DYNEX POWER INC

REPORT FOR THE QUARTER ENDED MARCH 31st 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.

Table of Contents

This 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.

Letter to Shareholders

…a solid foundation for growth and profitability

As we start 2006, I am pleased to confirm that Dynex has met its targets for the first quarter: our bookings and billings were on plan and more significantly we returned a small net profit. This improved performance is a result of the work that began with the restructuring in the last quarter of 2004, and a number of improvement initiatives undertaken during 2005, to set Dynex a solid foundation for growth and profitability. These initiatives included improved gross margin, lead time reductions, improvements in on time delivery and effective inventory management.

One key issue at the time was the disruption to our supply chain caused by a lack of liquidity. One year further on, I can report that we are now operating with a supply chain that is back in gear, and although we have been able to retain the majority of our long standing and loyal suppliers, there have been some changes. Not least, and as mentioned in my letter accompanying the Report for the Quarter Ended 31st March 2005, has been the migration eastwards. Many of our long-standing suppliers have been unable to remain competitive against newly established suppliers, particularly from China, and we have had to respond by further shifting our sources of supply to lower cost suppliers. Although initially concerned by issues with communications and quality, we have found that many of these perceived barriers were unreal and we are now pleased with the service and quality delivered by our new suppliers. As a result, we have been able to offset significant price rises from our European and North American suppliers.

Dynex is an increasingly respected supplier ….

Our increased procurement from China has been paralleled by increased sales to the same region. Dynex is an increasingly respected supplier of Bipolar and IGBT products into China, and this region remains a strong prospect for our future growth. It is our positive reliability record, our flexible customer service and our world class technical support that is increasingly differentiating Dynex as a leading independent supplier.

A further issue reported last year was that of the adverse impact of the materials supply on Bipolar Products. Reviewing the revenue reported in that business sector for the past quarter shows that this group is now operating at it highest run rate since the restructuring in 2004. This not only demonstrates the impact of improved materials supply on this product line, but is also significant in that we had both reduced the staffing levels and increased the production of our new i^2 thyristor products.

A key requirement for the growing Bipolar line this year is to continue to ramp up production of the i^2 products. To achieve this we expect a small increase in our levels of employment in the coming months as well as increased wafer fabrication efficiencies.

…challenges in the coming two quarters

Looking forward, we anticipate a number of challenges in the coming two quarters, due to the project nature of much of our business. Firstly the phasing of requirements for our two major project customers, in transmission and distribution, and in marine drives, are heavily weighted to the last few months the year. Secondly, we are re-qualifying our silicon-on-sapphire process to accommodate a new base material, as the original material is no longer available. Thus we anticipate weaker revenues in quarter 2 and part of quarter 3. However, despite the phasing of shipments, the factory activity is expected to climb steadily through the year in preparation for stronger revenues in the second half of this year and in 2007.

During the first quarter the book-to-bill ratio was 0.95, and although disappointing, this was fully in line with our expectations being a result of the phasing of the project business mentioned above. Our outlook for the second quarter indicates that the book-to-bill ratio should again exceed unity and the order book should grow steeply.

Finally, I would like thank you, our shareholders and investors, for your support and confidence, our directors, employees, and suppliers for their loyal contribution to Dynex, and our agents and customers for selecting Dynex as their business partners.

PDTaylor

Paul Taylor
President and Chief Executive Officer.

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 March 31st, 2006.

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 first quarter of 2006 has been satisfactory rather than spectacular. As forecast, revenue fell back from the level achieved in the fourth quarter of 2005 due to reduced sales of our Integrated Circuits following an usually large delivery in the fourth quarter of 2005. Nevertheless, revenue was in line with our expectations and, with tight control of our cost of sales and overhead costs, we are able to report a small profit for the quarter – the second consecutive quarterly profit to be so reported.

Revenue
Revenue for the first quarter of 2006 was $6.1 million, down by $1.3 million or 17% from the fourth quarter of 2005 but up by $1.9 million or 46% against the corresponding quarter of last year. Revenue in the fourth quarter of 2005 had been especially high and was not expected to be matched in this quarter. Nevertheless, the absolute level achieved in the first quarter was in line with our expectations. Revenue in the corresponding quarter of last year had been depressed as a result of the tight liquidity position then being experienced.

Gross Margin
The gross margin of $1.1 million was $1.2 million or 51% lower than in the fourth quarter of 2005, but was $1.7 million better than the negative gross margin reported in the corresponding quarter of last year. Both comparisons reflect the changes in revenue reported.

Expenses
Overhead expenses in the first quarter of 2006 of $1.1million were $413,000 or 27% lower than in the fourth quarter of 2005 with reductions recorded in general and administrative, sales and marketing and research and development costs, although interest expense had risen. Overhead expenses were $84,000 or 8 % above those reported in the corresponding quarter of last year. The biggest increase was in interest expense, as a result of increased borrowings, with a net reduction in the other expense categories.

Interest & Other Income
Interest and other income was $73,000 in the first quarter of 2006, down by $20,000 or 22% compared to the preceding quarter. The figure was $24,000 or 47% higher 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.

Foreign Exchange Gain
There was a foreign exchange gain in the quarter of $20,000, compared to a loss of $39,000 in the fourth quarter of 2005. A loss of $18,000 had been reported in the corresponding quarter of last year. By their nature, these gains and losses are unpredictable.

Income Taxes
As a result of brought forward losses, no tax is payable on the profit reported in the quarter or on the profit reported in the fourth quarter of 2005. No profit was payable on the loss reported in the corresponding quarter of last year.

Net Profit / Loss
The Company reported a net profit of $66,000 in the quarter, down by $715,000 or 92% compared to the profit reported in the previous quarter. A significant fall in the profit had been expected, as a result of the lower revenue figure, and the achievement of a second consecutive quarterly profit was pleasing. Net losses of $1.6 million had been reported in the corresponding quarter of last year.

Segmental Analysis
Revenue for Bipolar Discrete Units in the quarter of $3.5 million was the highest quarterly figure for eighteen months. The figure was $300,000 or 10% higher than the previous quarter and $1.5 million or 73% higher than in the corresponding quarter of last year when Bipolar Discrete Units had been seriously affected by the problems in the supply chain.

Revenue for IGBT and Power Units in the quarter of $985,000 was the best recorded since the second quarter of 2002. It was $29,000 or 3% higher than in the fourth quarter of 2005 and $127,000 or 15% higher than in the corresponding quarter of last year.

Revenue for Power Electronic Assemblies of $1.1 million was the highest reported since the second quarter of 2005 and the third highest quarterly figure since the start of 2004. The figure was $399,000 or 58% higher than in the preceding quarter and $76,000 or 7% higher than the corresponding quarter of last year.

Revenue from Integrated Circuits for the quarter of $497,000 was $2.0 million or 80% lower than in the preceding quarter. This reduction had been expected. The figure for the fourth quarter of 2005 had been unusually large and was not likely to be repeated. Revenue was $232,000 or 88% higher than it had been in the corresponding quarter of last year. Prospects for this business remain good following an announcement to customers that we are able to continue supporting the product. However, to be able to do this, new materials and suppliers have to be qualified and this is not expected to happen before the third or fourth quarter of 2006. Consequently, sales of Integrated Circuits will remain depressed for the second quarter and the early part of the third quarter.

Seasonality

Management does not regard the business as seasonal. Significant changes in quarterly revenues in bipolar discrete units and IGBT and power units in the past have reflected internal operating conditions. In the case of power electronic assemblies and integrated circuits, small numbers of large contracts drive both these segments. The delivery of a large contract in a particular quarter can cause revenue to fluctuate significantly, giving the appearance of seasonality.

Liquidity & Capital Resources

As a result of the profit for the quarter, the deficit on shareholders' funds has fallen slightly.

.

The total borrowings of the Company fell by $671,000 during the quarter with a $674,000 reduction in short-term debt and a $3,000 increase in long-term debt.

Selected Financial Information

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

	2006 Q1	2005 Q4	2005 Q3	2005 Q2	2005 Q1	2004 Q4	2004 Q3	2004 Q2	2005 FY	2004 FY	2003 FY
Revenue	6,082	7,356	5,681	5,559	4,166	5,543	6,266	5,363	22,761	23,886	23,563
Continuing operations:											
Net earnings/(loss)	66	781	(293)	(671)	(1,606)	(1,442)	(1,438)	(1,924)	(1,788)	(5,380)	(7,477)
Basic EPS	0.00	0.03	(0.01)	(0.02)	(0.06)	(0.05)	(0.06)	(0.09)	(0.07)	(0.23)	(0.38)
Diluted EPS	0.00	0.03	(0.01)	(0.02)	(0.06)	(0.05)	(0.06)	(0.09)	(0.07)	(0.23)	(0.38)
Total operations:											
Net earnings/(loss)	66	781	(293)	(671)	(1,606)	(1,442)	(1,438)	(1,924)	(1,788)	(5,380)	(2,087)
Basic EPS	0.00	0.03	(0.01)	(0.02)	(0.06)	(0.05)	(0.06)	(0.09)	(0.07)	(0.23)	(0.11)
Diluted EPS	0.00	0.03	(0.01)	(0.02)	(0.06)	(0.05)	(0.06)	(0.09)	(0.07)	(0.23)	(0.11)
Total assets	11,745	12,798	11,282	11,444	12,482	14,669	14,916	15,004	12,798	14,669	14,862
Long term liabilities	2,445	3,048	3,655	3,884	3,765	271	0	4	3,048	271	13
Cash Dividends paid	0	0	0	0	0	0	0	0	0	0	0

Annual revenue has stabilised over the last three years and is forecast to grow in 2006. The fall in the quarterly revenue figures in the fourth quarter of 2004 and the first quarter of 2005 primarily reflected liquidity problems within the Corporation. Since then, revenue has recovered steadily. Revenue in the fourth quarter of 2005 included some very large deliveries of Integrated Circuits and that level of revenue was higher than may be expected in future quarters.

The reduction in the annual loss from continuing operations is encouraging and clearly shows the impact of long term cost reduction initiatives. The same trend is evident in the 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 is not expected to be repeated in the remaining quarters of this year.

Results from total operations differ from the results from continuing operations in 2003 due to profits earned by the microwave sensors business that was sold in that year and also as a result of the profit on the sale of that business.

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 already seen the first stages of recovery in demand from such investment. The failure to carry through this investment would be detrimental to the future of the business.

As disclosed in the Financial Statements, the Corporation has one major customer accounting for 15% of revenue in the quarter. Our relationship with this customer 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 hedge any of them. 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.

Related Party Transactions

The Corporation incurred expenses of $20,000 in the quarter in respect of fees payable to directors. As at March 31st, 2006 a total of $60,833 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 ($3.7 million) which bear interest at rates between 7% and 10% per annum compounded monthly and on which repayments are due to start in October 2006.

Business Development

Revenue in the first quarter of 2006 was in line with expectations. Revenue is expected to fall slightly in the second quarter whilst new materials and suppliers are being qualified for our Integrated Circuits business and because there are no major assembly contracts in the quarter. Revenue should start to grow again from the middle of the third quarter. Management still expects revenue in 2006 to be higher than that reported in 2005, enabling the Corporation to be profitable for the year as a whole.

Subsequent Events

In April, the Corporation raised $550,000 by way of a private placement of 5 million shares at $0.11 per share.

The Corporation has been seeking a new provider of short-term finance to replace the existing provider. An offer of a new facility was received in April 2006.

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

The Corporation has been renegotiating the repayment dates of long-term loans with lenders and agreement has been reached that repayment of such loans will now start in January 2007 with the last repayment taking place in October 2010.

Breach of Covenant on Short Term Loan

The Corporation is in breach of a covenant on the facility. The Corporation has received a waiver of the breach from the lender, which waiver expires on June 30th, 2006. An offer of a replacement facility has been received from another lender and this facility is expected to be operational before the end of June.

Bob Lockwood

Bob Lockwood.
Director and Chief Financial Officer

DYNEX POWER INC.
Consolidated Balance Sheet (Unaudited)
Quarter Ended March 31st, 2006

		Mar 31st 2006		Dec 31st 2005
CURRENT ASSETS				
Cash and cash equivalents	$	**1,072,873**	$	331,897
Accounts receivable		**3,952,162**		5,484,910
Inventories (Note 3)		**5,788,874**		5,951,526
Prepaid expenses and deposits		**469,105**		551,135
		11,283,014		12,319,468
CAPITAL ASSETS (Note 4)		**462,254**		478,938
	$	**11,745,268**	$	12,798,406
CURRENT LIABILITIES				
Accounts payable and accrued liabilities	**$**	**4,655,716**	$	5,125,882
Short-term loan (Note 5)		**1,933,106**		2,607,515
Current portion of long-term debt (Note 6)		**2,002,303**		1,396,219
Current portion of deferred revenue (Note 7)		**156,706**		155,515
		8,747,831		9,285,131
CONTINGENCIES (Note 16)		-		-
LONG-TERM DEBT (Note 6)		**2,445,295**		3,048,252
LONG-TERM DEFERRED REVENUE (Note 7)		**1,723,769**		1,749,547
		12,916,895		14,082,930
SHAREHOLDERS' EQUITY				
Share capital (Note 8)		**13,017,472**		12,955,163
Deficit		**(13,758,630)**		(13,824,595)
Cumulative translation adjustment		**(430,469)**		(415,092)
		(1,171,627)		(1,284,524)
	$	**11,745,268**	$	12,798,406

DYNEX POWER INC.
Consolidated Statement of Earnings and Deficit (Unaudited)
Quarter Ended March 31st, 2006

	3 months Mar 31st 2006	3 months Mar 31st 2005
Revenue	**$ 6,082,299**	$ 4,166,045
Cost of sales	**4,967,543**	4,745,791
Gross margin	**1,114,756**	(579,746)
Expenses		
General and administration	**606,158**	575,311
Sales and marketing	**203,150**	289,253
Research and development	**150,271**	136,626
Interest expense	**182,392**	56,674
	1,141,971	1,057,864
Loss before other income (expenses) and income taxes	**(27,215)**	(1,637,610)
Other income (expenses)		
Interest and other income	**73,346**	49,763
Foreign exchange gain (loss)	**19,834**	(17,958)
	93,180	31,805
Income taxes (Note 9)	**-**	-
NET EARNINGS (LOSS)	**65,965**	(1,605,805)
DEFICIT, BEGINNING OF PERIOD	**(13,824,595)**	(12,036,335)
DEFICIT, END OF PERIOD	**$ (13,758,630)**	$ (13,642,140)
Earnings (Loss) per share		
Basic	**$ 0.00**	$ (0.06)
Diluted (Note 10)	**$ 0.00**	$ (0.06)
Weighted average number of shares		
Basic	**27,058,244**	26,917,354
Diluted (Note 10)	**28,065,387**	26,917,354

DYNEX POWER INC.
Consolidated Statement of Cash Flow (Unaudited)
Quarter Ended March 31st, 2006

		3 months Mar 31st 2006		3 months Mar 31st 2005
OPERATIONS				
Net earnings (loss)	**$**	**65,965**	$	(1,605,805)
Items not affecting cash				
Amortization		**53,688**		59,898
Gain on disposal of capital assets		**(39,188)**		(45,029)
Shares and options issued for services		**57,110**		4,722
Changes in non-cash operating working capital (Note 12)		**1,362,827**		1,444,531
		1,500,402		(141,683)
FINANCING				
Increase in loans from a director		**-**		1,630,213
Decrease in short-term debt		**(694,584)**		(1,116,029)
Decrease in long-term debt		**(30,921)**		(47,376)
		(725,505)		466,808
INVESTMENTS				
Purchase of capital assets		**(33,491)**		(1,819)
		(33,491)		(1,819)
NET INCREASE IN CASH POSITION		**741,406**		323,306
Effect of foreign currency translation on cash flow		**(430)**		1,677
Cash, beginning of period		**331,897**		250,375
CASH, END OF PERIOD	**$**	**1,072,873**	$	575,358
Supplementary Information:				
Interest paid	**$**	**202,325**	$	56,674
Income taxes paid during period		**-**		-

1. DESCRIPTION OF BUSINESS

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Accounting policies

The consolidated financial statements presented here are prepared using the same accounting policies as were used last year, details of which are set out in the Annual Report for 2005 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 period presented. Examples of such estimates include the anticipated useful lives of assets, the provisions required against inventory and accounts receivable 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 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

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 of shipment provided that all significant contractual obligations, including customer acceptance, have been satisfied and collection is reasonably assured. Any potential for warranty claims is provided for at the time of sale, based on warranty terms and prior claims experience.

Foreign currency translation

The Corporation considers its wholly owned subsidiaries, Dynex Semiconductor Limited and Dynex SARL, to be self-sustaining subsidiaries and the accounts in foreign currency are translated into Canadian dollars using the current rate method of foreign currency translation. Under this method, assets and liabilities are translated at the exchange rate in effect as of the balance sheet date and income and expense items are translated at the average exchange rate for the period. Net unrealized exchange adjustments arising on translation of foreign currency are included in shareholders' equity as cumulative translation adjustment.

Research and development costs

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

Income taxes

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

Stock-based compensation

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

3. INVENTORIES

		Mar 31st 2006		Dec 31st 2005
Raw materials	**$**	**1,207,616**	$	1,242,675
Work in progress		**3,649,206**		3,826,110
Finished goods		**932,052**		882,741
	$	**5,788,874**	$	5,951,526

Inventory is stated net of a provision of $5,571,098 (Dec 31st, 2005 - $5,757,672) for obsolescence.

4. CAPITAL ASSETS

		Cost		Accumulated Amortization		Mar 31st 2006 Net Book Value		Dec 31st 2005 Net Book Value
Equipment	**$**	**2,040,318**	**$**	**1,578,064**	**$**	**462,254**	$	478,938
	$	**2,040,318**	**$**	**1,578,064**	**$**	**462,254**	$	478,938

5. SHORT-TERM LOAN

The Corporation has a short-term loan of $1,933,106 (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. The Corporation is in breach of a covenant on the facility. The Corporation has received a waiver of the breach from the lender, which waiver expires on June 30th, 2006. An offer of a replacement facility has been received from another lender and this facility is expected to be operational before the end of June.

6. LONG-TERM DEBT

		Mar 31st 2006		Dec 31st 2005
Interest free unsecured loan payable in monthly instalments of $10,304 to November 2007	**$**	**206,085**	$	235,195
Loans from individual shareholders payable in monthly instalments of $138,457 between June 2006 and September 2006, 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.		**553,829**		549,620
Loan from a director payable in monthly instalments of $243,144 between October 2006 and February 2007 bearing interest at 10% and secured under a general security agreement.		**1,215,720**		1,206,480
Loans from two directors bearing interest at 7% and secured under a general security agreement. A total of $1,750,155 of these loans is convertible into approximately 33.2% of the share capital of Dynex Semiconductor Ltd at any time prior to the repayment date at the option of the lender. $1,418,340 of these loans is repayable in monthly instalments between March 2007 and March 2008, $810,480 is repayable in monthly instalments between June 2007 and June 2008 and $243,144 is repayable in monthly instalments between April 2008 and September 2008.		**2,471,964**		2,453,176
		4,447,598		4,444,471
Current portion		**2,002,303**		1,396,219
	$	**2,445,295**	$	3,048,252

Principal payments

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

2006	**$**	**1,376,000**
2007		**2,127,077**
2008		**944,521**
	$	**4,447,598**

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 $39,188, is included in other income for the quarter ended March 31st, 2006 (Mar 31st, 2005 - $45,029).

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:

			Mar 31st 2006		Dec 31st 2005
Common shares	- amount	**$**	**13,017,472**	$	12,955,163
	- number		**27,058,244**		27,058,244

The Corporation has no issued and outstanding preferred shares.

Common share transactions

There were no common share transactions in the quarter.

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 2,657,316 (2004 - 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)		1.11
Outstanding at December 31st, 2005	875,000		0.24
Granted	-		-
Exercised	-		-
Cancelled	-		-
Outstanding at March 31st, 2006	**875,000**	**$**	**0.24**

The weighted average remaining life of the outstanding options is 3 years and 10 month. At March 31st, 2006 there are 175,000 options exercisable with a weighted average exercise price of $0.81 and a weighted average remaining life of 1 year and 3 months.

At March 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	$	0.24
	Nov 30, 2005	Nov 29, 2010	550,000		0.08
Directors who are not officers	June 6, 2001	June 5, 2006	75,000		1.59
All other employees	Nov 30, 2005	Nov 29, 2010	100,000		0.08
Total outstanding			**875,000**	**$**	**0.24**

Stock-based compensation

As a result of accounting for stock based compensation related to options granted to employees using the fair-value based method, the Corporation recorded $15,250 of stock based compensation in general & administrative expenses in the quarter ended March 31st, 2006 (2005- $4,149). The fair value was determined following the Black-Scholes pricing model using the following assumptions: expected option life of five years; volatility of 58%; and risk free interest rate of 3%.

9. INCOME TAXES

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

		3 months Mar 31st 2006		3 months Mar 31st 2005
Current	**$**	**-**	$	-
Future		**-**		-
	$	**-**	$	-

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 Mar 31st 2006		3 months Mar 31st 2005
Earnings (loss) before income taxes	**$**	**65,965**	$	(1,605,805)
Expected tax (recovery) provision		**23,813**		(579,696)
Increase (decrease) resulting from:				
Prior year losses utilized		**(23,813)**		-
Unrecorded benefit of tax loss		**-**		579,696
Reported income tax provision (recovery)	**$**	**-**	$	-

Future income taxes consist of the following temporary differences:

		Mar 31st 2006		Dec 31st 2005
Differences between tax and book value of capital assets	**$**	**(534,729)**	$	(529,951)
Loss carry forwards		**(3,345,090)**		(3,444,439)
Differences between tax and accounting value of Provisions		**(227,523)**		(225,472)
		(4,107,342)		(4,199,862)
Less: valuation allowance		**4,107,342**		4,199,862
	$	**-**	$	-

9. INCOME TAXES (Continued)

The Canadian statutory tax rate of 36.1% (Mar 31st, 2005 – 36.1%) comprises Federal income tax at approximately 22.1% (Mar 31st, 2005 – 22.1%) and Provincial income tax at approximately 14% (Mar 31st, 2005 – 14%). The United Kingdom statutory rate is 30% (Mar 31st, 2005 – 30%)

As at March 31st, 2006 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 March 31st, 2006 the Corporation has Canadian capital loss carry forwards of $41,000 without expiry to reduce future years' capital gains.

As at March 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
2006	**$ 520,000**	**$ 520,000**
2007	**424,000**	**424,000**
2008	**421,000**	**421,000**
2010	**688,000**	**688,000**
2014	**109,000**	**109,000**
2015	**679,000**	**679,000**
2016	**96,000**	**96,000**
	$ 2,937,000	**$ 2,937,000**

As at March 31st, 2006 the Corporation has United Kingdom tax loss carry forwards of £4,008,000 ($8,121,000) 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. EARNINGS (LOSS) PER SHARE

For the quarter ended March 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 3,488,334 (2005 – 4,604,477).

11. COMMITMENTS

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

2006	**$ 403,271**
2007	**486,288**
2008	**486,288**
	$ 1,375,847

12. CHANGES IN NON-CASH OPERATING WORKING CAPITAL ITEMS

	3 months Mar 31st 2006	3 months Mar 31st 2005
Accounts receivable	**$ 1,575,222**	$ 1,518,363
Inventories	**208,294**	737,797
Prepaid expenses and deposits	**85,962**	51,214
Accounts payable and accrued liabilities	**(506,651)**	(862,843)
	$ 1,362,827	$ 1,444,531

13. ECONOMIC SIGNIFICANCE

For the quarter ended March 31st, 2006 the Corporation had one customer accounting for approximately 15% of revenue (Mar 31st, 2005 – one customer accounting for approximately 21% of revenue and one customer accounting 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 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 limited to that of the United Kingdom Pound, the Euro and the United States Dollar.

In addition, 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, amounts due from shareholders, 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.

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 March 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.

		3 months Mar 31st 2006		3 months Mar 31st 2005
Revenue:				
Business segment				
Bipolar discrete units	**$**	**3,508,263**	$	2,027,207
IGBT & power units		**985,025**		858,190
Power electronic assemblies		**1,092,445**		1,015,855
Integrated circuits		**496,566**		264,793
	$	**6,082,299**	$	4,166,045
Geographic area				
Europe	**$**	**4,132,086**	$	2,448,612
North America		**873,328**		1,053,627
Far East and other		**1,076,885**		663,806
	$	**6,082,299**	$	4,166,045

		Mar 31st 2006		Dec 31st 2005
Capital assets:				
Geographic area				
Europe	**$**	**462,254**	$	478,938
	$	**462,254**	$	478,938

16. CONTINGENCIES

An action against the Corporation was commenced by a former consultant of the Corporation in the Ontario Superior Court of Justice on February 4th, 2002 for payment of $321,000 in respect of claimed outstanding payments. The Corporation has defended this action and believes there is a reasonable prospect of a settlement of this matter that will not have a material adverse effect on the operating results and financial condition of the Corporation. However, the outcome is not determinable at this time.

17. PENSION PLAN

The Corporation incurred expenses of $80,413 (Mar 31st, 2005 - $nil) with respect to a defined contribution pension plan in place at Dynex Semiconductor Limited. The Corporation instigated a six-month suspension of contributions into this plan, commencing November, 2001. The Corporation's stated intention is to reimburse the contribution shortfall after the six-month period, based on its financial position. At March 31st, 2006 $153,991 (Dec 31st, 2005 - $152,821) is included in accrued liabilities.

18. RELATED PARTY TRANSACTIONS

The Corporation incurred expenses of $20,000 (Mar 31st, 2005 - $8,333) with respect to fees payable to directors. As at March 31st, 2006, $60,833 is payable to directors (Dec 31st, 2005 - $40,833). The directors fees are recorded at the negotiated amounts.

19. SUBSEQUENT EVENTS

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

The Corporation has been seeking a new provider of short term finance to replace the existing provider. An offer of a new facility was received in April, 2006.

A total of 137,939 common shares was issued 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 has been renegotiating the repayment dates of long-term loans with lenders and agreement has been reached that repayment of such loans will now start in January 2007 with the last repayment taking place in October 2010.

Corporate Information

Board of Directors

David F. Banks [1] [2] [3] [4]
Chairman

Paul Taylor [1] [2] [4]
Director, President & CEO

Bob Lockwood [1] [2]
Director, VP Finance & CFO

Debbie Weinstein [1] [3] [4]
Director & Company Secretary

Keith Ralls [1] [3] [4]
Director

Daniel Owen [1] [2] [3] [4]
Director

[1] Member of the Governance Committee
[2] Member of Executive Committee
[3] Members of Audit Committee
[4] Members of Compensation Committee

Senior Officers, VP's & Senior Managers

Paul Taylor
President & CEO

Bob Lockwood
VP Finance & CFO

Bill McGhie
Power Electronic Assemblies Business Manager

Mark Kempton
Bipolar Discretes Business Manager

Stock Exchange Listing

Toronto Ventures Exchange
Symbol: DNX

Auditors

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

Legal Counsel

LaBarge Weinstein Professional Corporation
Ottawa, Ontario

Transfer Agent

Computershare Trust Company of Canada

Dynex Locations

Dynex Power Inc.
Doddington Road
Lincoln, LN6 3LF
England

Telephone +44 1522 500500
Fax +44 1522 500660

Dynex Semiconductor Limited
Doddington Road
Lincoln, LN6 3LF
England

Telephone +44 1522 500500
Fax +44 1522 500660

Registered Office

Dynex Power Inc.
C/o LaBarge Weinstein
515 Legget Drive, Suite 800
Kanata
Ontario
K2K 3G4