DYNEX POWER INC.

REPORT FOR THE QUARTER ENDED

SEPTEMBER 30TH 2005

LETTER FROM THE PRESIDENT – THIRD QUARTER 2005

Dear Shareholder,

The third quarter has demonstrated our continuing recovery in revenue and a significant increase in gross profits as we begin to see the benefits of our recent cost reduction and restructuring. Even more encouraging was the trend within the quarter with September being a profitable month. The results are discussed more fully in the accompanying MD&A.

As we move the business towards profitability we turn our attention onto our future goals. Our corporate objective is to grow and develop as a leading independent manufacturer of high power and high reliability semiconductor products. We firmly believe that Dynex can be successful in this venture and are often asked why we are so confident. Certainly as a UK-based manufacturing operation we have seen first hand the challenges faced by many local engineering operations from low-cost competition from Asia and in some cases from within Europe. However, at Dynex we know that we have a set of strengths that distinguish us from others:

- Highly engineered products requiring highly skilled engineers and manufacturing staff.
- Strong intellectual property vested in know-how developed over many years and extremely difficult to replicate.
- A dedicated and flexible local work force.
- A core group of long-term customers with confidence in our ability to meet their requirements.
- Proven quality and reliability through decades of product experience in demanding applications.
- Cost control using well established manufacturing facilities and access to low cost components from the Far East.
- Leading and innovative product solutions such as the new i2 thyristor designs, high voltage IGBT designs, and silicon-on-sapphire radiation hard MOS capability.

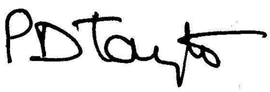
We are confident that as we continue to recover from our recent trading difficulties we can build on our strengths to achieve future growth and improved profits. As the first step we have reviewed our product strategy. We have built our strategy around our core competence in high power semiconductors, eliminating non-core and low margin products and increasing investment in our strong sectors. Thus, high power bipolar products and high power IGBT modules remain at our core, and we are further developing the adjacent technology sectors of high power electronics assemblies and silicon-on-sapphire (SOS), the latter being aligned to our IGBT wafer fabrication and competence in high reliability technologies. In fact, a key decision taken during the past quarter has been to re-build and re-qualify our SOS capability which was previously in decline, thus protecting revenue delivered by this unique product line.

To complement our product strategy, we are retaining our basic manufacturing objectives at the heart of our operation: improved gross margins, reduced overhead costs, reduced lead times, increased on-time delivery and more effective inventory management which will provide the fertile manufacturing ground for our planned growth. All these metrics are improving but there remains much to be done.

So far this year we have seen 35% growth in our order book. This has been due to many factors including securing several major prestigious contracts in Europe and opening new markets in China. In China, our success has been due to our new IGBT modules applied to rail transport or industrial process equipment: an example of the latter being conveyer drives for coal mines. In total, new order bookings for all power products in China have exceeded $2.3 million this year to date: 50% higher than the same period last year. Major European contracts benefited all product groups and comprised the following: $2.1 million to supply a European customer with SOS microprocessor chips for satellite communications; $1.3 million to supply ALSTOM UK with IGBT modules, high voltage thyristors and power assemblies for use in the Royal Navy Type 45 destroyer; and $648k to supply high voltage thyristors and power converter stack assemblies to AREVA UK for use in a de-icing and a power quality system at Hydro Quebec. We are already working on these major contracts and will be delivering a proportion of the demand during the fourth quarter.

Consequently, looking forward to the fourth quarter, we have a strong order book and anticipate a robust result with both high revenue and a profit. Although the SOS order will not be repeated in the near future, at least until completion of our SOS re-qualification programme later in 2006, both the Type 45 and the converter stacks assemblies have potential follow-on opportunity in 2006.

I hope that you are as encouraged by the developments at Dynex as am I, and I look forward to being able to advise you of further improvements in our performance after the end of the year. In the meantime thank you for your support and interest in Dynex. I hope that we will continue to work together in the future.



Paul Taylor
President & CEO
November, 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 September 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

The results for the quarter were significantly better than in the previous quarter and were, indeed, the best we have reported for over three years. The net loss was less than half that reported in the second quarter, which had also been less than half that reported in the first quarter and confirms our continued march to profitability. Even so, as managers we were disappointed. We had forecast that we would be close to break-even. Revenue whilst growing by around 4.5% in Sterling terms (a strong Canadian Dollar eliminated this growth when revenues were converted to Dollars) was approximately £200,000 below what we had hoped to achieve, reducing net income by approximately £100,000 or $210,000. We are working hard to eliminate the causes of the production delays that affected the revenue.

But our disappointment with the third quarter results should not obscure the real progress that has been made. Annualised bookings in Sterling during the first nine months of the year are running more than 15% ahead of bookings in 2004 and 2003. Revenue in the third quarter, in Sterling, when annualised is more than 5% ahead of the figures for 2004 and 2003. Indirect and overhead costs in 2005 will be £1.5 million lower than in 2004 and £2.4 million lower than 2003 excluding exceptional costs and revenues. None of these improvements looks quite as good when reported in a Canadian Dollar that is strengthening against Sterling, but they are all real improvements that underpin our return to profitability. Perhaps most encouraging of all is the fact that the business was profitable for the month of September. We see this as a turning point. We expect sales to be higher still in the fourth quarter and with good gross margins and with fixed costs under tight control, we expect to be profitable, on schedule with the recovery plan that the new management team set itself at the start of this year.

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 $5.7 million, up by $122,000 or 2% from the second quarter but down by $585,000 or 9% against the corresponding quarter of last year. These figures are heavily impacted by the relative strength of the Canadian Dollar. The UK operating business has seen growth of 10% in revenue in this quarter compared to the previous quarter and revenues equal to the corresponding quarter of last year in Sterling terms. The expected growth in revenue against the previous quarter is, therefore, apparent in the Sterling figures. Further growth in revenue is forecast for the fourth quarter.

Gross Margin

Continued control of manufacturing costs and a favourable mix of product sales resulted in a gross margin of $886,000, an increase of $546,000 or 160% over the previous quarter and $606,000 or 217% over the corresponding quarter of last year. The improvement in gross margin reflects the hard work being done in all parts of the business and the improvement would have been even more impressive but for the relative strength of the Canadian Dollar.

Expenses

Overhead expenses of $1.2 million were up by $130,000 or 13% from the second quarter but were $406,000 or 26% lower than in the corresponding quarter of last year. Reductions compared to the previous quarter that were recorded in general and administration, sales and marketing and research and development costs would have been larger but for the strength of the Canadian Dollar. There has, however, been a significant increase in interest costs as a result of two factors. Firstly, an interest cost of $40,000 in the quarter has now been charged on two loans totalling $1.8 million on which no interest had been payable in the preceding quarter. Secondly, an interest charge of $160,000 has been charged in relation to warrants and conversion rights on loans recently taken: this is an accounting charge and no cash payments will ever be made in relation to it.

The reduction in overhead expenses 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. Once again, these reductions would have been more impressive but for the strength of the Canadian Dollar.

Interest & Other Income

Interest and other income of $44,000 in the quarter was down by $6,000 or 12% compared to the previous quarter and down by $10,000 or 19% compared to the corresponding quarter of last year. The main constituent of other income in all three quarters was the quarterly release of deferred revenue and the change in reported amounts is due to exchange rate movements.

Foreign Exchange Loss

The foreign exchange loss in the quarter of $57,000 compared with a loss in the second quarter of $27,000 and a loss in the corresponding quarter of last year of $198,000. 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 in the current year reflects the deliberate policy by management of actively reducing this 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 and only a small amount in the corresponding quarter of last year.

Net Loss

The net loss in the quarter of $293,000 was $378,000 or 56% lower than the loss in the second quarter and $1.1 million or 80% lower than the loss in the corresponding quarter of last year. This represents a further substantial improvement in our results. The results were not as good as we had hoped they would be but it was pleasing to note that we were profitable in the month of September. We expect further significant improvement in our overall operating result in the fourth quarter.

Segmental Analysis

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

Bipolar Discrete sales in the quarter of $3.3 million were $126,000 or 4% lower than in the second quarter and $612,000 or 16% lower than in the corresponding quarter of last year. A significant rise in sales in this sector had been forecast in the third quarter and a rise of 5% was recorded in Sterling, but this was more than offset by the strength of the Canadian Dollar.

Revenue in the IGBT and Modules business of $844,000 was $251,000 or 39% higher than in the second quarter and $115,000 or 15% higher than in the corresponding quarter of last year. We had forecast a substantial increase in revenue from the IGBT and Modules area in the third quarter and this was achieved even after the impact of a strong Canadian Dollar on the figures.

Revenue for Power Electronic Assemblies of $516,000 was $700,000 or 58% lower than in the second quarter and $879,000 or 63% lower than 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 had been forecast to be significantly lower. A significant recovery is expected in the fourth quarter.

Revenue for Integrated Circuits for the quarter of $966,000 was $698,000 or three and a half times higher than in the second quarter and $791,000 or five and a half 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. Higher sales were in line with the forecast for the third quarter and we expect to increase sales further in the fourth quarter. However, the high level of sales is not expected to continue.

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 the strengthening of the Canadian Dollar has seen a positive translation adjustment for the year to date of $270,000. In addition, there has been a $263,000 increase in share capital so far this year. However, the loss for the year to date of $2.6 million means that the Shareholders' deficit has increased by $2.0 million during the first three quarters of the year.

Amounts tied up in working capital (current assets excluding cash less accounts payable and accrued liabilities) have been reduced by $773,000 since the start of the year with reductions of $820,000 in accounts receivable as a result of improved debtor collection and shorter credit terms and $2.4 million in inventory levels from improved stock control offset by a reduction in outstanding creditors of $2.6 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. The reduction in creditors was, therefore, necessary. All three reductions would have been higher but for the strength of the Canadian Dollar.

The Corporation received loans from two directors of £200,000 ($428,000) during the quarter. Total short and long term debt has now increased by $1.6 million since the start of the year and this increase would have been higher but for the strength of the Canadian Dollar. 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 Q3	2005 Q2	2005 Q1	2004 Q4	2004 Q3	2004 Q2	2004 Q1	2003 Q4	2004 FY	2003 FY	2002 FY
Revenue	5,681	5,559	4,166	5,543	6,266	5,363	6,714	6,903	23,886	23,563	30,581
Continuing operations:											
Net (loss)	(293)	(671)	(1,606)	(1,442)	(1,438)	(1,924)	(576)	(548)	(5,380)	(7,477)	(2,531)
Basic EPS	(0.01)	(0.02)	(0.06)	(0.05)	(0.06)	(0.09)	(0.03)	(0.02)	(0.23)	(0.38)	(0.14)
Diluted EPS	(0.01)	(0.02)	(0.06)	(0.05)	(0.06)	(0.09)	(0.03)	(0.02)	(0.23)	(0.38)	(0.14)
Total operations:											
Net earnings/(loss)	(293)	(671)	(1,606)	(1,442)	(1,438)	(1,924)	(576)	(650)	(5,380)	(2,087)	448
Basic EPS	(0.01)	(0.02)	(0.06)	(0.05)	(0.06)	(0.09)	(0.03)	(0.04)	(0.23)	(0.11)	0.03
Diluted EPS	(0.01)	(0.02)	(0.06)	(0.05)	(0.06)	(0.09)	(0.03)	(0.04)	(0.23)	(0.11)	0.02
Total assets	11,282	11,444	12,482	14,669	14,916	15,004	16,680	14,862	14,669	14,862	24,391
Long term liabilities	3,655	3,884	3,765	271	0	4	9	13	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 stabilised in 2004 to be at a similar level in 2005. The quarterly revenue figures show strong revenue in the last quarter 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 and the third quarter of 2005 shows continued revenue recovery offset by a strong Canadian Dollar.

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 revenue.

Results from total operations differ significantly from results from continuing operations in 2003 and 2002. The difference relates the microwave sensors business, which was sold in 2003.

The large reduction in total assets between 2002 and 2003 is a result of the sale and leaseback of the site in Lincoln, England. A significant portion 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 the early part of 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 and two customers who each accounted for 10% of revenue. Our relationship with these customers 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

The Company incurred expenses of $20,833 with respect of fees payable to independent directors for the quarter. The directors' fees are recorded at negotiated amounts.

The Company has a loan from a director totalling £600,000 ($1.2 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 £1.1 million ($2.3 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 profitable for the fourth quarter. Management focus, which for some time has been on reducing costs in order to lower the break-even level of the business now also includes growing revenue, improving on time delivery, reducing manufacturing lead time and increasing inventory turnover.

Bob Lockwood

Bob Lockwood.

Director and Chief Financial Officer

November 2005

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

	Sept 30th 2005 (unaudited)	Dec 31st 2004 (audited)
CURRENT ASSETS		
Cash and cash equivalents	$ 303,643	$ 250,375
Accounts receivable	3,729,967	4,550,173
Inventories (Note 3)	6,129,548	8,507,761
Prepaid expenses and deposits	587,897	697,477
	10,751,055	14,005,786
CAPITAL ASSETS (Note 4)	530,999	662,770
	$ 11,282,054	$ 14,668,556
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	$ 4,405,310	$ 6,980,182
Short-term loan (Note 5)	2,687,025	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)	680,786	154,609
Current portion of deferred revenue (Note 7)	159,576	179,174
	7,932,697	12,305,981
CONTINGENCIES (Note 16)		
LONG-TERM DEBT (Note 6)	3,654,511	270,977
LONG TERM DEFERRED REVENUE (Note 7)	1,835,120	2,194,876
	13,422,328	14,771,834
SHAREHOLDERS' EQUITY		
Share Capital (Note 8)	12,737,726	12,474,999
Deficit	(14,605,702)	(12,036,335)
Cumulative translation adjustment	(272,298)	(541,942)
	(2,140,274)	(103,278)
	$ 11,282,054	$ 14,668,556

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

	3 months Sept 30th 2005	3 months Sept 30th 2004	YTD Sept 30th 2005	YTD Sept 30th 2004
Revenue	$ **5,680,842**	$ 6,265,881	$ **15,405,406**	$ 18,343,087
Cost of sales	**4,795,212**	5,986,473	**14,759,485**	17,087,211
Gross margin	**885,630**	279,408	**645,921**	1,255,876
Expenses				
General and administration	**569,183**	752,664	**1,730,151**	2,465,522
Sales and marketing	**237,879**	408,118	**786,324**	1,284,123
Research and development	**85,080**	346,354	**355,099**	1,174,734
Interest expense	**272,863**	63,764	**385,998**	187,187
	1,165,005	1,570,900	**3,257,572**	5,111,566
Loss before other income expenses and income taxes	**(279,375)**	(1,291,492)	**(2,611,651)**	(3,855,690)
Other income (expenses)				
Interest and other income	**44,088**	54,581	**144,262**	170,609
Foreign exchange gain (loss)	**(57,334)**	(198,595)	**(101,978)**	(250,566)
	(13,246)	(144,014)	**42,284**	(79,957)
Income taxes (Note 9)	**-**	(2,323)	**-**	(2,323)
NET LOSS	**(292,621)**	(1,437,829)	**(2,569,367)**	(3,937,970)
DEFICIT, BEGINNING OF PERIOD	**(14,313,081)**	(9,154,521)	**(12,036,335)**	(6,654,380)
DEFICIT, END OF PERIOD	**$(14,605,702)**	$ (10,592,350)	**$(14,605,702)**	$ (10,592,350)
Loss per share				
Basic	**$(0.01)**	$(0.06)	**$(0.09)**	$(0.18)
Diluted	**$(0.01)**	$(0.06)	**$(0.09)**	$(0.18)
Weighted average number of shares				
Basic	**25,973,642**	25,238,185	**25,876,616**	22,238,163
Diluted (Note 10)	**25,973,642**	25,238,185	**25,875,616**	22,238,163

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

	3 months Sept 30th 2005	3 months Sept 30th 2004	**YTD Sept 30th 2005**	YTD Sept 30th 2004
OPERATIONS				
Net loss	**$ (292,621)**	$ (1,437,829)	**$ (2,569,367)**	$ (3,937,970)
Items not affecting cash				
Amortization	**55,100**	64,415	**171,810**	217,070
Gain on disposal of capital assets	**(43,550)**	(45,881)	**(132,941)**	(150,937)
Shares and options issued for services	**139,049**	90,000	**262,727**	104,281
Changes in non-cash operating working capital (Note 12)	**(479,163)**	(1,253,723)	**17,272**	1,167,374
	(621,185)	(2,583,018)	**(2,250,499)**	(2,600,182)
FINANCING				
Shares issued for cash	**-**	2,280,233	**-**	2,290,733
Decrease in due from director	**-**	53,607	**-**	-
Increase (decrease) in due to director	**428,330**	(50,764)	**2,517,423**	193,784
Increase (decrease) in short term debt	**347,315**	401,090	**(59,492)**	(220,144)
Increase (decrease) in long-term debt	**17,789**	(4,410)	**(64,599)**	(13,230)
	793,434	2,679,756	**2,393,335**	2,251,143
INVESTMENTS				
Proceeds on disposal of capital assets	**2,142**	-	**2,142**	11,152
Purchase of capital assets	**(42,786)**	(11,992)	**(103,332)**	(95,171)
	(40,644)	(11,992)	**(101,190)**	(84,019)
NET INCREASE (DECREASE) IN CASH POSITION	**131,605**	84,746	**41,646**	(433,058)
Effect of foreign currency translation on cash flow	**(1,446)**	131,122	**11,622**	122,785
Cash, beginning of period	**173,484**	135,067	**250,375**	661,208
CASH, END OF PERIOD	**$ 303,643**	$ 350,935	**$ 303,643**	$ 350,935

Supplementary Information:				
Interest paid	**$ 144,291**	$ 63,764	**$ 257,426**	$ 187,187
Income taxes paid during period	**-**	2,323	**-**	2,323

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 at 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 on the exercise of stock options is recorded as share capital.

3. INVENTORIES

	Sept 30th, 2005	Dec 31st, 2004
Raw materials	**$ 1,186,397**	$ 1,681,924
Work in progress	**4,024,982**	5,637,370
Finished goods	**918,169**	1,188,467
	$ 6,129,548	$ 8,507,761

Inventory is stated net of a provision of $6,621,922 (Dec 31st, 2004 - $7,422,530) for obsolescence.

4. CAPITAL ASSETS

	Sept 30th, 2005			Dec 31st, 2004
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Equipment	**$ 2,028,164**	**$ 1,497,165**	**$ 530,999**	$ 662,770
	$ 2,028,164	**$ 1,497,165**	**$ 530,999**	$ 662,770

5. SHORT-TERM LOAN

The Corporation has a short term loan of $2,687,025 (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

	Sept 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.	-	13,230
Interest free unsecured loan payable in monthly instalments to November, 2007.	272,816	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.	554,871	-
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.	1,237,980	-
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. A total of $1,534,604 of these loans is convertible into approximately 26.6% of the share capital of Dynex Semiconductor Limited at the option of the lenders.	2,269,630	-
	4,335,297	425,586
Current portion	680,786	154,609
	$ 3,654,511	$ 270,977

Principal payments

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

2005	31,479
2006	1,423,574
2007	2,123,701
2008	756,543
	$ 4,335,297

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 $41,409, is included in other income for the quarter ended September 30th, 2005 (Sept 30th, 2004 - $45,881).

8. SHARE CAPITAL

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

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

		Sept 30th, 2005	Dec 31st, 2004
Common shares	- amount	**$ 12,737,726**	$ 12,474,999
	- number	**25,973,642**	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.

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.

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	(435,000)	$ 0.78
Outstanding at September 30th, 2005	**1,029,000**	**$ 1.13**

The weighted average remaining life of the outstanding options is 1 year. At September 30th, 2005 there are 979,000 options exercisable with a weighted average exercise price of $1.17 and a weighted average remaining life of 11 months.

8. SHARE CAPITAL (Continued)

Stock option plan (Continued)

At September 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	373,500	$ 2.00	January 1, 2001	December 31, 2005
Total outstanding	1,029,000	$ 1.13		

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 September 30th, 2005 (Sept 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 Sept 30th 2005	3 months Sept 30th 2004	**YTD Sept 30th 2005**	YTD Sept 30th 2004
(Loss) before income taxes	**$ (292,621)**	$ (1,435,506)	**$ (2,569,367)**	$ (3,935,647)
Expected tax (recovery)	**(105,636)**	(525,395)	**(927,541)**	(1,440,447)
Increase (decrease) resulting from:				
Unrecorded benefit of tax loss	**105,636**	525,395	**927,541**	1,440,447
Foreign tax differential	**-**	2,323	**-**	2,323
Reported income tax expense (recovery)	**$ -**	$ 2,323	**$ -**	$ 2,323

9. INCOME TAXES (Continued)

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

As at September 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.

As at September 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 September 30th, 2005 the Corporation has United Kingdom tax loss carry forward of $9,108,000 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 September 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 4,649,477 (Sept 30th, 2004 - 4,475,501).

11. COMMITMENTS

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

2005	**$ 153,948**
2006	**545,102**
2007	**495,192**
	$ 1,194,242

14. CHANGES IN NON-CASH OPERATING WORKING CAPITAL ITEMS

	3 months Sept 30th 2005	3 months Sept 30th 2004	**YTD Sept 30th 2005**	YTD Sept 30th 2004
Accounts receivable	**$ (764,222)**	$ (460,605)	**$ 435,621**	$ 875,720
Inventories	**423,665**	(284,147)	**1,590,478**	(1,443,450)
Prepaid expenses and deposits	**(65,923)**	(3,182)	**51,098**	(53,183)
Accounts payable and accrued liabilities	**(72,683)**	(505,789)	**(2,059,925)**	1,788,287
	$ (479,163)	$ (1,253,723)	**$ 17,272**	$ 1,167,374

13. ECONOMIC SIGNIFICANCE

For the quarter ended September 30th, 2005 the Corporation had one customer that accounted for approximately 11% of revenue and two customers each accounting for approximately 10% of revenue (Sept 30th, 2004 – one customer that accounted for approximately 17% of revenue, one customer that accounted for approximately 15% 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, England facility. As at September 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.

Geographical area

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

	3 months Sept 30th 2005	3 months Sept 30th 2004	**YTD Sept 30th 2005**	YTD Sept 30th 2004
Revenue:				
Business segment				
Bipolar discrete units	**$ 3,305,110**	$ 3,916,644	**$ 8,763,949**	$ 12,199,980
IGBT & power units	**893,711**	778,344	**2,394,326**	1,950,191
Power electronic assemblies	**515,923**	1,395,295	**2,747,798**	2,958,367
Integrated Circuits	**966,098**	175,598	**1,499,333**	1,234,549
	$ 5,680,842	$ 6,265,881	**$ 15,405,406**	$ 18,343,087
Geographic area				
Europe	**$ 3,436,980**	$ 4,099,081	**$ 9,172,123**	$ 11,570,279
North America	**930,242**	1,180,279	**2,927,666**	3,918,990
Far East and other	**1,313,620**	986,521	**3,305,617**	2,853,818
	$ 5,680,842	$ 6,265,881	**$ 15,405,406**	$ 18,343,087

15. BUSINESS SEGMENT INFORMATION (Continued)

Capital assets

	Sept 30th, 2005	Dec 31st, 2004
Geographic area		
Europe	**$ 530,770**	$ 662,541
North America	**229**	229
	$ 530,999	$ 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 $79,456 (Sept 30th, 2004 - $118,956) 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 September 30th, 2005 $156,811 (Dec 31st, 2004 - $176,069) is included in accrued liabilities.

18. RELATED PARTY TRANSACTIONS

The Corporation incurred expenses of $20,833 (Sept 30th, 2004 - $15,833) with respect to fees payable to directors. As at September 30th, 2005 $45,833 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.

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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