DYNEX POWER INC.

ANNUAL REPORT 2006

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.

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This annual report may contain forward looking statements that involve a number of risks and uncertainties, including statements regarding the outlook for the Corporation's business and results of operations. By nature, these risks and uncertainties could cause actual results to differ materially from those indicated. Such factors include, without limitation, the various factors set forth in the Management Discussion & Analysis of this report as discussed in public disclosure documents filed with the Canadian Regulatory Authorities. Dynex disclaims any intention or obligation to update or revise any forward looking statement whether as a result of new information, future events or otherwise.

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

- DPI Technologies Inc. was founded in February 1998
- DPI Technologies Inc. changed its name to Dynex Power Inc. in May 1999
- Dynex Semiconductor Ltd was formed to acquire the assets of the Lincoln Business Unit in January 2000
- The Lincoln Business Unit was founded in Lincoln England in 1956 and had previously traded as:

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

- 213 employees (December 2006)
- ISO9001:2000 and ISO14001:2004 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

Reflecting on our business performance over 2006, I read again my letter that was published in the Annual Report for 2005. In that letter, I talked of the dual impact of the dramatic rise in UK energy costs and the global drive to control climate change: on one hand the adverse effect of rising costs and on the other hand a growth in applications demand for power semiconductors. In reviewing the Dynex performance over 2006, you will see that the market growth has been well reflected in year on year sales, in increased bookings and in a more robust order book. You will also see that despite a backdrop of rising energy and materials costs, the business has successfully delivered a second year of increased gross margin.

The Power Groups, comprising Bipolar Discrete, Modules, and Electronic Assemblies, have together achieved a growth over last year in excess of 11%. We consider that this is not only the strong market, but also a result of an improvement in operational performance. The cash constraints that dominated previous years have been brought under control allowing more effective materials' procurement.

New order bookings in the Power Groups saw a rise in excess of 24% over the previous year. This is ahead of the overall power semiconductor market growth and demonstrates the success of the business focus on the high power market sector, a sector that is particularly driven by global energy efficiency needs. Including the Integrated Circuit products, Dynex overall has seen a growth in bookings during 2006 of 23.6%. The book to bill ratio in 2006 was 1.19 and resulted in a strong order book at the end of the year, 37% up on the previous year and the highest order book for over four years.

Looking forward, Dynex is planning accelerated sales growth in all product sectors. The business has been recruiting to strengthen the manufacturing teams in wafer fabrication, assembly and test and expects to sustain a small net increase in employment in the coming year. Dynex is also taking steps to alleviate certain manufacturing bottlenecks through both working additional shifts and installing key items of process equipment.

Concurrent with the above, Dynex is strengthening the research and development (R&D) programmes. Our strategy is to focus the Power Groups onto the more highly engineered high power sectors and to re-establish the silicon-on-sapphire (SOS) engineering capability. To meet these needs, Dynex has been working with its customers, suppliers and academic knowledge-based partners to engage on a number of UK and European initiatives. These initiatives not only provide financial support, but also give the basic framework for effective collaborative development. In October, Dynex announced successes on two major projects providing total R&D funding of £530,000 (C$1.2 million) over three years. In addition to these, Dynex has gained several smaller projects and there are others in the pipeline that we hope to be able to confirm in 2007. Together, these represent a strong R&D package that will deliver the technology and products for future growth.

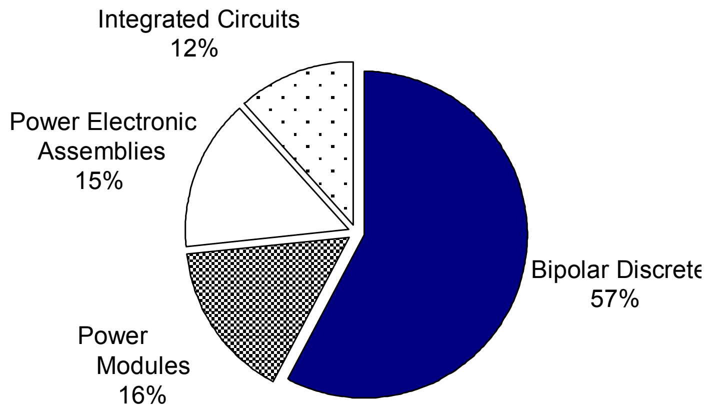
As I look to the future, I am reminded that the business successes are based on the strong technology and manufacturing base that we operate in Lincoln. Semiconductor operations first began at Carholme Road Lincoln in 1957, 50 years ago. Since that time, and prior to the acquisition by Dynex, the Lincoln operations have been owned by a number of major businesses including GEC, Plessey and Marconi. Throughout, Lincoln has remained the centre for silicon high power semiconductor device (and subsequently silicon-on-sapphire) product design, development and manufacture. It has acted as a magnet capturing the best in power semiconductor technology from well-known groups including AEI, GEC, Marconi, and SGS-Thomson. In 1981, a second facility was built at Doddington Road Lincoln to house the integrated circuit operations of Marconi. Following refurbishment in 1997 the Power Group operations were transferred from the original plant into the new facilities at Doddington Road so that all operations were consolidated onto a single site.

As we mark our 50th year of semiconductor manufacture in Lincoln, and look forward to 2007 being a milestone year in terms of our business, I am pleased to recognise the support from you, our shareholders, as well as our employees, customers and suppliers.

President and CEO

Review of Operations

Sales by Product Group 2006



Bipolar Discrete

The Bipolar Discrete Product Group comprises gate turn off thyristors (GTOs), phase control thyristors, rectifier diodes, fast diodes, fast thyristors and transistors. It is the largest of the Dynex product groups and represented 57% of total company sales in 2006.

Predominant markets for these products are industrial drives and soft start equipment, electromechanical and aluminium smelting plants, static transfer switches, static compensators, rectifier equipment for track side sub stations, power transmission, aerospace and spares for traction equipment.

Group sales in 2006 were $13.7 million and showed a growth of 15% over the previous year. The larger than normal growth was aided by establishing better working relationships with our key suppliers to resolve the limitation on material supplies that depressed sales during the first half of 2005. Sales of GTOs, phase control thyristors and rectifier diodes each grew in excess of 30% on 2005 while sales of new products accounted for 8% of the total sales value. Bookings increased to $13.5 million, a growth of 3% on 2005 and delivered the best year of order intake since 2001. The strength of the bipolar order book grew sharply during the final third of the year and provides the group with a strong platform as we start the new year.

The transfer of our new i2 thyristor technology from development into production was successfully completed during 2006 and the product family has become established alongside our traditional range of devices. Through 2006, the R&D emphasis concentrated on applying the i2 technology to a new range of i2 rectifier diodes that will offer the benefit of even higher power from a given area of silicon. In addition, we have initiated the development of a new GTO product that will be introduced to our product range during 2007.

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 2200V range. Since the announcement, interest in these new products has increased with several significant design-ins, which have materialised into good orders with the promise of substantial business in the future. The rest of the i2 product range is designed to substitute the existing products with product of improved performance, which on a size for size basis is as good as, or better than our competitors. The replacement by i2 product of the older product types has lead to a significant reduction in the number of silicon and device piece parts that Dynex has to stock.

We continually explore opportunities where new technology, such as i2, can enhance our ability to manufacture product of higher performance and improved reliability. We continue to develop relationships with our business partners to push the boundaries of technical excellence to meet the demands of the market place. These new technologies will be applied to our newer product ranges to provide even better product performance than we have seen previously and to help us maximise our growth potential in our target markets during the years to come.

As we enter 2007, and our 50th year of manufacturing power semiconductors in Lincoln, we retain the capability to supply a wide range of high power semiconductors to the marketplace. This was again reflected during 2006 with over 500 different product types supplied to all corners of the globe. Integral to future growth of the Bipolar Discrete Group is the introduction of the new i2 converter thyristor, which is now running alongside our traditional product ranges. We continue to maintain support to the traction and GTO products that provide us with opportunities and healthy revenue streams in markets where many of our competitors are withdrawing their products. Our strategy of continually developing new products to evolve our current product range allows us to maintain support for our existing markets while trying to establish ourselves in the progressive economic countries of South America and Asia. A major focus for 2007 is to re-establish bipolar products in the North American market where there is significant opportunity for us to increase our market share and hence develop the growth potential of the business and so provide us with the solid foundation required for future progression.

Our niche is in supplying customers with highly engineered, reliable product and a high level of technical support. We pride ourselves on responding positively and efficiently to new technical opportunities and to helping our customers to progress their business in the fashion they demand. The outlook for 2007 is positive and we look forward to a second consecutive year of growth for this product group.

Power Modules

With sales of $3.7 million in 2006, the Power Module Group represents 16% of the company's business and delivered 11% sales growth over the previous year. The group's main products are insulated gate bipolar transistor (IGBT) modules that are used in high power motor drives and power management systems.

2006 proved to be a year of contrasting halves. Bookings during the first half were slow but were then very strong for the remainder of the year resulting in a total level of bookings over 80% higher than the previous year. The book to bill ratio was 1.33. This was the result of improved operational performance and strong demand in the market place for IGBT modules. One factor was the placement of a contract by Converteam for modules for the Type 45 Destroyer and this was reported in our press releases. However there was significant on-going growth from other requirements. Much of this is driven by worldwide demand for more efficient use of energy in motor control systems for transportation and other industrial applications.

The business continues to focus on higher voltage modules with strong order intake of 3.3kV modules and keen interest in 4.5kV modules. At the forefront of this demand is the marine drive sector with Dynex high isolation 3.3kV modules enjoying continued success and very bright forecasts from our customers for 2007 and beyond.

The challenge in 2007 will be to satisfy this strong demand for our products through expanding our production facilities. The module business is forecast to show 26% growth during 2007 but owing to the strong market, we expect this growth may be exceeded if our expansion plans are successful.

Power Electronic Assemblies

Representing 15% of the company's business in 2006, the Power Electronic Assemblies Group achieved sales totalling $3.5 million, a growth of 3% over the previous year. Although modest, this growth was very encouraging, as the group did not have the benefit of large project based sales that we had seen in the previous year. It was also gratifying so see an increase in sales of new assembly designs from 5% to 18% of turnover. This is partially due to high value design-wins, but it is also a reflection of the quality of the new engineering team that has been working on key customer technical enquiries. Refurbishment sales remained strong and standard assemblies have held up despite a drop in sales to North America, traditionally a strong sector for power assemblies.

Bookings were strong in 2006, 70% higher than the previous year, and with a book to bill of 1.33 the order book has increased to its highest level for 5 years. Much of the increase has been due to major project bookings. We announced in August 2006 an order to supply high power semiconductor assemblies to Converteam, for use in the Royal Navy Type 45 Destroyer programme. In September 2006 a further order was announced for manufacture of high power semiconductor assemblies for a high-voltage direct current station (HVDC) in the Gulf States. Looking forward to 2007, we are expecting more than 50% sales growth based on the significant level of project business now in our order book and the on going success with our new designs.

In planning for future growth, the Power Electronic Assemblies Group has continued to address the challenge of skill training and development in both manufacturing and engineering. On the manufacturing side, we have successfully started the supply of high power semiconductor assemblies for the Gulf contract. The developing strength in our engineering capability has enabled us to pull in a number of complex opportunities and we have been awarded contracts to work on two UK funded research and development power electronics projects where we will be working in collaboration with our customers.

During 2007 the group has also been in collaboration with Nottingham University with a Knowledge Transfer Programme involving control systems for motor drives. This is planned to complete in 2007 and contributes to our developing strategy of offering increasingly high level technical support to our customers.

Integrated Circuits

The reduction in sales of 31% over 2005 was forecasted. The reduction would have been less but for a number of unexpected factors including a tightening of export control requirements and some delays in process re-qualification.

The re-qualification of a new silicon-on-sapphire (SOS) epitaxial material made significant headway during 2006 with functional, engineering quality die being produced. However, full production quality products using this new material were not produced as planned. This delay was due to a newly identified requirement for process and equipment modifications. It is now expected that these will be finalised by mid 2007.

The proven radiation performance of both the SOS process and designs has reflected itself in another year of impressive growth in bookings. Bookings for 2006 were 18% above the previous year and delivered a book to bill ratio of 1.69. Sales growth in 2007 is forecasted across both terrestrial and space applications with renewed interest coming from the traditional large European and North American satellite manufacturers as well as continued interest from the developing Asian and Far Eastern economies. This has lead to a welcome broadening of our customer base.

There are a number of enquiries from customers who are eagerly anticipating the re-launch of the Dynex SOS process, which should ensure that the business continues to grow beyond 2007. It should also enable Dynex to take full advantage of the growing use of satellite technology in a varied spread of applications including telecommunications, weather & climate monitoring, earth resource observation and military applications.

Material Supplies

As we entered 2006, some key issues remained to be resolved. Good progress has been made in developing closer relationships with suppliers that has enabled us to steadily improve lead times, on-time delivery and the level of overdue orders. These efforts will continue during 2007 as we strive to maintain the definite improvement on stock management and direct material availability.

A major challenge facing the business is to work with our silicon suppliers to guarantee an adequate supply of what is the most important material in the manufacture of power semiconductors. Global demand for silicon is currently exceeding supply and needs to be resolved for all sectors of semiconductor manufacturing for the required output to be met.

The last two years have seen significant worldwide increases in energy costs that have impacted the cost of direct materials and overheads. We are committed to minimising the impact of these increases on our customers and constantly strive to maintain the cost competitiveness of our products in the market place while retaining and improving our gross margins. We have dedicated engineering and logistics resource to source alternative suppliers and reduce component costs, reduce overheads by improving factory efficiency and eliminating process waste to improve production yields. These actions remain key during 2007 to leave us less vulnerable to rising commodity and utility prices.

Advanced Research and Development

Dynex has remained in the forefront of high power research and development and throughout 2006 has continued to acquire funding to establish itself as a key partner in both UK and European collaborate research and development initiatives in power electronics.

In October 2006, Dynex announced that it had been awarded grants by the Technology Programme of the UK Department of Trade and Industry (DTI) to develop advanced high power semiconductor devices.

The grants are being used to support two collaborative projects concurrently over a period of 3 years. Although both projects are aimed at different power electronic components and applications, they are expected to deliver similar benefits of lower running costs and greater energy efficiency when applied to high power electronic systems.

The first project, named NEWTON, is to develop ultra high power thyristor switches for applications in electric power transmission and distribution systems. It is a collaboration amongst Dynex, Areva T&D UK Ltd., Semefab (Scotland) Ltd., and Loughborough University.

The second and separate project, named HIDRIVE, is to develop high power density transistor modules for use in high-energy electric motor drive applications. It is a collaboration amongst Dynex, Converteam Ltd., Dudley Associates Ltd. and the Emerging Technologies Research Centre at De Montfort University.

Dynex continues to focus its power device research and development on future high voltage semiconductor products for high power energy management. These DTI awards allow us to bring together strong UK industrial and academic groups to work with Dynex on power device development in this important sector.

Sales and Distribution

Worldwide, sales increased from $22.8 million in 2005 to $23.7 million in 2006, an annual growth of 4.2%. This modest growth hides a more significant sales growth achieved by Dynex Semiconductor Ltd of 10.2% in Sterling terms. Focusing on the power business groups alone, the growth was 11.7% in Dollars and 18% in Sterling. These stronger growth figures more accurately reflect the improvement seen in the Dynex power business sectors due to both the improvements in Dynex operations and the growing strength of the global high power semiconductor market.

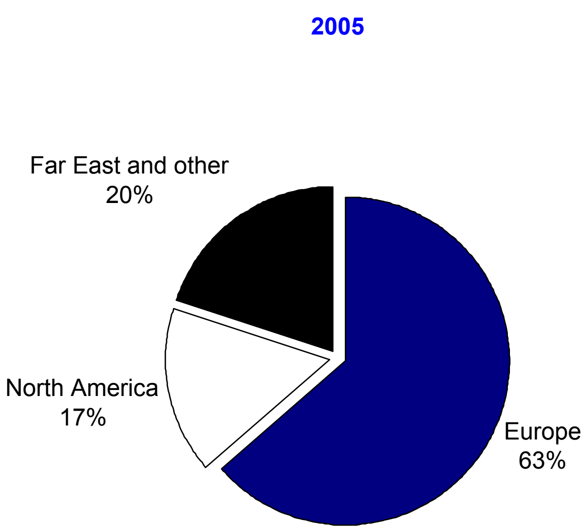
Despite the strong market, we have seen a decline in our Far East region sales compared to the previous year. Nevertheless this sector is still showing the strongest long-term growth, 15% CAGR over the past three years, mainly driven by China, and it continues to offer a strong opportunity for Dynex products. Europe has remained the dominant region and delivered the highest annual growth over last year. This was due to improved business, mostly project based, with our long standing major UK customers. Sales again fell in North America with a 9% decline per annum over the past three years. This has been a continuing trend, in part due to a more difficult market for high power products, but also due to a reduced Dynex local presence. However, in 2006 we welcomed the appointment of several new local sales representatives and, with a strengthened in-house sales team, we expect in 2007 to turn around the sales decline in that region

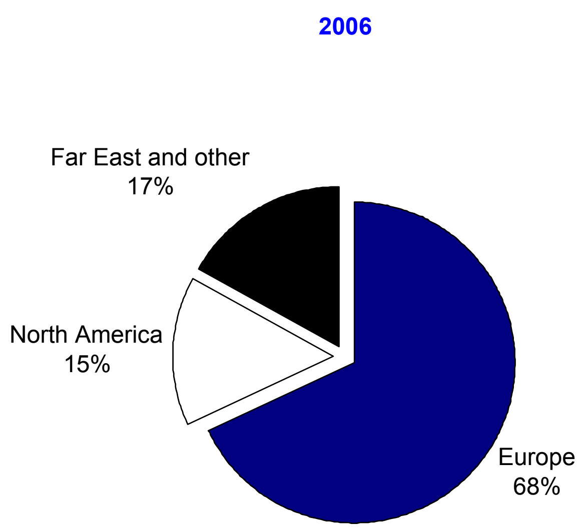
Overall bookings (new orders) were strong with a total book to bill for the year of 1.19. This is in line with the trend in sales (in Sterling) seen last year, and with our sales growth expectations for the next twelve months.

The largest orders were received from major UK customers. In August, Dynex announced that it had received an order from Converteam Ltd. totalling more than $2.3 million. Dynex will be supplying IGBT's, thyristors and high power semiconductor assemblies for use in the electric propulsion systems for Royal Navy marine vessels. In September Dynex announced that it had received an order from AREVA T&D UK Ltd. valued at more than $1.6 million. Dynex will be supplying high power semiconductor assemblies for a High-Voltage Direct Current (HVDC) station in the Gulf States. Work on shipments for both these major projects will continue throughout 2007.

The high level of new bookings increased the backlog (order book) by 73% at the end December 2006 compared to December 2005. It was the equivalent of 30 weeks output at 2006 sales levels. This was the highest level recorded for the continuing business for at least 4 years and gives confidence in future sales growth.

Sales by Region





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 years ended December 31st, 2006 and 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 Company has enjoyed a good fourth quarter with sales at their highest level since the exceptional fourth quarter of last year. The high sales resulted in a gross margin of 18.5%, the highest rate of any quarter this year. As a result, a profit of $423,000 was earned, again the highest quarterly figue since the fourth quarter of 2005.

The good results in the fourth quarter brought the year to a satisfactory conclusion. Revenue grew by 4% over 2005. In Sterling, the growth had been 10%, the first real growth in sales for many years. The gross margin of 17.7% showed significant improvement over the 12.8% reported last year and clearly showed the benefit of tight control of all costs. A net loss of $273,000 was disappointing, but the improvement over the loss in 2005 of $1.8 million clearly shows we are heading in the right direction. Management are forecasting a return to profitability in 2007.

Revenue

Revenue for the fourth quarter of 2006 was $6.7 million, up by $965,000 or 17% from the third quarter of 2006 making it the highest quarterly revenue during the year. Higher revenues were recorded in all three high power segments, particularly power electronic assemblies. Revenue was down by 10% against the corresponding quarter of last year. Revenue in Integrated Circuits fell substantially, as the unusually large shipments recorded in the fourth quarter of 2005 were not repeated.

Revenue for the full year of $23.7 million was $1.0 million ahead of last year with strong growth recorded in Bipolar Discrete units and Power Modules with less substantial growth in Power Electronic Assemblies. The fall of 31% in Integrated Circuits sales again reflects the unusually large shipments in the last quarter of 2005 that were not repeated in 2006.

Gross Margin

The gross margin in the fourth quarter of $1.2 million was $197,000 or 19% higher than in the third quarter of 2006, making it the highest quarterly gross margin during the year. It was $1.0 million or 64% lower than the gross margin reported in the corresponding quarter of last year, which had been boosted by the large Integrated Circuit sales in that quarter. The rise in gross margin compared to the third quarter reflects the higher revenue reported and continued tight control of raw material costs.

Gross margin for the full year of $4.2 million is $1.3 million or 43% higher than that reported in 2005. The improvement reflects the increase in revenue, our continuing efforts to reduce material costs and improvements in manufacturing efficiency.

Expenses

Overhead expenses in the fourth quarter of 2006 of $919,000 were $315,000 or 26% lower than in the third quarter of 2006, and $637,000 or 41% lower than in the corresponding quarter of last year. The fourth quarter figure was lessened by a $230,000 insurance recovery whilst the fourth quarter of last year had suffered a $150,000 one-off settlement of a legal case. After adjusting for these factors, expenses for the quarter still showed the benefit of continued tight control.

For the full year, overhead expenses are $87,000 or 2% lower than last year. However, after excluding the one-off legal case in 2005 and insurance claim in 2006, expenses rose by 6%, as a result of increased activity and price inflation.

Interest & Other Income

Interest and other income was $60,000 in the fourth quarter of 2006, 1% lower than in the preceding quarter. The figure was $33,000 or 35% lower than that of the corresponding quarter of last year. The main constituent of Other Income continues to be the $39,000 quarterly release of deferred revenue arising from the sale and leaseback of a building in 2003. For the full year, interest and other income was $8,000 or 3% higher than last year.

Foreign Exchange Gains and Losses

There was a foreign exchange gain in the quarter of $46,000, compared to a gain of $2,000 in the third quarter of 2006. A loss of $39,000 had been reported in the corresponding quarter of last year. By their nature, these gains and losses are unpredictable.

For the full year, a gain of $16,000 was recorded, a substantial improvement on the loss of $141,000 reported last year.

Income Taxes

As a result of brought forward tax losses, no tax is payable on the profit reported in the fourth quarter of 2006 nor on the profit reported in the corresponding quarter of last year. No taxes are payable on the losses reported in the preceding quarter nor on the losses reported for 2006 or 2005.

Net Profit / Loss

The Company reported a net profit of $423,000 in the quarter compared to a loss in the previous quarter of $132,000. This arose from the increase in revenue and continued tight control of cost of sales and overhead costs. A net profit of $781,000 had been reported in the corresponding quarter of last year, heavily influenced by the unusually large Integrated Circuit sales in that quarter. It was not expected that the profit in the fourth quarter of 2006 would equal that of the corresponding quarter of last year and the result achieved was pleasing.

The net loss for the full year of $273,000 represents a reduction of $1.5 million or 85% compared to the loss reported in 2005 and continues the trend in our recovery reported over the last three years from continuing operations.

Segmental Analysis

Sales prices in all business segments remained stable during 2005 and 2006 and, therefore, changes in revenue reflect changes in the volume of goods sold. Revenue for the Bipolar Discrete Group in the quarter of $3.4 million was $89,000 or 3% lower than the previous quarter but $230,000 or 7% higher than in the corresponding quarter of last year. The figure for the full year of $13.7 million is $1.7 million or 15% higher than 2005, reflecting the strong growth in demand we have seen for these products and the improvements in our materials supply chain.

Revenue for Power Modules Group in the quarter of $1.1 million was $223,000 or 26% higher than in the third quarter of 2006 and $140,000 or 15% higher than in the corresponding quarter of last year. For the full year, sales of $3.7 million are $363,000 or 11% higher than 2005, again indicative of the strong demand seen for these products.

Revenue for Power Electronic Assemblies of $1.1 million was $350,000 or 49% higher than in the preceding quarter and $376,000 or 54% higher than the corresponding quarter of last year. For the full year, sales of $3.5 million represented a rise in sales of $93,000 or 3%.

Revenue from Integrated Circuits for the quarter of $1.1 million was £481,000 or 81% higher than in the preceding quarter but was $1.4 million or 57% lower than in the corresponding quarter of 2005. This had been expected given the exceptionally large sales in the fourth quarter of 2005. Revenue was held back compared to what it could have been if we did not have to qualify new materials and sources of supply. Revenue for the full year of $2.8 million is $1.2 million or 31% lower than in 2005. This had been expected.

Prospects for all business segments remain good with growth in sales forecast for 2007.

Seasonality

Management does not regard the business as seasonal. Significant changes in quarterly revenues in Bipolar Discrete units and Power 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

During the second quarter of 2006, a private placement of shares raised $550,000 and shares were issued to directors for their services in the second half of 2005 and for their services in the first half of 2006. As the value of these transactions significantly exceeded the loss for the year, the deficit on shareholders' funds has fallen significantly during the year.

The total borrowings of the Company have risen by $803,000 or 11% during the year. This is entirely due to a 13% decline during the year in the value of Dollar compared to Sterling. All the loans are in the books of the UK operating company and in Sterling terms, total debt is lower at the end of 2006 than it was at the end of 2005.

During the year, the Corporation entered into a new short term financing agreement with Landsbanki, Commercial Finance replacing the previous financing arrangement. The new relationship should provide better support to our on-going business needs than the previous lender was able to.

The Company believes that it has access to adequate liquidity to meet its needs for at least the next twelve months. In the longer term, additional funds may have to be raised to finance growth and capital investment.

The Company has a capital commitment at the year end of $42,000 for the purchase of a forklift truck. The purchase will be financed through hire purchase.

The Company had no off balance sheet financing arrangements at the year end.

Selected Financial Information

	2006 Q4	2006 Q3	2006 Q2	2006 Q1	2005 Q4	2005 Q3	2005 Q2	2005 Q1	2006 FY	2005 FY	2004 FY
Revenue	6,671	5,707	5,253	6,082	7,356	5,681	5,559	4,166	23,713	22,761	23,886
Net earnings/(loss)	423	(132)	(629)	66	781	(293)	(671)	(1,606)	(273)	(1,788)	(5,380)
Basic EPS	0.01	(0.00)	(0.02)	0.00	0.03	(0.01)	(0.02)	(0.06)	(0.01)	(0.07)	(0.23)
Diluted EPS	0.01	(0.00)	(0.02)	0.00	0.03	(0.01)	(0.02)	(0.06)	(0.01)	(0.07)	(0.23)
Total assets	13,652	12,058	10,923	11,745	12,798	11,282	11,444	12,482	13,652	12,798	14,669
Long term liabilities	4,841	4,494	4,401	4,447	4,444	4,335	4,160	3,914	4,841	4,444	426
Cash Dividends declared	0	0	0	0	0	0	0	0	0	0	0

Selected quarterly financial information (taken from the unaudited quarterly reports) and annual information (taken from the annual reports) is presented above. All figures have been prepared in accordance with Canadian generally accepted accounting principles. 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 and will not give rise to a cash outflow.

Annual revenue in Dollars dipped between 2004 and 2005 by 5% and then recovered in 2006. However, this picture is dramatically affected by fluctuations in the exchange rate of the Dollar. When viewed in Sterling terms, in which all revenues are initially recorded, a different picture emerges. Revenue remained stable between 2004 and 2005 and has grown by over 10% in 2006. Growth in Sterling terms, in excess of that achieved in 2006 is forecast to be achieved in 2007. Quarterly revenues are more volatile and the underlying trend in Sterling revenues has also been affected by exchange rate fluctuations. The general trend has been for higher Sterling revenues and the figure for the fourth quarter of 2006 is the best apart from the unusually high figure reported in the fourth quarter of 2005.

The reduction in the annual loss between 2004, 2005 and 2006 is encouraging and clearly shows the impact of long-term cost reduction initiatives. The same trend is evident in the quarterly earnings figures. The net earnings figure in the fourth quarter of 2005 was particularly high due to the large deliveries of Integrated Circuits and that level was uncharacteristic. The return to net losses in the second quarter of 2006 was expected and was a direct result of the lower revenue. An improvement was seen in the third quarter and the return to profit in the fourth quarter is pleasing. The Company is forecasting a return to profitability in 2007.

Risk Management

The level of worldwide 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 seen strong growth in demand from such investment. The failure to carry through this investment would be detrimental to the future of the business.

Worldwide demand for silicon has risen sharply of late, mainly driven by the demands of the solar power industry. Any shortage in supply of silicon is likely to have a direct impact on costs and the volume of business that the Corporation can carry out.

As disclosed in the Financial Statements, the Corporation has no single customer accounting for over 10% of revenue during the year. Our relationship with all our main customers and suppliers remains good.

Although the Corporation buys some materials in continental Europe, the Far East and North America, 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 believe that it would be beneficial to hedge them at the present time. The need to undertake such hedging is reviewed from time to time.

The Corporation's main operating business is in Lincoln, England and 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.

Financial Instruments & Other Instruments

The Company does not use financial instruments or other instruments to manage its risks.

Government Assistance

The Company received grants totalling $311,000 from the European Union and the British Government to assist in its research and development activities.

Related Party Transactions

The Corporation issued a total of 137,939 common shares at $0.2955 to the independent directors in May 2006 in payment of their fees for the period July 1st, 2005 to December 31st, 2005.

The Corporation issued a total of 571,430 common shares at $0.07 to the independent directors in August 2006 in payment of their fees for the period January 1st, 2006 to June 30th, 2006.

The Corporation incurred expenses of $80,000 in the year in respect of fees payable to directors. As at December 31st, 2006 a total of $40,000 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 £1.8 million ($4.1 million) which bear interest at rates between 7% and 10% per annum compounded monthly. Repayment of these loans is scheduled to take place between April 2007 and October 2010.

The Corporation retains a business law firm in Canada to provide legal services and advice. During 2006, this firm was paid $64,000 in fees and expenses. One of the Corporation's independent directors is a partner of this firm.

Business Development

Year on year revenue growth of approximately 4% for 2006 was significantly lower than the Sterling revenue growth of just over 10%. Revenue growth in Sterling terms is expected to continue and indeed accelerate during 2007.

As forecast, the business returned to profit in the fourth quarter of 2006, but sharp increases in UK energy prices and consequently in other UK input prices meant that the profit earned was lower than we had hoped it would be earlier in the year and consequently we were unable to report a profit for the full year. Nevertheless, the improving trend in our annual results is strongly established and the further growth in revenue that is forecast and continuing control of all costs and overheads should enable the Company to report a profit in 2007.

Order Book

At the end of 2006, the order book for delivery during the next twelve months was $14.9 million compared to $8.6 million at the end of 2005. Approximately two thirds of this increase represented growth in the Sterling order book and one third a weakening of the Dollar.

Subsequent Event

The Corporation issued a total of 571,430 common shares at $0.07 to the independent directors in January 2006 in payment of their fees for the period July 1st, 2006 to December 31st, 2006.

Changes in Accounting Policies

The CICA has issued four new accounting policies that come into effect for fiscal years beginning on or after October 1st, 2006: Section 1530 of the CICA Handbook, Comprehensive Income deals with the change in net assets that results from transactions, events and circumstances from sources other than the Company's shareholders; Section 3250, Equity deals with how to report equity and changes in equity; Section 3855, Financial Instruments-Recognition and Measurement requires that most financial assets, some financial liabilities and all derivative financial instruments be measured at fair value; and Section 3861, Financial Instruments-Disclosure and Presentation establishes standards for presentation and disclosure requirements for financial instruments and non-financial derivatives.

The impact on the consolidated financial statements of adopting all these most important changes from January 1st, 2007 is currently being evaluated.

Disclosure Controls

Disclosure controls and procedures are designed to provide reasonable assurance that all relevant information is gathered and reported to senior management, including the Chief Executive Officer and Chief Financial Officer, on a timely basis so that appropriate decisions can be made regarding public disclosure.

An evaluation of the effectiveness of our disclosure controls and procedures was conducted as of December 31st, 2006, by the Chief Executive Officer and Chief Financial Officer. Based on this evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures, as defined in Multilateral Instrument 52-109 – Certication of Disclosure in Issuers' Annual and Interim Filings, are affective to ensure that information required to be disclosed in reports that we file or submit under Canadian securities legislation is recorded, processed, summarized and reported within the time periods specified in those rules

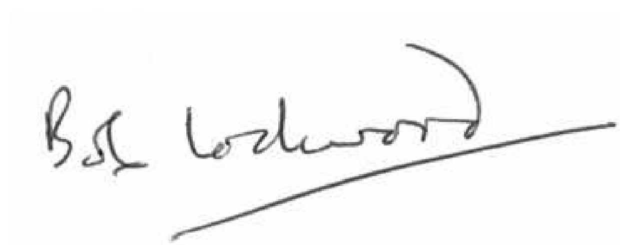
Internal Controls

Internal control over financial reporting has been designed to mprovide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian generally accepted accounting principles.

During the year ending December 31st, 2006, there have been no changes in the design of the Company's internal controls over financial reporting that has materially affected, or is reasonably likely to affect materially the Company's internal control over financial reporting.

Additional Information

Additional information relating to the Company is available on SEDAR at www.sedar.com



Bob Lockwood.
Director and Chief Financial Officer
April 25th 2006

Management's Responsibility for Financial Reporting

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

Dynex's accounting procedures and related systems of internal control are designed to provide reasonable assurance that its assets are safeguarded and its financial records are reliable. In recognising that the 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
President & CEO

Bob Lockwood
CFO

Auditors' Report

To the Shareholders of
Dynex Power Inc.

We have audited the consolidated balance sheets of Dynex Power Inc. as at December 31, 2006 and 2005 and the consolidated statements of losses and deficits and of cash flows for each of the years in the two-year period ended December 31, 2006. These financial statements are the responsibility of the Company'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 Company as at December 31, 2006 and 2005 and the results of its operations and its cash flows for each of the years in the two-year period ended December 31, 2006 in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP

Chartered Accountants
Licensed Public Accountants

March 26, 2007
Ottawa, Canada

DYNEX POWER INC.
Consolidated Balance Sheets
Years Ended December 31st, 2006 and 2005

		Dec 31st 2006		Dec 31st 2005
CURRENT ASSETS				
Cash and cash equivalents	**$**	**357,042**	$	331,897
Accounts receivable		**4,936,028**		5,484,910
Inventories (Note 3)		**7,198,306**		5,951,526
Prepaid expenses and deposits		**715,935**		551,135
		13,207,311		12,319,468
CAPITAL ASSETS (Note 4)		**444,715**		478,938
	$	**13,652,026**	$	12,798,406
CURRENT LIABILITIES				
Accounts payable and accrued liabilities	**$**	**4,592,004**	$	5,125,882
Short-term loan (Note 5)		**3,013,654**		2,607,515
Current portion of long-term debt (Note 6)		**1,269,994**		1,396,219
Current portion of deferred revenue (Note 7)		**175,832**		155,515
		9,051,484		9,285,131
LONG-TERM DEBT (Note 6)		**3,570,847**		3,048,252
LONG-TERM DEFERRED REVENUE (Note 7)		**1,802,283**		1,749,547
		14,424,614		14,082,930
CONTINGENCIES (Note 17)		-		-
SHAREHOLDERS' DEFICIENCY				
Share capital (Note 8)		**13,888,690**		12,955,163
Deficit		**(14,098,044)**		(13,824,595)
Cumulative translation adjustment		**(563,234)**		(415,092)
		(772,588)		(1,284,524)
	$	**13,652,026**	$	12,798,406

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

DYNEX POWER INC.
Consolidated Statements of Losses and Deficits
Years Ended December 31st, 2006 and 2005

	2006	2005
Revenue	**$ 23,713,165**	$ 22,760,665
Cost of sales	**19,521,431**	19,832,108
Gross margin	**4,191,734**	2,928,557
Expenses		
General and administration	**2,241,500**	2,553,822
Sales and marketing	**952,583**	1,085,270
Research and development (Note 9)	**697,604**	538,903
Interest expense	**834,669**	635,488
	4,726,356	4,813,483
Loss before other income (expenses) and income taxes	**(534,622)**	(1,884,926)
Other income (expenses)		
Interest and other income	**245,171**	237,329
Foreign exchange gain (loss)	**16,002**	(140,663)
	261,173	96,666
Income taxes (Note 10)	**-**	-
NET LOSS	**(273,449)**	(1,788,260)
DEFICIT, BEGINNING OF YEAR	**(13,824,595)**	(12,036,335)
DEFICIT, END OF YEAR	**$ (14,098,044)**	$ (13,824,595)
Loss per share		
Basic	**$ (0.01)**	$ (0.07)
Diluted (Note 11)	**$ (0.01)**	$ (0.07)
Weighted average number of shares		
Basic	**31,257,836**	26,949,650
Diluted (Note 11)	**31,257,836**	26,949,650

DYNEX POWER INC.
Consolidated Statements of Cash Flows
Years Ended December 31st, 2006 and 2005

	2006	2005
OPERATING		
Net loss	**$ (273,449)**	$ (1,788,260)
Items not affecting cash		
Amortization	**255,465**	227,019
Gain on disposal of capital assets	**(163,179)**	(172,909)
Shares and options issued for services	**383,527**	400,164
Changes in non-cash operating working capital (Note 13)	**(411,071)**	(1,124,674)
	(208,707)	(2,458,660)
FINANCING		
Shares issued for cash	**550,000**	80,000
Increase (decrease) in short-term debt	**60,048**	(29,991)
(Decrease) increase in long-term debt	**(168,987)**	2,608,556
	441,061	2,658,565
INVESTING		
Proceeds of disposal of capital assets	**2,085**	2,207
Purchase of capital assets	**(167,626)**	(118,242)
	(165,541)	(116,035)
NET INCREASE IN CASH	**66,813**	83,870
Effect of foreign currency translation on cash flow	**(41,668)**	(2,348)
Cash and cash equivalents, beginning of period	**331,897**	250,375
CASH AND CASH EQUIVALENTS, END OF YEAR	**$ 357,042**	$ 331,897
Supplementary Information:		
Interest paid during year	**$ 653,938**	$ 337,052
Income taxes paid during year	**-**	-

1. DESCRIPTION OF BUSINESS

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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. All intercompany transactions have been eliminated.

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 period presented. Examples of such estimates include the anticipated useful lives of assets, the provisions required against inventory and accounts receivable, stock based compensation and warranties. 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

Capital assets are tested for recoverability if circumstances indicate that their carrying value may not be recoverable and, if appropriate, an impairment loss is recognised. To date, no such impairment losses have been recognised.

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 revenues from sales to end-customers and to its distributors at the time title passes 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' deficiency 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, unless the criteria for deferral under generally accepted accounting principles are met. To date, no such costs have been capitalised.

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 fair value of stock options granted to employees is calculated using the Black-Scholes pricing model. The resulting fair value is charged to General and Administrative Expenses over the period to the vesting date of the options

The fair value of warrants and conversion rights relating to loans is calculated using the Black-Scholes pricing model. The resulting fair value is charged to interest expense over the life of the loans.

3. INVENTORIES

	2006	2005
Raw materials	**$ 1,896,099**	$ 1,242,675
Work in progress	**4,240,482**	3,826,110
Finished goods	**1,061,725**	882,741
	$ 7,198,306	$ 5,951,526

Inventory is stated net of a provision of $5,905,448 (Dec 31st, 2005 - $5,757,672) for obsolescence.

4. CAPITAL ASSETS

	Cost	**Accumulated Amortization**	**Net Book Value**
2006			
Equipment	**$ 2,428,080**	**$ 1,983,365**	**$ 444,715**
Total	**$ 2,428,080**	**$ 1,983,365**	**$ 444,715**
2005			
Equipment	$ 1,991,803	$ 1,512,865	$ 478,938
Total	$ 1,991,803	$ 1,512,865	$ 478,938

5. SHORT-TERM LOAN

The Corporation has a short-term loan of $3,013,654 (Dec 31st, 2005 - $2,607,515) secured by a first charge on all capital assets, inventory, cash and cash equivalents and accounts receivable. The loan is repayable on demand.

6. LONG-TERM DEBT

		2006		2005
Interest free unsecured loan payable in monthly instalments of $11,562 to November 2007.	**$**	**127,182**	$	235,195
Loans from individual shareholders payable in monthly instalments of $26,177 between January 2007 and October 2008, bearing interest at 10% and secured under a general security agreement. 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.		**575,889**		549,620
Loans from two directors payable in monthly instalments of $69,342 between April 2007 and July 2010, bearing interest at 7% and secured under a general security agreement. A total of $1,963,763 of these loans is convertible into approximately 33.2% of the share capital of Dynex Semiconductor Limited at any time prior to the repayment date at the option of the lender.		**2,773,670**		2,453,176
Loan from a director payable in monthly instalments of $34,103 between July 2007 and October 2010 bearing interest at 10% and secured under a general security agreement.		**1,364,100**		1,206,480
		4,840,841		4,444,471
Current portion		**1,269,994**		1,396,219
	$	**3,570,847**	$	3,048,252

The repayment dates on the loan from shareholders, the loan from a director and the loans from two directors were renegotiated during the second quarter of 2006. The above repayment dates reflect the new agreements. All other terms and conditions of the loans remain as before.

Principal payments

Principal payments required in each of the next five years are:

Under 1 year	**$**	**1,269,994**
1-2 years		**1,503,099**
2-3 years		**1,241,331**
3-4 years		**826,417**
	$	**4,840,841**

Interest Expense

Total interest expense on long term debt for the year ended December 31st, 2006 was $609,627 (2005 - $413,163).

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 $161,244, is included in other income for the year ended December 31st, 2006 (2005 - $170,703).

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:

		2006	2005
Common shares	- amount	**$ 13,888,690**	$ 12,955,163
	- number	**32,767,613**	27,058,244

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 being fulfilled.

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 $0.2955 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.

On May 8th, 2006 the Corporation issued 5,000,000 shares by way of a private placement at $0.11 per share.

On May 8th, 2006 the Corporation issued 137,939 shares to the independent directors who are related parties for their services in the second half of 2005 under the Independent Directors' Share Plan at a price of $0.2955 per share.

On August 8th, 2006 the Corporation issued 571,430 shares to the independent directors who are related parties for their services in the first half of 2006 under the Independent Directors' Share Plan at a price of $0.07 per share.

8. SHARE CAPITAL (Continued)

Warrant transactions

During July and August 2006 warrants to acquire 3,233,334 shares at the option of the holders at $0.60 per share expired unexercised.

The Corporation has outstanding warrants to acquire 357,143 shares at the option of the holders at $0.35 per share any time before October 2008.

Stock option plan

A total of 2,657,316 (Dec 31st, 2005 - 2,657,316) 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, 2004	1,464,000	$ 1.02
Granted	650,000	0.08
Exercised	-	-
Cancelled	(1,239,000)	1.08
Outstanding at December 31st, 2005	875,000	0.24
Granted	-	-
Exercised	-	-
Cancelled	(75,000)	1.59
Outstanding at December 31st, 2006	**800,000**	**$ 0.11**

The weighted average remaining life of the outstanding options is 3 years and 5 months (2005- 4 years and 1 month). At December 31st, 2006 there are 366,667 options exercisable with a weighted average exercise price of $0.14 and a weighted average remaining life of 2 years and 10 months (2005- 175,000 options exercisable at $0.81 cents with a remaining life of 1 year and 6 months).

At December 31st, 2006 the following stock options are outstanding:

	Grant Date	Expiry Date	Number of Options	Exercise Price
Officers	April 28, 2003	April 27, 2008	150,000	$ 0.23
	Nov 30, 2005	Nov 29, 2010	550,000	0.08
All other employees	Nov 30, 2005	Nov 29, 2010	100,000	0.08
Total outstanding			**800,000**	**$ 0.11**

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 $26,914 of stock based compensation in General & administrative expenses in the year ended December 31st, 2006 (2005 - $7,997).

Share Continuity

The movement in share capital is summarized below:

	2006	2005
Share Capital at start of the year	**$ 12,955,163**	$ 12,474,999
Shares issued for cash	**550,000**	80,000
Shares issued for services	**80,761**	133,478
Stock based compensation re employee options	**26,914**	4,980
Stock based compensation re loans	**275,852**	261,706
Share Capital at the end of the year	**$ 13,888,690**	$ 12,955,163

9. RESEARCH & DEVELOPMENT

The Company received grants totalling $311,000 (2005- $187,000) from the European Union and the British Government to assist in its research and development activities. These grants paid for specific work carried out under agreed research and development programmes. The income received has been credited against research and development expenditure.

10. 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:

	2006	2005
Loss before income taxes	**$ (273,449)**	$ (1,788,260)
Expected tax (recovery)	**(98,715)**	(654,500)
Increase resulting from unrecorded benefit of tax loss	**98,715**	654,500
	$ -	$ -

10. INCOME TAXES (Continued)

The Canadian statutory tax rate of 36.1% (2005 – 36.1%) comprises Federal income tax at approximately 22.1% (2005 – 22.1%) and Provincial income tax at approximately 14% (2005 – 14%). The United Kingdom statutory rate is 30% (2005 – 30%).

As at December 31st, 2006 the Corporation has undeducted research and development expenditures of approximately $43,000 (2005- $43,000) which are available without expiry to reduce future years' Canadian Federal and Provincial taxable income.

As at December 31st, 2006 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
2007	**$ 424,000**	**$ 424,000**
2008	**421,000**	**421,000**
2010	**688,000**	**688,000**
2014	**109,000**	**109,000**
2015	**498,000**	**498,000**
2026	**305,000**	**305,000**
	$ 2,445,000	**$ 2,445,000**

As at December 31st, 2006 the Corporation has United Kingdom tax loss carry forwards of approximately £3,900,000 ($8,140,000) (2005- £3,912,700 ($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.

11. LOSS PER SHARE

For the year ended December 31st, 2006 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 1,157,143 (2005 – 4,495,477).

12. COMMITMENTS

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

2007	**$ 586,475**
2008	**646,459**
2009	**661,800**
	$ 1,894,734

13 CHANGES IN NON-CASH OPERATING WORKING CAPITAL ITEMS

	2006	2005
Accounts receivable	**$ 1,160,463**	$ (1,685,500)
Inventories	**(430,313)**	1,572,784
Prepaid expenses and deposits	**(87,129)**	65,168
Accounts payable and accrued liabilities	**(1,054,092)**	(1,077,126)
	$ (411,071)	$ (1,124,674)

14. ECONOMIC DEPENDENCE

For the year ended December 31st, 2006 the Corporation had no customers accounting for more than 10% of revenue (2005 – two customers each accounting for approximately 13% of revenue).

15. 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 those rates. The Corporation has not used derivative instruments to hedge its exposure to foreign currency risk. The exposure to foreign currency risk is primarily to fluctuations in the value of the United Kingdom Pound, the Euro and the United States Dollar.

The Corporation is exposed to credit risk from customers. The Corporation's business is mostly with large corporations, governments and quasi-governmental organisations. 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, accounts payable and short-term loans 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 amount of all financial instruments was similar to their fair values.

16. BUSINESS SEGMENT INFORMATION

Business area

The business operates in four distinct product areas – high power bipolar discrete devices, high power 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, 2006 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.

		2006		2005
Revenue:				
Business segment				
Bipolar Discrete Group	**$**	**13,701,623**	$	11,965,438
Power Modules Group		**3,713,152**		3,350,471
Power Electronic Assemblies		**3,533,853**		3,440,965
Integrated Circuits		**2,764,537**		4,003,791
	$	**23,713,165**	$	22,760,665
Geographic area				
Europe	**$**	**16,162,313**	$	14,451,849
North America		**3,504,025**		3,770,053
Far East and other		**4,046,827**		4,538,763
	$	**23,713,165**	$	22,760,665
Capital assets:				
Geographic area				
Europe	**$**	**444,715**	$	478,938
	$	**444,715**	$	478,938

17. 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.

18. PENSION PLAN

The Corporation incurred expenses of $317,540 (2005 - $252,342) 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. At December 31st, 2006 $118,945 (2005 - $152,821) is included in accrued liabilities relating to these contributions. This amount will be contributed to the plan by the end of May 2007.

19. RELATED PARTY TRANSACTIONS

The Corporation incurred expenses of $80,000 (2005 - $73,478) with respect to fees payable to directors. As at December 31st, 2006, $40,000 is payable to directors (2005 - $40,833). The directors fees are recorded at the negotiated amounts.

A total of 137,939 common shares was issued at $0.2955 to the independent directors on May 8th, 2006 in payment of their fees for the period July 1st, 2005 to December 31st, 2005.

A total of 571,430 common shares was issued at $0.07 to the independent directors on August 8th, 2006 in payment of their fees for the period January 1st, 2006 to June 30th, 2006.

The Corporation has loans from two directors totalling $4,137,770 (2005 - $3,659,656). Full details of these loans are set out in Note 6.

The Corporation retains a business law firm in Canada to provide legal services and advice. During 2006, this firm was paid $64,000 in fees and expenses. One of the Corporations independent directors is a partner of this firm.

20 SUBSEQUENT EVENT

A total of 571,430 common shares was issued at $0.07 to the independent directors on January 18th, 2007 in payment of their fees for the period July 1st, 2006 to December 31st, 2006.

Corporate Information

Board of Directors

David F. Banks (1) (2) (3)
Chairman

Paul Taylor (1) (3)
Director, President & CEO

Bob Lockwood (1)
Director, VP Finance & CFO

Debbie Weinstein (1) (2) (3)
Director & Company Secretary

Keith Ralls (1) (2) (3)
Director

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

(1) Member of the Governance Committee
(2) Member of Audit Committee
(3) Member 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

Dynex Locations

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