impact of long term cost reduction initiatives. The same trend is evident in the last six quarterly earnings figures. Results from total operations differ from results from continuing operations in 2003 due to profits earned by the microwave sensors business that was sold in that year and also as a result of the profit on the sale of the microwave sensors business.

	2005 Q4	2005 Q3	2005 Q2	2005 Q1	2004 Q4	2004 Q3	2004 Q2	2004 Q1	2005 FY	2004 FY	2003 FY
Revenue	7,356	5,681	5,559	4,166	5,543	6,266	5,363	6,714	22,761	23,886	23,563
Continuing operations:											
Net earnings/(loss)	781	(293)	(671)	(1,606)	(1,442)	(1,438)	(1,924)	(576)	(1,788)	(5,380)	(7,477)
Basic EPS	0.03	(0.01)	(0.02)	(0.06)	(0.05)	(0.06)	(0.09)	(0.03)	(0.07)	(0.23)	(0.38)
Diluted EPS	0.03	(0.01)	(0.02)	(0.06)	(0.05)	(0.06)	(0.09)	(0.03)	(0.07)	(0.23)	(0.38)
Total operations:											
Net earnings/(loss)	781	(293)	(671)	(1,606)	(1,442)	(1,438)	(1,924)	(576)	(1,788)	(5,380)	(2,087)
Basic EPS	0.03	(0.01)	(0.02)	(0.06)	(0.05)	(0.06)	(0.09)	(0.03)	(0.07)	(0.23)	(0.11)
Diluted EPS	0.03	(0.01)	(0.02)	(0.06)	(0.05)	(0.06)	(0.09)	(0.03)	(0.07)	(0.23)	(0.11)
Total assets	12,798	11,282	11,444	12,482	14,669	14,916	15,004	16,680	12,798	14,669	14,862
Long term liabilities	3,048	3,655	3,884	3,765	271	0	4	9	3,048	271	13
Cash Dividends paid	0	0	0	0	0	0	0	0	0	0	0

Risk Management

The level of world-wide demand for power semiconductors and power semiconductor assemblies is one of the key uncertainties for the Corporation. Demand was at a relatively low level during 2002 and 2003.The incidence of widespread power blackouts, the rising cost of energy and the global plan to reduce carbon emissions have led to widespread discussion of the need for significant investment in power electronic equipment, electrification of transport systems, alternative power generation and high quality power 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 two major customers who each accounted for 13% of revenue in the year. Our relationships with these 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 hedge any 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 first quarter of the year. As at December 31st, 2005 a total of $73,478 was payable to Directors in respect of their fees. The Directors' fees are recorded at negotiated amounts and will be paid in shares of the Corporation as per the Directors' Share Plan.
The Corporation has loans from two Directors totalling £1.7 million ($3.7 million) which bear interest at rates between 7% and 10% per annum compounded monthly and on which repayments start during 2007.

Business Development

The fourth quarter of 2005 benefited from a number of large deliveries to customers particularly of integrated circuits. Revenue in 2006 will not be maintained at that level. However, management is forecasting revenue in 2006 to grow by approximately 18% over that reported in the 2005. Such growth together with continuing emphasis on reducing costs should enable the Corporation to be profitable for the year.

Subsequent Events

In January, two Directors of the Corporation advanced a further £120,000 ($240,000) of loans on similar terms to the previous loans. In April the Corporation raised $550,000 by way of a private placement.

Breach of Covenant on Short Term Loan

The Corporation is in breach of a covenant on the facility and the waiver of the breach expires May 1st 2006. An offer of a replacement facility has been received from another lender and this is expected to be completed during May.

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 princiles 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 Corporation 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.

PDTaylor   Bob Lockwood

Paul Taylor	Bob Lockwood
President & CEO	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, 2005 and 2004 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, 2005 and 2004 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP

Chartered Accountants

Ottawa, Ontario
April 27th, 2006

DYNEX POWER INC.
Consolidated Balance Sheets
Years Ended December 31st, 2005, 2004

	Dec 31st 2005	Dec 31st 2004
CURRENT ASSETS		
Cash and cash equivalents	$ **331,897**	$ 250,375
Accounts receivable	**5,484,910**	4,550,173
Inventories (Note 3)	**5,951,526**	8,507,761
Prepaid expenses and deposits	**551,135**	697,477
	12,319,468	14,005,786
CAPITAL ASSETS (Note 4)	478,938	662,770
	$ **12,798,406**	$ 14,668,556
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	$ **5,125,882**	$ 6,980,182
Short-term loan (Note 5)	**2,607,515**	3,021,785
Due to director (Note 6)	**-**	1,390,020
Due to shareholders (Note 6)	**-**	580,211
Current portion of long-term debt (Note 6)	**1,396,219**	154,609
Current portion of deferred revenue (Note 7)	**155,515**	179,174
	9,285,131	12,305,981
CONTINGENCIES (Note 16)	-	-
LONG-TERM DEBT (Note 6)	**3,048,252**	270,977
LONG TERM DEFERRED REVENUE (Note 7)	**1,749,547**	2,194,876
	14,082,930	14,771,834
SHAREHOLDERS' EQUITY		
Share capital (Note 8)	**12,955,163**	12,474,999
Deficit	**(13,824,595)**	(12,036,335)
Cumulative translation adjustment	**(415,092)**	(541,942)
	(1,284,524)	(103,278)
	$ **12,798,406**	$ 14,668,556

Paul D.Taylor **Robert D. Lockwood**

DYNEX POWER INC.
Consolidated Statements of Loss and Deficit
Years Ended December 31st, 2005, 2004

		2005		2004
Revenue	$	**22,760,665**	$	23,885,937
Cost of sales		**19,832,108**		21,502,559
Gross margin		**2,928,557**		2,383,378
Expenses				
General and administration		**2,553,822**		4,403,203
Sales and marketing		**1,085,270**		1,710,742
Research and development		**538,903**		1,441,214
Interest expense		**635,488**		265,419
		4,813,483		7,820,578
Loss before other income (expenses) and income taxes		**(1,884,926)**		(5,437,200)
Other income (expenses)				
Interest and other income		**237,329**		264,179
Foreign exchange (loss)		**(140,663)**		(206,612)
		96,666		57,567
Income taxes (Note 9)		**-**		(2,322)
NET LOSS		**(1,788,260)**		(5,381,955)
DEFICIT, BEGINNING OF PERIOD		**(12,036,335)**		(6,654,380)
DEFICIT, END OF PERIOD	$	**(13,824,595)**	$	(12,036,335)
Loss per share				
Basic	$	**(0.07)**	$	(0.23)
Diluted	$	**(0.07)**	$	(0.23)
Weighted average number of shares				
Basic		**26,949,650**		22,336,696
Diluted (Note 10)		**26,949,650**		22,336,696

DYNEX POWER INC.
Consolidated Statements of Cash Flow
Years Ended December 31st, 2005, 2004

		2005		2004
OPERATIONS				
Net loss	**$**	**(1,788,260)**	$	(5,381,955)
Items not affecting cash:				
Amortization		**227,019**		282,085
Gain on disposal of capital assets		**(172,909)**		(195,055)
Shares and options issued for services		**197,768**		118,050
Changes in non-cash operating working capital (Note 12)		**(1,124,674)**		921,071
		(2,661,056)		(4,255,804)
FINANCING				
Shares issued for cash		**80,000**		2,406,914
Increase in loans from shareholders		**-**		594,112
Increase in loans from a director		**-**		923,325
Decrease in short-term debt		**(29,991)**		(456,598)
Increase in long-term debt		**2,608,556**		409,007
		2,658,565		3,876,760
INVESTMENTS				
Proceeds on disposal of capital assets		**2,207**		11,588
Purchase of capital assets		**(118,242)**		(99,158)
		(116,035)		(87,570)
NET DECREASE IN CASH POSITION		**(118,526)**		(466,614)
Effect of foreign currency translation on cash flow		**200,048**		55,781
Cash, beginning of period		**250,375**		661,208
CASH, END OF PERIOD	**$**	**331,897**	$	250,375

Supplementary Information:

Interest paid	**$**	**337,052**	$	265,419
Income taxes paid during period		**-**		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 progress 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 progress and finished goods are valued at the standard cost of direct materials 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. Amortization 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 7) 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 translation of foreign currency are included in shareholders' equity as cumulative translation adjustment.

Research and development costs

Research costs are expensed as incurred. Expenditures for research and development equipment are capitalized. Development costs are expensed as incurred.

Income taxes

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

Stock-based compensation

The Corporation follows the CICA Handbook Section 3870 “Stock-Based Compensation and Other Stock-Based Payments” which establishes standards for the recognition, measurement and disclosure of stock-based compensation. Any consideration paid by employees on the exercise of stock options is recorded as share capital.

3. INVENTORIES

		2005		2004
Raw materials	**$**	**1,242,675**	$	1,681,924
Work in progress		**3,826,110**		5,637,370
Finished goods		**882,741**		1,188,467
	$	**5,951,526**	$	8,507,761

Inventory is stated net of a provision of $5,757,672 (2004 - $7,422,530) for obsolescence.

4. CAPITAL ASSETS

		2005						2004
		Cost		Accumulated Amortization		Net Book Value		Net Book Value
Equipment	**$**	**1,991,803**	**$**	**1,512,865**	**$**	**478,938**	$	662,770
	$	**1,991,803**	**$**	**1,512,865**	**$**	**478,938**	$	662,770

5. SHORT-TERM LOAN

The Corporation has a short-term loan of $2,607,515 (2004 - $3,021,785) secured by a first charge on all capital assets, inventory, cash and cash equivalents and accounts receivable. The loan is repayable on demand. The Corporation is in breach of a covenant on the facility and the waiver of the breach expires on May 1st 2006.

6. LONG-TERM DEBT

		2005		2004
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
Interest free unsecured loan payable in monthly instalments of $10,225 to November 2007		**235,195**		412,356
Loans from individual shareholders payable in monthly instalments between June and September 2006 bearing interest at 10% but with no interest payable until July 1st, 2005 and secured under a general security agreement. These loans were classified as short-term at December 31st, 2004 but the repayment dates were renegotiated during the first quarter of 2005. A total of $125,000 of these loans is convertible into 357,143 shares at a conversion price of $0.35 per share at any time prior to the repayment date at the option of the lender.		**549,620**		-
Loan from a director payable in monthly instalments between October 2006 and February 2007 bearing interest at 10% but with no interest payable until July 1st, 2005 and secured under a general security agreement. This loan was classified as short-term at December 31st, 2004 but the repayment dates were renegotiated during the first quarter of 2005.		**1,206,480**		-
Loans from two directors bearing interest at 7% and secured under a general security agreement. A total of $1,736,853 of these loans is convertible into approximately 33.2% of the share capital of Dynex Semiconductor Ltd at any time prior to the repayment date at the option of the lender. $1,407,560 of these loans is repayable in monthly instalments between March 2007 and March 2008, $804,320 is repayable in monthly instalments between June 2007 and June 2008 and $241,296 is repayable in monthly instalments between April 2008 and September 2008.		**2,453,176**		-
		4,444,471		425,586
Current portion		**1,396,219**		154,609
	$	**3,048,252**	$	270,977

6. LONG-TERM DEBT (cont'd)

Principal payments

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

2006	$	**1,396,219**
2007		**2,110,910**
2008		**937,342**
	$	**4,444,471**

7. 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 $170,703, is included in other income for the year ended December 31st, 2005 (2004 - $183,467).

8. SHARE CAPITAL

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

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

			2005		2004
Common shares	- amount	$	**12,955,163**	$	12,474,999
	- number		**27,058,244**		26,917,354

The Corporation has no issued and outstanding preferred shares.

Common share transactions

On April 4th, 2005 the Corporation issued 114,286 shares to a related party at $0.35 each as settlement with them for work carried out on behalf of the Corporation.

On June 24th, 2005 the Corporation issued 126,812 shares to the independent directors who are related parties for their services in 2004. The shares were issued under the Independent Directors' Share Plan at a price of $0.54 per share and the number of shares issued reflected that the independent directors had waived their fees for the last quarter of 2004. The fair value of the shares has been recorded as an expense and a credit to share capital.

On September 23rd, 2005 the Corporation cancelled 1,184,810 shares that were being held in Escrow. The date for fulfilling the conditions for releasing the shares had expired without the conditions having being fulfilled.

8. SHARE CAPITAL (Continued)

Common share transactions (Continued)

On October 13th, 2005 the Corporation issued 84,602 shares to the independent directors who are related parties for their services during the first six months of 2005. The shares were issued under the Independent Directors' Share Plan at a price of $0.30 per share and the number of shares issued reflected that the independent directors had waived their fees for the first quarter of 2005. The fair value of the shares has been recorded as an expense and a credit to share capital.

On October 26th, 2005 the corporation issued 1,000,000 shares for cash to four senior managers who are related parties at a price of $0.08, being the market price at the time the share issue was approved.

Warrant transactions

The Corporation has outstanding warrants to acquire 3,233,334 shares at the option of the holders at $0.60 per share any time before July and August 2006. The Corporation also has outstanding warrants to acquire 387,143 shares at the option of the holders at $0.35 per share any time before September 2006.

Stock option plan

A total of 2,650,000 (2004 - 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, 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
Granted	650,000	$ 0.08
Exercised	-	-
Cancelled	(1,239,000)	$ 1.11
Outstanding at December 31st, 2005	**875,000**	**$ 0.24**

The weighted average remaining life of the outstanding options is 4 years and 1 month. At December 31st, 2005 there are 175,000 options exercisable with a weighted average exercise price of $0.81 and a weighted average remaining life of 1 year and 6 months.

8. SHARE CAPITAL (Continued)

Stock option plan (Continued)

At December 31st, 2005 the following stock options are outstanding:

	Number of Options		Exercise Price	Grant Date	Expiry Date
Officers	150,000	$	0.24	April 28, 2003	April 27, 2008
	550,000	$	0.08	November 30, 2005	November 29, 2010
Directors who are not officers	75,000	$	1.59	June 6, 2001	June 5, 2006
All other employees	100,000	$	0.09	November 30, 2005	November 29, 2010
Total outstanding	**875,000**	**$**	**0.24**		

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 $7,997 of stock based compensation in general & administrative expenses in the year ended December 31st, 2005 (2004 - $4,527). The fair value was determined following the Black-Scholes pricing model using the following assumptions: expected option life of five years; volatility of 58%; and risk free interest rate of 3%.

9. INCOME TAXES

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

		2005		2004
Current	**$**	**-**	$	2,322
Future		**-**		-
	$	**-**	$	2,322

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:

		2005		2004
(Loss) earnings before income taxes	**$**	**(1,788,260)**	$	(5,379,633)
Expected tax (recovery) provision		**(654,500)**		(1,968,940)
Increase (decrease) resulting from:				
Prior year losses utilized		**-**		-
Other		**-**		-
Unrecorded benefit of tax loss		**654,500**		1,968,940
Foreign tax differential		**-**		2,322
Reported income tax provision (recovery)	**$**	**-**	$	2,322

9. INCOME TAXES (Continued)

Future income taxes consist of the following temporary differences:

Differences between tax and book value of capital assets	**$**	**(529,951)**	$	(609,184)
Loss carry forwards		**(3,444,439)**		(3,113,524)
Differences between tax and accounting value of provisions		**(225,472)**		(368,832)
		(4,199,862)		(4,091,540)
Less: valuation allowance		**4,199,862**		4,091,540
	$	**-**	$	-

The Canadian statutory tax rate of 36.1% (2004 – 36.1%) comprises Federal income tax at approximately 22.1% (2004 – 22.1%) and Provincial income tax at approximately 14% (2004 – 14%). The United Kingdom statutory rate is 30% (2004 – 30%)

As at December 31st, 2005 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, 2005 the Corporation has Canadian capital loss carry forwards of $41,000 without expiry to reduce future years' capital gains.

As at December 31st, 2005 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
2006	520,000	520,000
2007	424,000	424,000
2008	421,000	421,000
2010	688,000	688,000
2014	109,000	109,000
2015	679,000	679,000

As at December 31st, 2005 the Corporation has United Kingdom tax loss carry forward of $7,868,000 available to reduce future years' income for tax purposes. These tax loss carry forwards have no expiry date.

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

10. (LOSS) EARNINGS PER SHARE

For the year ended December 31st, 2005 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 4,495,477 (2004 – 4,851,144).

11. COMMITMENTS

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

2006	$ 546,332
2007	482,592
2008	482,592
	$ 1,511,516

12. CHANGES IN NON-CASH OPERATING WORKING CAPITAL ITEMS

	2005	2004
Accounts receivable	**$ (1,685,500)**	$ 296,929
Inventories	**1,572,784**	(622,569)
Prepaid expenses and deposits	**65,168**	(58,040)
Accounts payable and accrued liabilities	**(1,077,126)**	1,304,751
	$ (1,124,674)	$ 921,071

13. ECONOMIC SIGNIFICANCE

For the year ended December 31st, 2005 the Corporation had two customers each accounting for approximately 13% of revenue (2004 – one customer that accounted for approximately 18% of revenue).

14. FINANCIAL INSTRUMENTS

There is financial risk to the Corporation’s earnings that arises from fluctuations in foreign exchange rates, and the degree of volatility of these rates. The Corporation has not used derivative instruments to hedge its exposure to foreign currency risk. The exposure to foreign currency risk is primarily limited to that of the United States Dollar, the United Kingdom Pound and the Euro.

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

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

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

15. BUSINESS SEGMENT INFORMATION

Business area

The business operates in four distinct product areas – high power bipolar discrete devices, high power IGBT and bipolar modules, power electronic assemblies (the design and assembly of power devices into stacks) and high reliability integrated circuits. The product manufacturing for these areas are supported by common infrastructure at the Corporation's Lincoln, England facility. As at December 31st, 2005 the Corporation does not segregate assets or other balance sheet accounts by product area nor does the Corporation measure operating profits by these areas. The Corporation evaluates performance and allocates resources based on revenue by product area.

Geographic area

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

		2005		2004
Revenue:				
Business segment				
Bipolar discrete units	**$**	**11,965,438**	$	14,385,245
IGBT & power units		**3,350,471**		2,889,349
Power electronic assemblies		**3,440,965**		3,605,756
Integrated circuits		**4,003,791**		3,005,587
	$	**22,760,665**	$	23,885,937
Geographic area				
Europe	**$**	**14,451,849**	$	15,650,330
North America		**3,770,053**		4,873,437
Far East and other		**4,538,763**		3,362,170
	$	**22,760,665**	$	23,885,937
Capital assets				
Geographic area				
Europe	**$**	**478,938**	$	662,541
North America		**-**		229
	$	**478,938**	$	662,770

16. CONTINGENCIES

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.

17. PENSION PLAN

The Corporation incurred expenses of $252,342 (2004 - $200,661) 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, 2005 $152,821 (2004 - $176,069) is included in accrued liabilities.

18. RELATED PARTY TRANSACTIONS

The Corporation incurred expenses of $73,478 (2004 - $60,033) with respect to fees payable to directors. As at December 31st, 2005, $40,833 is payable to directors (2004 - $60,033). The directors fees are recorded at the negotiated amounts.

19. SUBSEQUENT EVENTS

The Corporation borrowed a further $243,100 of long term debt from two directors in January, 2006. The loan bears interest at 7% and is repayable between April and September 2008. At the option of the lenders, all or part of the loan may be converted into shares of Dynex Semiconductor Ltd. If the full amount of the loan were converted, 371,000 shares in Dynex Semiconductor Ltd. would be issued, equivalent to 9.01% of its share capital after the conversion. The loan is the third convertible loan made by the directors. If the lenders were to exercise all of their conversion rights, £863,762 ($1,749,100) of loans would be converted into 1,866,159 shares in Dynex Semiconductor Ltd., equivalent to approximately 33.23% of its issued share capital after the conversion.

The Corporation raised $550,000 of new equity in April, 2006 through a private placement of 5,000,000 common shares at a price of $0.11 per share.

Corporate Information

Board of Directors

David F. Banks †
Chairman

Paul Taylor
Director, President & CEO

Bob Lockwood
Director, VP Finance & CFO

Debbie Weinstein *†
Director & Company Secretary

Keith Ralls *†
Director

Daniel Owen * †
Director

* Members of Audit Committee
† Members of Compensation Committee

Senior Officers, VP's & Senior Managers

Paul 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 Professional Corporation,
Ottawa, Ontario

Transfer Agent

Computershare Trust Company of Canada

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