DYNEX POWER INC.

REPORT FOR THE QUARTER ENDED

JUNE 30TH 2005

LETTER FROM THE PRESIDENT – SECOND QUARTER 2005

Dear Shareholder,

I am pleased that this quarter we are to be able to present you with a more encouraging report. Although disappointed that our results are still far from acceptable, as we have again to report an operating loss, we note a number of underlying improvements at Dynex. Boosted by the previously reported positive developments in our supply chain, our revenues have increased consistently since the low point at the start of the year, and in the second quarter were 33% ahead of the previous quarter and 4% ahead of the same period last year. Of particular significance is the magnitude of the operating loss being dramatically reduced over that of each of the previous four quarters: this is the effect of the cost reduction and re-structuring initiatives implemented in the last quarter of 2004. Supporting our future revenues, we have seen consistent and steady growth in our order book, up by 28% during the first half of the year. We are therefore confident that we shall see further increases in revenue and a return to profitability in the second half of 2005.

Our employees' focus is to strengthen our manufacturing operations with clear objectives to grow revenues, improve gross margins, reduce lead times, increase on time delivery, and implement effective inventory management. We know that with a strong manufacturing operation to complement our expert technical competence and product strengths our business will flourish.

We are already seeing the benefits of this manufacturing focus. With growing revenues our gross margin this quarter was a positive $340k compared to a loss of $296k for the same period last year. In addition sales and marketing and general and administration costs were reduced, at $845k, to 15% of revenue, compared to $1,324k or 25% of revenue for same period 2004. These are the results of our overhead and staff reductions, tight cost control, and improved product material costs. Although through our redundancy exercise in 2004 we had lost some valued colleagues, it is pleasing to see that our employees have responded well and our productivity is now climbing. Our head count is currently stable at 181 people compared to 229 at same period last year. This represents a 31% improvement in revenue per head; an encouraging result but we forecast even greater improvements through the balance of 2005. Our inventory is now $6.96million (net of provision of $7.35million) compared in Quarter 2 2004 to $9.49million (net of provision of $10.76million) a reduction of 26%.

Lead time reduction and on time delivery are yet to see improvements; they are unchanged. Long cycle times from our suppliers, and in our factory, both will require further time to change. It is these more slowly responding factors that will require our greater attention in the coming months as they are the most visible to our customers and our product market. However we fully anticipate improvements in these metrics through the second half of 2005. Despite such delivery and lead-time issues we are fortunate to be operating in a growing market, and are seeing the benefits in our strong order book representing over 6 months work, and our order intake to revenue ratio is at 1.37 year to date.

Since the end of the second quarter, three directors have left the Board: Michael LeGoff resigned on June 3rd and Richard Bertrand and Richard Carl retired at the AGM on July 14th. We would like to thank each of them for the contributions they have made to the Company. I am pleased also to announce that I joined the Board at the AGM and I look forward to working with my fellow directors on improving the operation and results of the business.

At Dynex we are dedicated to doing the best possible job for our shareholders, customers, partners, and employees. We can see that our recovery plans are beginning to bear fruit, and this encourages us, but we have much still to do before we can reap the benefits, and we thank you for your continued patience and your confidence during this period.

PDTaylor

Paul Taylor
President and Chief Executive Officer
August 2005

MANAGEMENT DISCUSSION & ANALYSIS

The following discussion and analysis should be read in conjunction with the Consolidated Financial Statements and Notes of the Corporation for the quarter ended June 30th, 2005.

This report contains 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

As anticipated, the results for the quarter show a good recovery from the first quarter. The supply chain problems that had had such an adverse impact on revenues in the first quarter have been largely corrected. However, despite the correction, there was still an adverse impact in the current quarter but it was much reduced and there should be an even smaller impact on the third quarter's results. Revenue grew by 33% to $5.6 million and would have been higher but for the continued disruption. This level of improvement was still not sufficient for the Company to be profitable. Nonetheless, the losses were reduced by 58% to $671,000. A loss is never acceptable. However, it is in line with the recovery plan we put in place and confirms the progress we are making.

The order book and order intake remain buoyant and give us encouragement that the recovery will continue as planned. Order intake in the quarter was $6.1 million, which is at least equal to our breakeven level. The order book, which stood at $10.4 million at the year end and had risen to $12.3 million at the end of the last quarter, reached $13.3 million at the end of the second quarter. This should ensure that the increase in revenue in the second half of the year, which underpins our recovery plan and return to profitability, will be achieved.

Change in Accounting Policy

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

Revenue

Revenue for the quarter was $5.6 million, up by $1.4 million or 33% from the first quarter and up by $195,000 or 4% against the corresponding quarter of last year. As predicted, the disruption in the supply chain reported in the first quarter still had a negative, though reduced, impact on our ability to deliver goods in the current quarter. But for that, the revenue would have been higher. There will be a continuing though reducing negative impact on our operations for some time to come, but despite this we expect to see further growth in revenue over the next three months.

Gross Margin

The strong growth in revenue in the quarter resulted in a positive gross margin of $340,000. This compares with a negative gross margin in the first quarter of $580,000 and reflects the high contribution we get from additional sales and the work taking place internally to reduce material and overhead costs. A negative margin of $296,000 was reported in the corresponding quarter of last year on sales similar to those in the current quarter. This improvement in gross margin was a result of our cost control activities in the area of indirect manufacturing costs.

Expenses

Overhead expenses of $1.0 million were down by $23,000 or 2% from the first quarter and were $661,000 or 39% lower than in the corresponding quarter of last year. The reduction against the corresponding quarter of last year reflects the cost reduction actions that have been put in place over the last year in relation to overhead expenses.

Interest & Other Income

Interest and other income of $50,000 in the quarter was the same as in the first quarter but down by $14,000 or 22% compared to the corresponding quarter of last year. The main constituent of other income in all three quarters was the $45,000 quarterly release of deferred revenue.

Foreign Exchange Loss

The foreign exchange loss in the quarter of $27,000 compared with a loss in the first quarter of $18,000 and a profit in the corresponding quarter of last year of $4,000. These gains and losses arise primarily on the intercompany loan from the Company to Dynex Semiconductor Limited, the UK operating business. By their nature, these gains and losses are unpredictable but the relatively modest level of losses and gains reflects the deliberate policy by management of actively reducing our foreign exchange exposure.

Income Taxes

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

Net Loss

The net loss in the quarter of $671,000 was $935,000 or 58% lower than the loss in the first quarter and $1.3 million or 65% lower than the loss in the corresponding quarter of last year. This represents a substantial improvement in our results as our revenue rises, as we put the problems in our supply chain in the earlier part of the year behind us and as we seek to improve efficiency and reduce costs. We expect further significant improvement in our overall operating result in the next quarter.

Segmental Analysis

The segmental analysis presented in the last quarter and this quarter reflects the new business and management structure that was implemented at the start of this year.

Bipolar Discrete sales in the quarter of $3.4 million were $1.4 million or 69% higher than in the first quarter but $652,000 or 16% lower than in the corresponding quarter of last year. The Bipolar Discrete business bore the brunt of the breakdown in the supply chain earlier this year and this quarter's figure represents a strong recovery. A further significant rise in sales in this sector is expected in the third quarter.

Revenue in the IGBT and Modules business of $642,000 was $216,000 or 25% lower than in the first quarter but $126,000 or 25% higher than in the corresponding quarter of last year. Recovery of the supply chain has taken longer in this area but we expect a substantial increase in revenue from the IGBT and Modules area in the third quarter.

Revenue for Power Electronic Assemblies of $1.2 million was $200,000 or 20% higher than in the first quarter and $656,000 higher or more than twice the figure for the corresponding quarter of last year. The timing of customer projects heavily influences revenue in this sector. Revenue in this area in the third quarter is expected to be significantly lower.

Revenue for Integrated Circuits for the quarter of $268,000 was $4,000 or 1% higher than in the first quarter and $65,000 or 32% higher than in the corresponding quarter of last year. Revenue for integrated circuits, primarily Silicon on Sapphire, is heavily influenced by a few large orders. No major order was delivered in the quarter. However, there is growing demand for our high reliability Integrated Circuits and orders already taken should ensure higher sales in the third and fourth quarters.

Seasonality

Management does not regard the business as seasonal. Significant changes in quarterly revenues in Bipolar Discretes and IGBT & Modules 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

The Company has net foreign currency liabilities, so a small strengthening of the Canadian Dollar saw a positive translation adjustment of $97,000. However, the loss for the period meant that the Shareholders' deficit has increased by $2.0 million since the year end to $2.1 million.

Amounts tied up in working capital (current assets excluding cash less accounts payable and accrued liabilities) have been reduced by $822,000 since the year end with reductions of $1.4 million in accounts receivable as a result of improved debtor collection and shorter credit terms and $1.6 million in inventory levels from improved stock control offset by a reduction in outstanding creditors of $2.2 million. The outstanding creditor level at the year end had been too high and was a major cause of the problems in the supply chain already referred to. The reduction in creditors was, therefore, necessary.

The Corporation received loans from two directors of £200,000 ($439,000) during the quarter. Total short and long term debt has now increased by $1.2 million since the year end. The debt profile has been altered to make the majority of the debt long term.

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.

	2005 Q2	2005 Q1	2004 Q4	2004 Q3	2004 Q2	2004 Q1	2003 Q4	2003 Q3	2004 FY	2003 FY	2002 FY
Revenue	5,559	4,166	5,543	6,266	5,363	6,714	6,903	7,077	23,886	23,563	30,581
Continuing operations:											
Net (loss)	(671)	(1,606)	(1,442)	(1,438)	(1,924)	(576)	(548)	(1,335)	(5,380)	(7,477)	(2,531)
Basic EPS	(0.02)	(0.06)	(0.05)	(0.06)	(0.09)	(0.03)	(0.02)	(0.07)	(0.23)	(0.38)	(0.14)
Diluted EPS	(0.02)	(0.06)	(0.05)	(0.06)	(0.09)	(0.03)	(0.02)	(0.07)	(0.23)	(0.38)	(0.14)
Total operations:											
Net earnings/(loss)	(671)	(1,606)	(1,442)	(1,438)	(1,924)	(576)	(650)	3,076	(5,380)	(2,087)	448
Basic EPS	(0.02)	(0.06)	(0.05)	(0.06)	(0.09)	(0.03)	(0.04)	0.15	(0.23)	(0.11)	0.03
Diluted EPS	(0.02)	(0.06)	(0.05)	(0.06)	(0.09)	(0.03)	(0.04)	0.15	(0.23)	(0.11)	0.02
Total assets	11,444	12,482	14,669	14,916	15,004	16,680	14,862	15,116	14,669	14,862	24,391
Long term liabilities	3,884	3,765	271	0	4	9	13	18	271	13	3,006
Cash Dividends paid	0	0	0	0	0	0	0	0	0	0	0

The decline in revenue between 2002 and 2003 reflects the closure of various business lines, such as macrochip, and a recession in the demand for high power semiconductors. Annual revenue has stabilised in 2004 and is expected to grow in 2005. The quarterly revenue figures show strong revenue in the latter part of 2003 and early 2004. The fluctuating figures in 2004 and the first quarter of 2005 primarily reflect liquidity problems within the Corporation. The second quarter of 2005 shows a strong recovery in revenue, as the supply chain difficulties caused by the liquidity problems are resolved.

Changes in the loss from continuing operations show the impact of long term cost reduction initiatives with the losses in the current quarter significantly lower than in previous quarters with similar levels of turnover and comparable with periods when revenue was more than 20% higher than it is in the current quarter.

Results from total operations differ significantly from results from continuing operations in Q3 of 2003. The difference reflects the profit on the sale of the microwave sensors business.

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

The large increase in long term liabilities in the first quarter of 2005 is as a result of renegotiations of the maturity dates of $1.9 million of loans that were previously classified as short term debt and from new borrowings of $1.6 million.

Risk Management

The level of world-wide demand for power semiconductors is one of the key uncertainties for the Company. Demand was at a relatively low level during 2002 and 2003. Recent power blackouts in both North America and Europe have led to widespread discussion of the need for significant investment in power generation, transmission and distribution. Such investment would benefit the Company 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 Company has one major customer who accounted for 11% of revenue in the quarter. Our relationship with this customer remains good.

Although the Company 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 Company's results are affected by changes in exchange rates between these currencies. Management monitors these exposures but does not undertake hedging of these exposures. The need to undertake such hedging is reviewed from time to time.

The Company'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 Company. Movements in the Dollar-Sterling exchange rate directly affect such values. The Company 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 generate sufficient working capital to enable the business to operate efficiently remains a major task of management

Related Party Transactions

On June 24th the Company issued 126,812 shares to the independent directors for their services in 2004. Full details are set out in Note 8 of the Financial Statements.

The Company incurred expenses of $25,000 with respect of fees payable to independent directors for the quarter. These fees were settled shortly after the quarter end by the issuance of shares to the independent directors. The directors' fees are recorded at negotiated amounts.

The Company has a loan from a director totalling £600,000 ($1.3 million) which bears interest at 10% per annum compounded monthly and which is repayable between October 2006 and February 2007..

The Company has loans from two directors totalling £900,000 ($2.0 million) which bear interest at 7% per annum compounded monthly and which are repayable between March 2007 and March 2008.

Business Development

Management is forecasting that revenue will rise further in the next three months and that the Company will be at or close to break even for the third quarter. A return to profitability is expected in the fourth quarter. Management focus continues to be on reducing costs in order to reduce the break-even level of the business.

Bob Lockwood.

Director and Chief Financial Officer

August 2005

DYNEX POWER INC.
Consolidated Balance Sheets
Quarter Ended June 30th, 2005

		Jun 30th 2005 (unaudited)		Dec 31st 2004 (audited)
CURRENT ASSETS				
Cash and cash equivalents	$	173,484	$	250,375
Accounts receivable		3,185,225		4,550,173
Inventories (Note 3)		6,955,966		8,507,761
Prepaid expenses and deposits		553,455		697,477
		10,868,130		14,005,786
CAPITAL ASSETS (Note 4)		576,236		662,770
	$	11,444,366	$	14,668,556
CURRENT LIABILITIES				
Accounts payable and accrued liabilities	$	4,742,249	$	6,980,182
Short-term loan (Note 5)		2,498,392		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)		275,832		154,609
Current portion of deferred revenue (Note 7)		169,785		179,174
		7,686,258		12,305,981
CONTINGENCIES (Note 16)				
LONG-TERM DEBT (Note 6)		3,883,932		270,977
LONG TERM DEFERRED REVENUE (Note 7)		1,994,968		2,194,876
		13,565,158		14,771,834
SHAREHOLDERS' EQUITY				
Share Capital (Note 8)		12,598,677		12,474,999
Deficit		(14,313,081)		(12,036,335)
Cumulative translation adjustment		(406,388)		(541,942)
		(2,120,792)		(103,278)
	$	11,444,366	$	14,668,556

DYNEX POWER INC.
Consolidated Statements of Loss and Deficit (Unaudited)
Quarter Ended June 30th, 2005

	3 months Jun 30th 2005	3 months Jun 30th 2004	YTD Jun 30th 2005	YTD Jun 30th 2004
Revenue	**$ 5,558,518**	$ 5,363,037	**$ 9,724,563**	$ 12,077,206
Cost of sales	**5,218,483**	5,658,927	**9,964,273**	11,100,738
Gross margin	**340,035**	(295,890)	**(239,710)**	976,468
Expenses				
General and administration	**585,657**	867,465	**1,160,967**	1,712,857
Sales and marketing	**259,191**	456,899	**548,445**	876,005
Research and development	**133,393**	311,172	**270,019**	828,380
Interest expense	**56,461**	60,641	**113,135**	123,423
	1,034,702	1,696,177	**2,092,566**	3,540,665
Loss before other income expenses and income taxes	**(694,667)**	(1,992,067)	**(2,332,276)**	(2,564,197)
Other income (expenses)				
Interest and other income	**50,411**	64,539	**100,174**	116,027
Foreign exchange gain (loss)	**(26,685)**	3,632	**(44,644)**	(51,971)
	23,726	68,171	**55,530**	64,056
Income taxes (Note 9)	**-**	-	**-**	-
NET LOSS	**(670,941)**	(1,923,896)	**(2,276,746)**	(2,500,141)
DEFICIT, BEGINNING OF PERIOD	**(13,642,140)**	(7,230,625)	**(12,036,335)**	(6,654,380)
DEFICIT, END OF PERIOD	**$ (14,313,081)**	$ (9,154,521)	**$ (14,313,081)**	$ (9,154,521)
Loss per share				
Basic	**$(0.02)**	$(0.09)	**$(0.08)**	$(0.12)
Diluted	**$(0.02)**	$(0.09)	**$(0.08)**	$(0.12)
Weighted average number of shares				
Basic	**27,070,659**	20,726,916	**27,012,110**	20,721,724
Diluted (Note 10)	**27,070,659**	20,726,916	**27,012,110**	20,721,724

DYNEX POWER INC.
Consolidated Statements of Cash Flow (Unaudited)
Quarter Ended June 30th, 2005

	3 months Jun 30th 2005	3 months Jun 30th 2004	YTD Jun 30th 2005	YTD Jun 30th 2004
OPERATIONS				
Net loss	$ (670,941)	$ (1,923,896)	$ (2,276,746)	$ (2,500,141)
Items not affecting cash				
Amortization	56,811	77,220	116,710	152,655
Gain on disposal of capital assets	(44,362)	(47,283)	(89,391)	(105,056)
Shares and options issued for services	118,956	1,132	123,678	14,281
Changes in non-cash operating working capital (Note 12)	(948,096)	2,406,780	496,434	2,421,098
	(1,487,632)	513,953	(1,629,315)	(17,163)
FINANCING				
Shares issued for cash	-	6,000	-	10,500
Increase in due from shareholder	-	-	-	(53,607)
Increase in due to director	458,875	244,548	2,089,088	244,548
Increase (decrease) in short term debt	709,221	(1,024,367)	(406,808)	(621,235)
Decrease in long-term debt	(35,003)	(4,410)	(82,379)	(8,820)
	1,133,093	(778,229)	1,599,901	(428,614)
INVESTMENTS				
Proceeds on disposal of capital assets	-	-	-	11,152
Purchase of capital assets	(58,728)	(30,947)	(60,547)	(83,179)
	(58,728)	(30,947)	(60,547)	(72,027)
NET DECREASE IN CASH POSITION	(413,267)	(295,223)	(89,961)	(517,804)
Effect of foreign currency translation on cash flow	11,393	(6,081)	13,070	(8,337)
Cash, beginning of period	575,358	436,371	250,375	661,208
CASH, END OF PERIOD	$ 173,484	$ 135,067	$ 173,484	$ 135,067

Supplementary Information:				
Interest paid	$ 56,461	$ 60,641	$ 113,135	$ 123,423
Income taxes paid during period	-	-	-	-

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 2004 and are in accordance with Canadian generally accepted accounting principles.

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 periods 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 material and labour plus allocated overheads. Inventory is provided for if raw materials have not moved in six months and if work in progress or finished goods have not moved in three months unless the Corporation has orders or a realistic expectation of orders for those parts.

Capital assets

Capital assets are recorded at cost. 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 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

	Jun 30th, 2005	Dec 31st, 2004
Raw materials	**$ 1,145,946**	$ 1,681,924
Work in progress	**4,789,205**	5,637,370
Finished goods	**1,020,815**	1,188,467
	$ 6,955,966	$ 8,507,761

Inventory is stated net of a provision of $7,353,487 (Dec 31st, 2004 - $7,422,530) for obsolescence.

4. CAPITAL ASSETS

	Jun 30th, 2005			Dec 31st, 2004
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Equipment	**$ 2,112,217**	**$ 1,535,981**	**$ 576,236**	$ 662,770
	$ 2,112,217	**$ 1,535,981**	**$ 576,236**	$ 662,770

5. SHORT-TERM LOAN

The Corporation has a short term loan of $2,498,392 (Dec 31st, 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 and is subject to a variable rate of interest.

6. LONG-TERM DEBT

	Jun 30th, 2005	Dec 31st, 2004
Loan payable in monthly instalments of $1,470 to September, 2005 bearing interest at 13.7% and secured under a general security agreement.	**4,410**	13,230
Interest free unsecured loan payable in monthly instalments to November, 2007.	**312,598**	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.	**549,806**	-
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.	**1,317,180**	-
Loans from two directors payable in monthly instalments between March 2007 and March 2008 bearing interest at 7% and secured under a general security agreement.	**1,975,770**	-
	4,159,764	425,586
Current portion	**275,832**	154,609
	$ 3,883,932	$ 270,977

Principal payments

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

2005	**60,231**
2006	**1,474,085**
2007	**1,966,858**
2008	**658,590**
	$ 4,159,764

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 $44,362, is included in other income for the quarter ended June 30th, 2005 (June 30th, 2004 - $47,283).

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:

		Jun 30th, 2005	Dec 31st, 2004
Common shares	- amount	**$ 12,598,677**	$ 12,474,999
	- number	**27,158,452**	26,917,354

The Corporation has no issued and outstanding preferred shares.

Common share and warrant 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.

Warrants

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.

8. SHARE CAPITAL (Continued)

Stock option plan

A total of 2,650,000 (Dec 31st, 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 issued under the plan 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	-	$ -
Exercised	-	$ -
Cancelled	(431,000)	$ 0.77
Outstanding at June 30th, 2005	**1,033,000**	**$ 1.13**

The weighted average remaining life of the outstanding options is 1 year and 3 months. At June 30th, 2005 there are 983,000 options exercisable with a weighted average exercise price of $1.18 and a weighted average remaining life of 1 year and 21 months.

At June 30th, 2005 the following stock options are outstanding:

	Number of Options	Exercise Price	Grant Date	Expiry Date
Officers	30,500	$ 2.00	January 1, 2001	December 31, 2005
	150,000	$ 0.23	April 28, 2003	April 27, 2008
Directors who are not officers	75,000	$ 1.59	June 6, 2001	June 5, 2006
	400,000	$ 0.50	January 1, 2002	December 31, 2006
All other employees	377,500	$ 2.00	January 1, 2001	December 31, 2005
Total outstanding	**1,033,000**	**$ 1.13**		

8. SHARE CAPITAL (Continued)

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 $1,132 of stock based compensation in general & administrative expenses in the quarter ended June 30th, 2005 (June 30th, 2004 - $1,132).

9. INCOME TAXES

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 2005	3 months Jun 30th 2004	**YTD Jun 30th 2005**	YTD Jun 30th 2004
(Loss) before income taxes	**$ (670,941)**	$ (1,923,896)	**$ (2,276,746)**	$ (2,500,141)
Expected tax (recovery)	**(242,210)**	(704,145)	**(821,906)**	(915,052)
Increase (decrease) resulting from:				
Unrecorded benefit of tax loss	**242,210**	704,145	**821,906**	915,052
Reported income tax expense (recovery)	**$ -**	$ -	**$ -**	$ -

The Canadian statutory tax rate of 36.1% (Jun 30th, 2004 - 36.1%) is comprised of Federal income tax at approximately 22% (Jun 30th, 2004 – 22%) and Provincial income tax at approximately 14% (Jun 30th, 2004 – 14.1%). The United Kingdom statutory rate is 30% (Jun 30th, 2004 – 30%)

As at June 30th, 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.

9. INCOME TAXES (Continued)

As at June 30th, 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
2005	**1,000**	**1,000**
2006	**520,000**	**520,000**
2007	**424,000**	**424,000**
2008	**421,000**	**421,000**
2010	**688,000**	**688,000**
2011	**138,000**	**138,000**

As at June 30th, 2005 the Corporation has United Kingdom tax loss carry forward of $8,948,000 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

At June 30th, 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 4,653,477 (June 30th, 2004 - 1,475,500).

11. COMMITMENTS

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

2005	**$ 327,594**
2006	**579,975**
2007	**526,872**
	$ 1,434,441

12. CHANGES IN NON-CASH OPERATING WORKING CAPITAL ITEMS

	3 months Jun 30th 2005	3 months Jun 30th 2004	**YTD Jun 30th 2005**	YTD Jun 30th 2004
Accounts receivable	**$ (318,520)**	$ 2,122,777	**$ 1,199,843**	$ 1,336,326
Inventories	**429,016**	(594,373)	**1,166,813**	(1,159,303)
Prepaid expenses and deposits	**65,807**	14,350	**117,021**	(50,001)
Accounts payable and accrued liabilities	**(1,124,399)**	864,026	**(1,987,243)**	2,294,076
	$ (948,096)	$ 2,406,780	**$ 496,434**	$ 2,421,098

13. ECONOMIC SIGNIFICANCE

For the quarter ended June 30th, 2005 the Corporation had one customer that accounted for approximately 11% of revenue (Jun 30th, 2004 – one customer accounting for approximately 14% of revenue and one customer that accounted for approximately 10% 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 value.

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, UK facility. As at June 30th, 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.

	3 months Jun 30th 2005	3 months Jun 30th 2004	**YTD Jun 30th 2005**	YTD Jun 30th 2004
Revenue:				
Business segment				
Bipolar discrete units	**$ 3,431,632**	$ 4,084,048	**$ 5,458,839**	$ 8,799,337
IGBT & power units	**642,425**	516,001	**1,500,615**	655,846
Power electronic assemblies	**1,216,019**	560,014	**2,231,874**	1,563,073
Integrated Circuits	**268,442**	202,974	**533,235**	1,058,950
	$ 5,558,518	$ 5,363,037	**$ 9,724,563**	$ 12,077,206
Geographic area				
Europe	**$ 3,286,531**	$ 3,320,711	**$ 5,735,143**	$ 7,471,198
North America	**943,796**	1,109,803	**1,997,423**	2,738,711
Far East and other	**1,328,191**	932,523	**1,991,997**	1,867,297
	$ 5,558,518	$ 5,363,037	**$ 9,724,563**	$ 12,077,206

Capital assets

	Jun 30th, 2005	Dec 31st, 2004
Geographic area		
Europe	**$ 576,007**	$ 662,541
North America	**229**	229
	$ 576,236	$ 662,770

16. 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. Consequently, no amount has been accrued for the settlement of this claim. However, the outcome is not determinable at this time.

17. PENSION PLAN

The Corporation incurred expenses of $86,727 (June 30th, 2004 - $123,312) 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 earlier contribution shortfall after the six-month period, based on its financial position. At June 30th, 2005 $166,843 (Dec 31st, 2004 - $176,069) is included in accrued liabilities.

18. RELATED PARTY TRANSACTIONS

The Corporation incurred expenses of $25,000 (June 30th, 2004 - $22,500) with respect to fees payable to directors. As at June 30th, 2005 $25,000 is payable to directors (Dec 31st, 2004 -$60,333). The directors fees are recorded at the negotiated amounts.

The Corporation has three loans from directors. Details of these loans are set out in Note 6.

19. SUBSEQUENT EVENT

The Corporation borrowed a further $440,000 of long term debt from two directors in July. The loan bears interest at 7% and is repayable between March 2006 and March 2007.

Corporate Information

Board of Directors

David F. Banks (1)
Chairman

Dr. Paul D. Taylor (1) (2)
President & CEO

Bob Lockwood (1)
Director, VP Finance & CFO

Debbie Weinstein (2) (3)
Director & Company Secretary

Keith Ralls (2) (3)
Director

Daniel Owen (1) (2) (3)
Director

(1) Member of the Executive Committee
(2) Member of the Compensation Committee
(3) Member of the Audit Committee

Senior Officers, VP's & Senior Managers

Dr. Paul D. Taylor
President & CEO

Bob Lockwood
VP Finance & CFO

Bill McGhie
Power Electronic Assemblies Business Manager

Mark Kempton
Bipolar Discretes Business Manager

Stock Exchange Listing

Toronto Ventures Exchange
Symbol: DNX

Auditors

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

Legal Counsel

LaBarge Weinstein LLP, Ottawa, Ontario

Transfer Agent

Computershare Trust Company of Canada

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