DYNEX POWER INC.

ANNUAL REPORT 2007

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 only 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)

- 237 employees (December 2007)
- 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:

- Industrial
  - -Electric power transmission and distribution
  - -Renewable and distributed power
  - -Heavy industries such as steel and mining
  - -Factory automation
- Marine propulsion and on-board systems
- Railway propulsion and on-board systems
- Aircraft power electronic systems
- Space satellite applications

Letter to Shareholders

I am pleased to report that 2007 was a successful year for Dynex and a year of record achievement. It exceeded our expectations in most areas and the year closed leaving Dynex confident in its future growth and prosperity.

We achieved sales revenues in 2007 of $30.2 million, the highest reported for five years for the continuing businesses. At the same time, we booked new sales orders of over $44 million, the highest ever reported by Dynex. We closed the year with an order book of around $24 million, a record for the continuing businesses and equivalent to 46 weeks of sales at 2007 rates. This high level of revenue returned net profits of $2.2 million, representing 7.2% of sales revenue, and the highest earnings figure since 2000. This result continues the positive trend of improvement in our profitability that we have been reporting since 2004. It has been delivered from a strong business foundation that has been built up by the team at Dynex over the past three years.

- After the difficult and tough actions taken in late 2004 and early 2005 to streamline our cost base and restructure our debt, Dynex management has continued to keep costs under control whilst providing the necessary resources to fuel our business growth.

- We have restored our previously weakened materials and services supply lines through robust cash management and have taken on increased debt where essential to preserve the flow of materials in support of our recovery. We have also located new suppliers who have been able to offer Dynex higher standards of service.

- Through a renewed focus on our core strengths, we have improved production efficiencies and kept tight control over our manufacturing process yields. As a consequence of our improved profitability, Dynex has been able to invest in new production equipment to improve efficiency and increase capacity.

- Lower margin products have been discontinued and new product developments focused on higher margin, higher added value items.

- We have reinforced our market position as a leading independent manufacturer of high power and high reliability semiconductor products. Customers now see us as a realistic alternative to the larger, broader based semiconductor companies.

- To meet the challenges of our growing business we have carefully increased our employee numbers, mainly in production areas, and are now operating an increased number of shifts.

- Throughout, we have sustained our research and development activities which are supported by collaborative programmes with customers and key academic research partners. These programmes are developing the new manufacturing processes, design technologies and techniques that we are applying to both new and existing products. These are essential to our future and we expect to increase our R&D spend in line with our revenue growth.

Looking ahead, we expect to deliver a solid and profitable result for the coming year. Our order book is strong in all four of our product sectors, and the outlook from our customers and our sales partners suggests that the double-digit growth in our high power market will be sustained. The global demand for more efficient, cleaner energy and the rising cost of oil are key drivers for growth in our power electronics sector, and there are no signs of those factors weakening.

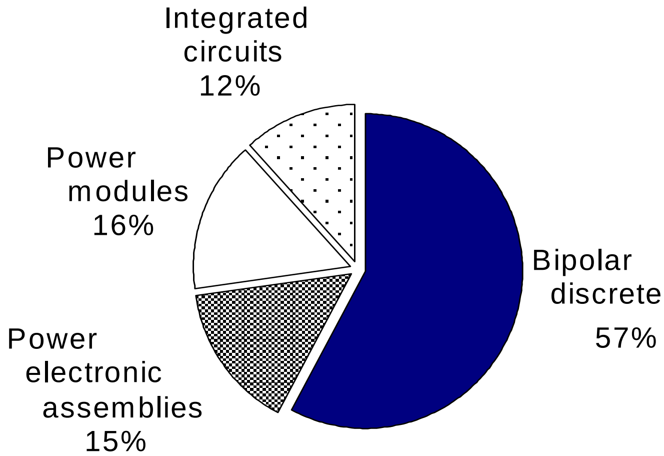
We recently announced the signing of a Letter of Intent with the Times Electric Group of Zhuzhou, Hunan Province, China. Their proposal is to buy a majority stake in the business, or perhaps all of it. Becoming part of a larger group is our preferred route for funding the capacity expansion that will enable the Company to win an increasing share of the rapidly developing market for high power semiconductors.

Thank you for reading this report. 2008 promises to be an interesting year for the Company and we look forward with relish to the challenges it will bring.

PDTaylor

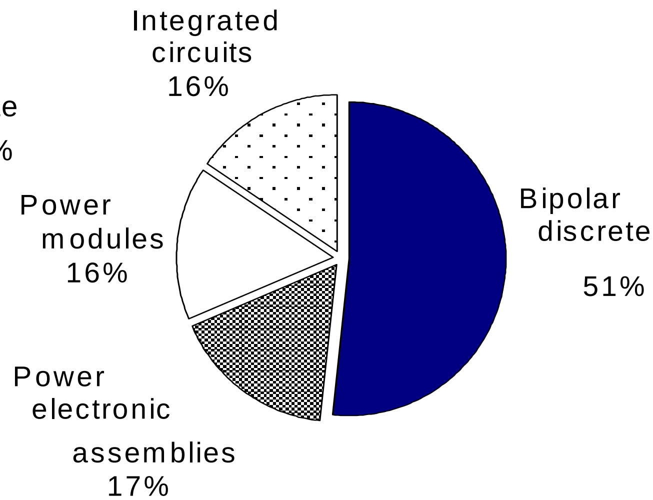
Paul Taylor
President and Chief Executive Officer
28 April 2008

Review of Operations



Sales by Product Group 2006

Sales by Product Group 2007



Bipolar Discrete

The Bipolar Discrete Product Group is the longest established of the Dynex product groups with its roots stretching back to the inception of semiconductor manufacturing in Lincoln over 50 years ago. It is also the largest of the groups representing 51% of total company sales revenue during 2007.

The main product types manufactured are: phase control thyristors; rectifier diodes; transistors; gate turn off thyristors; fast thyristors; and fast diodes. The primary market for Dynex bipolar discrete devices is the power electronic industrial sector which includes industrial motor drives and soft start equipment, electromechanical and aluminium smelting power supplies, static transfer switches, static compensators,rectifier equipment for railway track side sub stations, power generation and transmission, aerospace systems and spares for railway traction equipment.

With sales revenue of $15.6 million in 2007, the group exceeded budget and posted the highest annual sales figure since 2001, representing a growth of 13.5% over the previous year. This robust level of growth was aided by the improvement in the management of our supply chain, by developing better relationships with our customers and by introducing efficiency improvements that have helped to satisfy customer requirements in a more timely manner. At the same time our new range of ion implant “i²” phase control thyristors is now firmly integrated alongside the traditional range of thyristors. Interest in this new product has grown over the last two years with some significant new design-ins. Overall sales of new products comprising, in addition to the i² thyristors, a new GTO thyristor and a 15kV diode accounted for 12% of revenue. This encouraging trend of increased new product sales is set to continue in 2008 and will help to accelerate our growth.

The last year has also seen some success in increasing our bipolar discrete sales to both North America and the Far East. These regions will remain a primary focus during 2008 as we continue to re-establish ourselves within North America and further increase our already growing presence in the Far East.

New sales orders were $16.7 million, recording an increase of 24% over 2006 and delivering the best year of order intake since 2000. The order book throughout 2007 has been at its highest levels ever and this provides a strong platform for the future. The outlook for continued growth is good, with the buoyant thyristor market set to continue for the foreseeable future. With a high calibre engineering team and a strong manufacturing base, we retain the capability to supply a broad range of products to the marketplace. This was demonstrated in 2007 with 450 different product types sold to over 150 customers world wide.

We continue to explore areas where new technology can enhance the performance and manufacturing capability of our products. Through 2007, research and development concentrated on extending the range of i² thyristors to enable a larger percentage of our existing products to be converted to the new technology. Time and resource was invested in developing the process to enable manufacture of a range of larger diameter thyristors suitable for high voltage power transmission and distribution applications, and for efficiency improvements by manufacturing more units per wafer to maximise silicon usage. The new i² technology has also been applied to a new range of rectifier diodes that are planned for release during the early part of 2009.

Our strategy remains that of sustaining our R&D activity, introducing new products to the market and extending our range while maintaining support for our long established products: for example, railway traction thyristors and GTO product ranges that provide us with robust revenue streams in areas where other suppliers are withdrawing similar products. We pride ourselves on maintaining a high level of technical support to our customers and responding efficiently to any new technical opportunity.

The challenge for 2008 is to further strengthen R&D whilst responding to the demand for i^2 thyristors, increasing our manufacturing capacity and improving our production efficiency. Key to achieving this increased capacity will be to install additional manufacturing equipment, in particular in the wafer fabrication processing areas. The Bipolar Discrete Product Group has budgeted for a modest growth in 2008, but our hope is to exceed this if our expansion plans come to fruition within the required time scales.

Power Modules

With sales of $4.7 million in 2007, a record for Dynex, the Power Modules Group represented 16% of the company's business and delivered 27% sales growth over the previous year. The main products are insulated gate bipolar transistor (IGBT) and diode modules that are used world wide in high power motor drives and power electronic management systems.

During 2007, the Power Modules Group entered a period of strong growth driven by the exceptional world wide demand for Dynex high power IGBT modules. In the summer, we invested in manufacturing equipment and staff recruitment leading to a particularly strong fourth quarter. Order intake was outstanding with total orders for the year of $11.4 million: more than double the previous year, and giving a book to bill ratio of 2.4.

Dynex high power modules are proving popular with an expanding customer base, particularly in the Far East, whilst high isolation 3.3kV modules continue to enjoy success in the marine drive market, providing a strong foundation for business growth. We continue to focus on the technically more demanding high voltage modules with higher gross margins. Looking forward, we see a healthy future for these products with major new opportunities emerging in the transport, industrial and power generation and distribution industries.

The strong order intake during 2007 has resulted in a full order book for power modules in 2008. Satisfying this order book will give the Power Module Group robust growth compared to the prior year. Further investment in fixed assets and staff are planned during 2008 to achieve this output and there are opportunities to exceed it.

New product developments centre on the highest voltage modules at 3,3kV, 4.5kV and 6.5kV where there are strong market demands for applications such as motor drives in industry and transportation.

Power Electronic Assemblies

Representing 17% of the company's business in 2007, the Power Electronic Assemblies Group achieved sales revenues totalling $5.2 million, a growth of 46% over the previous year. This is a value-added business for Dynex and one where we plan sustained growth as we develop new product types for high power electronic applications.

New sales orders were strong in 2007, 45% higher than the previous year, and with a book to bill of 1.47 the order book has increased to its highest level since 2003. Much of the increase has been due to orders for assemblies used in marine drives. However sales from new assembly designs have increased by more than 50% which is very encouraging for the future, and the prospecting in industrial power quality and power converter markets has begun to yield sales that are expected to grow as our capabilities improve.

Further design and development work, with motor drive power assemblies, has led to new opportunities and sales orders for this type of product in 2007 totalling around $0.7. We expect such sales to double over the coming year for what is very much a key growth sector for the assemblies business.

The major High Voltage Direct Current "HVDC" Converter module project was completed on time, delivering complex high power assemblies for use in Converter stations in the Gulf States, and this has helped to develop our strong partnership with one of our major customers, and we look forward to continuing this business relationship in HVDC thyristor applications

The continued involvement with customer applications for power semiconductors has yielded significant growth in sales. Our strategy will be to continue to provide the power electronics expertise, design and manufacturing capability, which will enable the Original Equipment Manufacturers "OEMs" to make the best thermal management and physical layout decisions for their applications. Building on a strong order book and developing relationships with our customers, the group is planning for good sales growth in 2008.

Integrated Circuits

2007 saw a year of very impressive growth in the IC product group. Sales for the year of $4.7 million, 16% of the total business, showed a 71% increase over 2006. This growth has been achieved despite export restrictions to certain countries and only a limited supply of newly fabricated Silicon-On-Sapphire (SOS) material.

Once again, the proven long term reliability of both the SOS process and product designs has attracted new sales orders from a long standing world wide customer base. Many of these customers are returning to Dynex designs in preference to risking launches with unproven new developments. New sales orders for 2007 were $6.7 million giving an excellent rise of 44% over the previous year and delivering a book to bill ratio of 1.42.

Sales revenues are forecast to be flat year on year in 2008, with new order intake restricted by a diminished supply of existing die stock and delayed re-qualification of new material.

Although not yet completed, due to technical issues, the material re-qualification made progress during 2007 with a small number of flight quality production devices being supplied to a major space company. We are now processing regular batches in advance of completing the technical development and in readiness for taking new sales orders during 2008.

We still continue to receive many enquiries from customers who are eagerly anticipating this re-qualification of the Dynex SOS process. In order to achieve sales continuity our plans are to complete the technical development and recommence full-scale production in 2008 allowing a formal re-launch of the product range.

Research and Development

Throughout 2007, Dynex has continued to work on a number of UK and European collaborative projects that were announced in 2006.

In the Bipolar Discrete Group, we have collaborated on projects with key business partners to enhance the capability of the i^2 thyristors and in the development of a new GTO thyristor for use in an advanced type of brushless DC motor "ACTIVE STATOR". Both these initiatives continue into 2008.

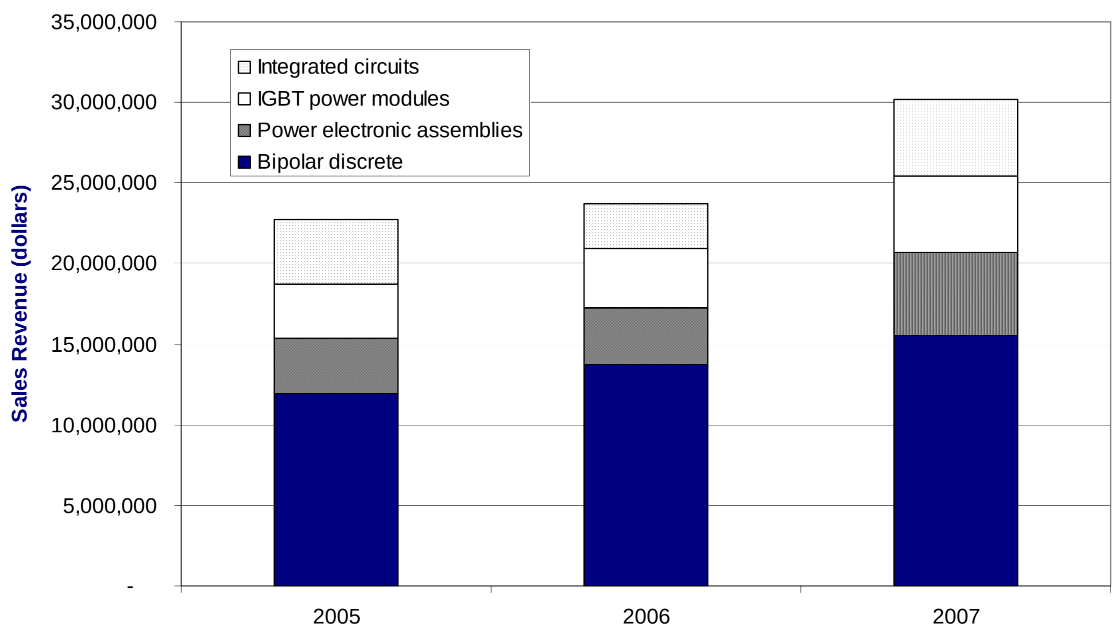
The i^2 thyristor development will be achieved by developing improved contacting technology (under a project called "IMPECT") and a novel silicon edge profiling technique that promises even more robust devices with increased reliability (project name: "NEWTON"). These technologies are part of the roadmap that will take Dynex to the forefront of technology for the production of devices for High Voltage Direct Current "HVDC" electric power Transmission and Distribution "T&D" applications.

The Power Electronics Assembly group has been working with other industrial partners and Nottingham University, in the UK, on two funded projects, which are aimed specifically at carbon emission reduction. "HiPPOS" looks at energy reduction in ore preparation, whilst "DIPEC" investigates improving the methods for improving natural gas extraction yields. These projects continue in 2008.

Research and development is also a key activity of the Power Modules Group. In a project called "HIDRIVE", we collaborate with a number of partners to develop high power density transistor modules for use in high-energy electric motor drive applications. A key focus of this project is to increase the amount of power that may be handled efficiently by an IGBT module, and is thus a key development aligned to our strategic focus on the highest power IGBT types.

In a second programme, Dynex is providing technical support and IGBT modules to the European Project "UNIFLEX". UNIFLEX is developing novel modular multi-level power converters. These new converters will help to integrate renewable and distributed power generators into existing and future European electricity supply networks.

Finally, looking to future aircraft systems, Dynex is collaborating in a European consortium developing the next generation, power electronic systems for more electric technologies (MOET) for civil aircraft. This project was confirmed during 2008 and is supported by the European Commission



Sales revenue by Product Group

Sales and Distribution

Worldwide, sales increased from $23.7 million in 2006 to $30.2 million in 2007, an annual growth of 27%. (growth was 24% when measured in Pounds Sterling). Focusing on the power business groups alone, the growth was 21.4% in Dollars and 18.2% in Sterling. This is the second year where the growth in the power business has been at this level and demonstrates that Dynex is gaining market share.

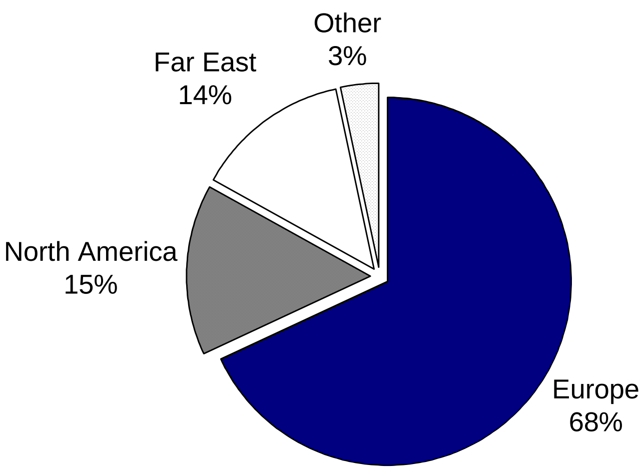
Europe remained our strongest region with sales increasing by 27% sustaining a 68% share of the total sales revenue. As planned, North American sales also grew by over 20%, although its share of the total business fell from 15% to 14%. This growth followed the appointment of several new local sales representatives and strengthened in-house sales. In the Far East, we saw a reduction in the share of the total business from 14% to 11% but an actual growth of over 7%. The highest growth area was the region we call "Other" in this report and that includes India and the Ukraine where we saw increased sales of our bipolar discrete products.

Overall bookings (new sales orders) were exceptional with a total book to bill for the year of 1.4 for the business overall and also for the power business groups. Growth in new bookings came from all geographic sectors and all product groups, but North America and the Far East were particularly strong. In North America, we saw the on-going influence of our increased sales presence plus the take-up of our modules and power assemblies for marine drives. In the Far East, customer requirements for our high voltage IGBT modules were exceptionally high with demand exceeding our expectations.

The high level of new bookings increased the backlog (order book) by 58% at the end December 2007 compared to December 2006 representing the equivalent of 46 weeks output at 2007 sales levels. This was the highest level ever recorded for Dynex and this robust order book gives a high confidence in future sales growth.

Looking forward to 2008, we anticipate on-going growth in all regions with Europe remaining our strongest sector and with the Far East having the most potential for rapid growth.

Sales by Region



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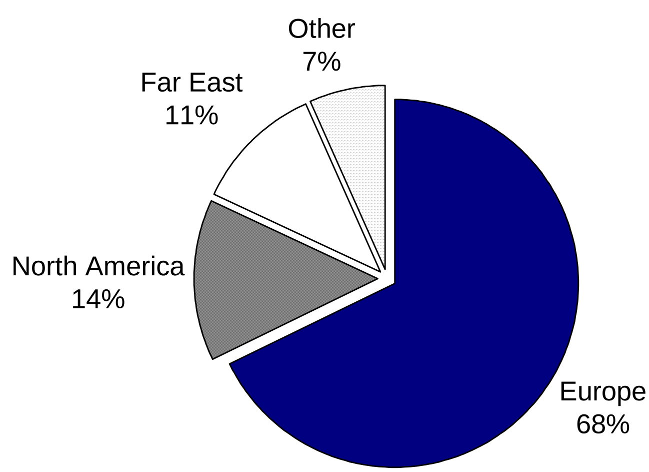

2007

Management Discussion & Analysis

The following discussion and analysis should be read in conjunction with the Consolidated Financial Statements and Notes of the Company for the years ended December 31st, 2007 and 2006.

This report contains 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 enjoyed a successful and profitable year in 2007. Revenue rose by 27% with over 20 percentage points of this increase as a result of volume growth and the rest as a result of a weaker Dollar. This growth in revenue and a better product mix resulted in the gross profit percentage rising by over 5 percentage points from 17.7% to 22.8%. Careful control of overhead expenditure meant that overhead expenses as a percentage of revenue fell by over 3 percentage points from 19.9% to 16.4% in 2007. As a consequence of these changes, the Company reported net earnings for the year of $2.2 million, the first such net profit for five years, continuing a trend of improvement seen over the preceding four years. The strength of the order book at the year end, together with the continuing improvements in the gross margin percentage and reduction in the overhead expense ratio, means that management is increasingly confident that both revenue and net profit can be further improved in 2008.

Revenue

Revenue for the fourth quarter of 2007 was $7.7 million, down by $1.1 million or 12% from the third quarter of 2007. Revenue for Modules in the quarter was the highest ever and for Power Assemblies was the highest for four years. Bipolar revenues were some 12% below the record set in the third quarter but were still one of the highest quarterly figures for five years. Integrated Circuit revenue also fell from the very high figure recorded in the third quarter but was still at a good level.

Compared to the corresponding quarter of last year, revenue was up by $1.0 million or 15%, with good growth recorded in all four product groups.

Revenue for the year is $6.4 million or 27% ahead of last year. Approximately one sixth of that increase is as a result of the weaker Dollar, with the rest of the increase a result of the volume growth across all product groups.

Gross Margin

The gross margin was 25.6% in the fourth quarter of 2007 compared to 25.5% in the third quarter and 18.5% in the corresponding quarter of 2006. The increases over the corresponding quarter of last year was as a result of the increase in volume and higher increases in sales of the higher margin products.

Gross margin for the year is 22.8% in 2007 compared to 17.7% in the previous year. Here again, the improvement was a result of both increased volumes and a better mix of products.

Expenses

Overhead expenses in the fourth quarter of 2007 of $920,000 were $482,000 or 34% lower than in the third quarter. The third quarter's overhead expense had included several one-off costs totalling $473,000. Ignoring these costs, overhead expenses in the fourth quarter were similar to those in the third quarter.

Compared to the fourth quarter of 2006, overhead expenses rose by $2,000 or less than 1%.

For the year, overhead costs of $4.9 million are $209,000 or 4% higher than last year.

Interest & Other Income

Interest and other income was $48,000 in the fourth quarter of 2007, compared to $94,000 in the preceding quarter and $60,000 in the corresponding quarter of last year. A major constituent of Other Income continues to be the $40,000 quarterly release of deferred revenue arising from the sale and leaseback of a building in 2003. The figure for the previous quarter had been boosted by $45,000 of non-production sales.

For the year, interest and other income of $279,000 was $34,000 or 14% higher than last year.

Foreign Exchange Gains and Losses

There was a foreign exchange gain in the quarter of $16,000, compared to a gain of $3,000 in the third quarter and a gain of $46,000 in the corresponding quarter of last year. For the year, there was a loss of $36,000 compared to a profit of $16,000 in the previous year. By their nature, these gains and losses are unpredictable.

Income Taxes

As a result of brought forward tax losses, no tax is payable on the profit recorded in the quarter or on the profit recorded for the year. No tax was payable on the profit reported in the third quarter nor on the profit reported in the corresponding quarter of last year.

Net Earnings/Loss

The Company reported a profit of $1.1 million in the quarter compared to a profit in the previous quarter of $915,000. The improvement in profit on lower overall sales reflected a better product mix during the fourth quarter.

The profit in the fourth quarter was substantially better than the profit of $423,000 reported in the corresponding quarter of last year. The improvement reflected both higher sales and the good product mix achieved in the last quarter.

The profit for the year of $2.2 million represents a substantial improvement on the loss of $273,000 reported last year and results from the increase in the volume of sales and the favourable product mix.

Segmental Analysis

Sales prices in Sterling in all business segments remained stable during the quarter but there has been a 5% strengthening in the value of the Dollar since the second quarter. The Dollar has strengthened by 3% since the corresponding quarter of last year.

Revenue for the Bipolar Discrete Group in the quarter of $3.6 million was $741,000 or 17% lower than the previous quarter but $145,000 or 4% higher than in the corresponding quarter of last year. Sales in the third quarter had been at a record level and were expected to fall in the fourth quarter, in part due to the Christmas closure, and the figure recorded was still quite encouraging. The improvement compared to the corresponding quarter of last year would have been better but for the weaker Dollar.

Revenue for Power Modules Group in the quarter of $1.6 million was $530,000 or 49% higher than in the second quarter and $523,000 or 48% higher than in the corresponding quarter of last year and set a new record quarterly figure for Dynex.

Revenue for the Power Electronic Assemblies Group of $1.3 million was $32,000 or 2% higher than in the previous quarter and $241,000 or 22% higher than in the corresponding quarter of last year. This was a good performance as the previous quarter had been boosted by the completion of a major contract.

Revenue from Integrated Circuits for the quarter of $1.2 million was $871,000 or 43% lower than the figure in the preceding quarter but was $76,000 or 7% higher than the corresponding quarter of 2006. The figure for the third quarter had set a new quarterly record for Dynex.

Revenues for the year are up by 14% for the Bipolar Discrete Group, 27% for the Power Modules Group, 46% for Power Electronic Assemblies and 71% for Integrated Circuits. These figures include the benefit from a 3% drop in the value of the Dollar between the two periods, but still show strong volume growth across all sectors.

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

As a result of the profit for the year, the deficit on shareholders' funds that existed at the end of 2006 has been eliminated and replaced by a surplus of $1.6 million.

The total borrowings of the Company have fallen by $314,000 during the year. However, all of the borrowings of the Company are in Sterling and as the Dollar has strengthened by around 14% since the previous year end. Total borrowings in Sterling rose by around £500,000. This was mainly to fund increased capital expenditure.

In December the Company renegotiated the repayment dates for its major, long-term loans. These loans are now repayable in thirty-six equal instalments starting in January 2009. The Company believes that it has access to adequate liquidity to meet its operating needs for at least the next twelve months. Management is planning significant capital expenditure to improve efficiency and to provide additional capacity to enable further growth of the business and different alternatives are currently being explored for financing this expenditure. The proposed acquisition of the Company by Times Electric Group, thus becoming part of a larger group, provides our preferred solution to this need.

The Company has capital commitments at the year end of $260,000 mainly for the purchase of new fabrication equipment for bipolar products, a new aligner and some new test equipment. The purchases will be paid for through leasing and a small amount of cash.

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

Selected Financial Information

	2007 Q4	2007 Q3	2007 Q2	2007 Q1	2006 Q4	2006 Q3	2006 Q2	2006 Q1	2007 FY	2006 FY	2005 FY
Revenue	7,656	8,706	6,630	7,163	6,671	5,707	5,253	6,082	30,155	23,713	22,761
Net earnings/(loss)	1,106	915	189	(38)	423	(132)	(629)	66	2,172	(273)	(1,788)
Basic EPS	0.03	0.03	0.01	(0.00)	0.01	(0.00)	(0.02)	0.00	0.07	(0.01)	(0.07)
Diluted EPS	0.03	0.03	0.01	(0.00)	0.01	(0.00)	(0.02)	0.00	0.06	(0.01)	(0.07)
Total assets	14,766	14,763	13,094	13,377	13,652	12,058	10,923	11,745	14,766	13,652	12,798
Long term liabilities	3,726	3,908	4,165	4,449	4,841	4,494	4,401	4,447	3,726	4,841	4,444
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 Company and will not give rise to a cash outflow.

Annual revenue in Dollars rose only slightly between 2005 and 2006 and then grew significantly in 2007, suggesting a recent improvement in sales volumes. However, when viewed in Sterling terms, in which all revenues are initially recorded, revenue grew by over 10% in 2006, indicating an early start to the volume growth. The pace of growth then increased with revenue in 2007 rising by 24% compared to 2006. Quarterly revenues are more volatile but the general upward trend is still quite discernible.

The reduction in the annual loss between 2005 and 2006 and the move into profitability in 2007 is encouraging and clearly shows the impact of long-term cost reduction initiatives and of revenue growth. The same trend is evident in the quarterly earnings figures. The net loss 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 with a return to profit in the fourth quarter. A small loss was reported in the first quarter of 2007. The return to profitability in the second quarter of 2007 came one quarter earlier than expected. There was a significant improvement in profitability in the third and fourth quarters reflecting the higher revenues.

Risk Management

The level of worldwide demand for power semiconductors and power semiconductor assemblies is one of the key uncertainties for the Company. 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. Investments in such areas over the last couple of years is benefiting. The failure to continue with 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 Company can carry out.

As disclosed in the Financial Statements, the Company has no customer that accounted for more than 10% of revenue during the year. Our relationships with all our major customers and suppliers remain good.

The Company has one customer at December 31st, 2007 that accounted for 19% of accounts receivable and one customer that accounted for 16% of accounts receivable.

Although the Company 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 Company'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 Company's 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 Company. Movements in the Dollar-Sterling exchange rate directly affect such values. The Company 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 $650,000 during the year from the European Union and the British Government to assist in its research and development activities and a grant of $29,000 in the form of an interest free loan to purchase energy saving equipment.

Related Party Transactions

The Company incurred expenses of $80,000 in the year in respect of fees payable to Directors. As at December 31st, 2007 a total of $40,000 was payable to Directors in respect of their fees.

The Company has loans from two Directors totalling $3.4 million, which bear interest at rates between 7% and 10% per annum compounded monthly. Repayment of these loans is scheduled to take place between January 2009 and December 2011.

The Company retains a business law firm in Canada to provide legal services and advice. During the year, this firm was paid $114,000 in fees and expenses. One of the Company's independent directors is a partner of this firm.

Business Development

Revenue in Sterling terms in the fourth quarter was at a high level although some 12% below the record level recorded in the preceding quarter. Revenue is expected to stay at similar levels for at least the next two quarters and management is growing increasingly confident that a good level of revenue will be recorded in the second half of the year. Consequently, for 2008 as a whole, revenue and profit are expected to be at least as good as those reported in 2007.

Order Book

At the end of December, the order book stood at $24.4 million, the highest quarter end figure ever recorded by Dynex. The value of orders for delivery in 2008 was in excess of $18 million.

Changes in Accounting Policies

The CICA has issued two new accounting policies that came into effect for fiscal years beginning on or after October 1st, 2006 and which affect the Company's financial statements. 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 3855, Financial Instruments-Recognition and Measurement requires that most financial assets, some financial liabilities and all derivative financial instruments be measured at fair value.

These new accounting policies have been taken into account in the preparation of these financial statements.

Disclosure Controls

Disclosure controls and procedures have been 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.

Internal Controls

Internal control over financial reporting has been designed to provide 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 quarter and the year ending December 31st, 2007, 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.

Closure of Dynex SARL

In December 2007, the French subsidiary, Dynex SARL, was closed.

Subsequent Events

At a Special Meeting of Shareholders of the Company held on January 30, 2008, the shareholders approved amendments to $1,696,947 of convertible loans outstanding from Dynex Semiconductor Ltd. to two directors to provide that such loans would thereafter be convertible into a maximum of 12,425,093 common shares of Dynex Power Inc. At the same meeting, the shareholders also approved the conversion of $853,619 of the convertible debt into 6,250,221 Common Shares of the Company. The Company has subsequently received final approval of the TSX Venture Exchange for these changes and the issuance of 6,250,221 Common Shares will be completed shortly.

On March 12, 2008, the Company announced that the Chief Executive Officer and the Chief Financial Officer had been awarded 100,000 and 50,000 share options respectively exercisable at $0.27.

On March 31st, 2008 the Company announced that it had signed a non-binding letter of intent with the Times Electric Group of Zhuzhou, Hunan Province, China. Times Electric, at its option, will acquire either 80% or 100% of the outstanding common equity shares of Dynex for cash at a price of $0.55 per share. The price is non-binding on Times Electric. The transaction is subject to a definitive agreement being entered into by Dynex and Times Electric.

Additional Information

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

Bob Lockwood

Bob Lockwood.
Director and Chief Financial Officer
28 April 2008

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

Paul Taylor
President & CEO
14 April, 2008

Bob Lockwood
CFO
14 April, 2008

Auditors' Report

To the Shareholders of
Dynex Power Inc.

We have audited the consolidated balance sheets of Dynex Power Inc. as at December 31, 2007 and 2006 and the consolidated statements of earnings (loss) and deficits, comprehensive income (loss) and cash flows for each of the years then ended. 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, 2007 and 2006 and the results of its operations and its cash flows for each of the years then ended in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP

Chartered Accountants
Licensed Public Accountants

14 April, 2008
Ottawa, Canada

DYNEX POWER INC.
Consolidated Statements of Earnings (Loss) and Deficit
Years Ended December 31st, 2007 and 2006

	2007	2006
Revenue	**$ 30,155,294**	$ 23,713,165
Cost of sales	**23,291,137**	19,521,431
Gross margin	**6,864,157**	4,191,734
Expenses		
General and administration	**2,466,857**	2,241,500
Sales and marketing	**947,932**	952,583
Research and development (Note 4)	**673,503**	697,604
Interest expense (Note 10)	**847,324**	834,669
	4,935,616	4,726,356
Earnings (loss) before other income	**1,928,541**	(534,622)
Other income		
Interest and other income	**279,406**	245,171
Foreign exchange (loss) gain	**(36,444)**	16,002
	242,962	261,173
Income taxes (Note 5)	**-**	-
NET EARNINGS (LOSS)	**2,171,503**	(273,449)
DEFICIT, BEGINNING OF PERIOD, as originally stated	**(14,098,044)**	(13,824,595)
Adjustment to deficit, beginning of period (Note 2)	**195,714**	-
DEFICIT, END OF PERIOD	**$ (11,730,827)**	$ (14,098,044)
Earnings (Loss) per share		
Basic	**$ 0.07**	$ (0.01)
Diluted (Note 6)	**$ 0.06**	$ (0.01)
Weighted average number of shares		
Basic	**33,314,485**	31,257,836
Diluted (Note 6)	**33,680,516**	31,257,836

These financial statements should be read in conjunction with the notes set out on pages 21 to 32.

DYNEX POWER INC.
Consolidated Statements of Comprehensive Income (Loss)
Years Ended December 31st, 2007 and 2006

		2007		2006
Net earnings (loss)	**$**	**2,171,503**	$	(273,449)
Other Comprehensive loss, net of tax:				
Unrealized loss on translating financial statements of self-sustaining foreign operations		**(197,553)**		(148,142)
OTHER COMPREHENSIVE LOSS		**(197,553)**		(148,142)
COMPREHENSIVE INCOME (LOSS)	**$**	**1,973,950**	$	(421,591)

DYNEX POWER INC.
Consolidated Statements of Accumulated Other Comprehensive Loss
As At December 31st, 2007 and 2006

		2007		2006
Accumulated other comprehensive loss, beginning of period	**$**	**(563,234)**	$	-
Adjustment to accumulated other comprehensive loss, beginning of period (Note 2)				
Cumulative adjustment on translation of financial statements of self-sustaining foreign operations		**-**		(415,092)
Accumulated other comprehensive loss, beginning of period		**(563,234)**		(415,092)
Other comprehensive loss		**(197,553)**		(148,142)
ACCUMULATED OTHER COMPREHENSIVE LOSS	**$**	**(760,787)**	$	(563,234)

These financial statements should be read in conjunction with the notes set out on pages 21 to 32.

DYNEX POWER INC.
Consolidated Balance Sheets
As At December 31st, 2007 and 2006

	2007	2006
CURRENT ASSETS		
Cash	**$ 140,867**	$ 357,042
Accounts receivable	**5,743,050**	4,936,028
Inventories (Note 7)	**7,521,573**	7,198,306
Prepaid expenses and deposits	**597,805**	715,935
	14,003,295	13,207,311
PROPERTY, PLANT & EQUIPMENT (Note 8)	**1,083,540**	444,715
	$ 15,086,835	$ 13,652,026
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	**$ 4,346,095**	$ 4,592,004
Short-term loan (Note 9)	**3,814,585**	3,013,654
Current portion of long-term debt (Note 10)	**279,768**	1,269,994
Current portion of deferred revenue (Note 11)	**151,942**	175,832
	8,592,390	9,051,484
LONG-TERM DEBT (Note 10)	**3,446,595**	3,570,847
LONG-TERM DEFERRED REVENUE (Note 11)	**1,405,465**	1,802,283
	13,444,450	14,424,614
SHAREHOLDERS' EQUITY (DEFICIENCY)		
Share capital (Note 12)	**14,133,999**	13,888,690
Deficit	**(11,730,827)**	(14,098,044)
Accumulated other comprehensive loss (Note 2)	**(760,787)**	(563,234)
	1,642,385	(772,588)
	$ 15,086,835	$ 13,652,026

These financial statements should be read in conjunction with the notes set out on pages 21 to 32.

Paul Taylor
President & CEO
21 April, 2008

Bob Lockwood
CFO
21 April, 2008

DYNEX POWER INC.
Consolidated Statements of Cash Flows
Years Ended December 31st, 2007 and 2006

	2007	2006
OPERATING		
Net earnings (loss)	**$ 2,171,503**	$ (273,449)
Items not affecting cash		
Amortization	**186,890**	255,465
Gain on disposal of capital assets	**(177,994)**	(163,179)
Shares and options issued for services (Note 12)	**51,662**	383,527
Non-cash interest (Note 2)	**183,633**	-
Non-cash grant income (Note 2)	**(28,660)**	-
Changes in non-cash operating working capital (Note 13)	**(2,605,836)**	(411,071)
	(218,802)	(208,707)
FINANCING		
Shares issued for cash	**762**	550,000
Increase in short-term loan	**1,281,565**	60,048
Decrease in long-term debt	**(282,831)**	(168,987)
	999,496	441,061
INVESTING		
Proceeds of disposal of capital assets	**12,518**	2,085
Purchase of capital assets	**(932,734)**	(167,626)
	(920,216)	(165,541)
NET (DECREASE) INCREASE IN CASH	**(139,522)**	66,813
Effect of foreign currency translation on cash	**(76,653)**	(41,668)
Cash, beginning of period	**357,042**	331,897
CASH, END OF PERIOD	**$ 140,867**	$ 357,042
Supplementary Information:		
Interest paid during period	**$ 687,327**	$ 653,938
Income taxes paid during period	**-**	-

These financial statements should be read in conjunction with the notes set out on pages 21 to 32.

1. DESCRIPTION OF BUSINESS

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

2. ADOPTION OF NEW ACCOUNTING POLICIES

The new accounting standard on Inventories is not yet effective and has not been applied in these accounts. Management does not believe that adoption of this standard will have any material impact on the financial statements of the Company.

From January 1st, 2007 the Company has adopted the following new accounting standards in accordance with their transitional provisions. Any changes in measurement resulting from applying the new standards on January 1st 2007 has been recorded against Deficit or opening Accumulated Other Comprehensive Income with no impact on net income for the year.

Comprehensive income

A new statement has been included of Comprehensive Income. Comprehensive Income includes net earnings, as reported in the profit and loss account, and other comprehensive income. Other Comprehensive Income includes changes in net assets other than from transactions with shareholders. Such changes are now reported separately from the net earnings. In particular, the unrealised gain or loss on translating the financial statements of self-sustaining foreign operations is reported as part of other comprehensive income. At December 31, 2006, $415,092 of cumulative translation adjustment was reclassified as accumulated other comprehensive income (loss).

Financial instruments

All financial assets and liabilities are now required to be recorded on the balance sheet. Initial recognition of financial assets and liabilities is at fair value. Subsequent measurement of the financial assets and liabilities is dependent on their classification. The Company has made the following classifications.

Cash is classified as a financial asset held for trading and is measured at fair value at the balance sheet date. Any fluctuations in the fair value is included in other income.

Accounts receivable are classified as loans and receivables and are valued at amortized cost using the effective interest rate method.

Accounts payable and accrued liabilities, short term loans and long term debt are classified as other liabilities and are valued at amortized cost using the effective interest rate method.

At the start of the year, the Company had one interest free loan that required revaluing to meet the new policy. An amount of $12,500 was debited to the loan and credited to the opening deficit to reflect the amounts that will be charged to interest expense over the then remaining life of the loan in accordance with the effective interest rate method.

At the start of the year, the following adjustments were made to reflect the impact of the new accounting policy on the value of convertible debt: an amount of $376,099 was debited to the loan account, $183,214 was credited to the opening deficit and $192,885 was credited to share capital.

Settlement date accounting is used.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of consolidation

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, Dynex Semiconductor Limited and Dynex SARL, and are prepared in accordance with Canadian generally accepted accounting principles. All intercompany transactions and balances have been eliminated. Dynex SARL was closed during the year and thus no values for it are included in the balance sheet at December 31, 2007.

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 Company'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 capital assets, the provisions required against inventory and accounts receivable, the fair value of financial liabilities and assets, stock based compensation and warranties. Actual results could differ from the estimates made by management.

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 obsolescence 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 Company has orders or a realistic expectation of orders for those parts.

Property, Plant & Equipment

Property, plant and equipment is 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

Property, plant and equipment is tested for recoverability whenever events or changes in circumstances indicate that their carrying value may not be recoverable. An impairment loss is recognised when the carrying value exceeds the total undiscounted cash flows expected from their use and eventual disposition. To date, no such impairment losses have been recognised.

Long-term debt

Long-term debt is valued at amortized cost with interest accretion recorded in net income.

Deferred revenue

The gain on the sale and leaseback of the land and buildings (Note 11) is being amortized over the 15 year minimum term of the resulting lease.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition

The Company 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 Company 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 Accumulated Other Comprehensive Income.

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 Company 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. Tax assets for the benefits of tax losses available to be carried forward to future years are recognised when management believes they are likely 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.

Warrants and conversion rights

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 using the effective interest method.

4. RESEARCH & DEVELOPMENT

The Company received grants totalling $650,475 in the year ended December 31st, 2007 (2006 - $311,682) 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 expenses.

5. 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:

		2007		2006
(Loss) earnings before income taxes	**$**	**2,171,503**	$	(273,449)
Expected tax provision (recovery) at enacted rates		**784,347**		(98,715)
Increase (decrease) resulting from unrecorded benefit of tax loss		**-**		98,715
Change in enacted rates		**198,659**		-
Change in valuation allowance		**(816,415)**		-
Foreign tax differential		**(144,280)**		-
Permanent differences		**33,118**		-
Other		**(55,429)**		-
	$	**-**	$	-

The Canadian statutory tax rate of 36.12% (2006 – 36.1%) comprises Federal income tax at approximately 22.12% (2006 – 22.1%) and Provincial income tax at approximately 14% (2006 – 14%). The United Kingdom statutory rate is 30% (2006 – 30%).

As at December 31st, 2007 the Company has undeducted research and development expenditures of approximately $43,000 (2006- $43,000) which are available without expiry to reduce future years' Canadian Federal and Provincial taxable income.

As at December 31st, 2007 the Company 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
2008	**$**	**421,000**	**$**	**421,000**
2010		**688,000**		**688,000**
2014		**109,000**		**109,000**
2015		**498,000**		**498,000**
2026		**260,000**		**260,000**
2027		**521,000**		**521,000**
	$	**2,497,000**	**$**	**2,497,000**

With effect in the tax year ending December 31st, 2008, all tax balances will convert to the federal tax balance. The Company's federal tax balance exceeds its provincial tax balance. The difference will result in an insignificant Ontario tax liability in 2009.

5. INCOME TAXES (Continued)

As at December 31st, 2007 the Company has United Kingdom tax loss carry forwards of approximately £2,870,000 ($5,640,000) (2006- £3,900,000 ($8,140,000)) 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.

6. EARNINGS PER SHARE

For the year ended December 31st, 2007 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 162,338 (2006 – 1,157,143).

7. INVENTORIES

		2007		2006
Raw materials	**$**	**2,176,777**	$	1,896,099
Work in progress		**4,511,806**		4,240,482
Finished goods		**832,990**		1,061,725
	$	**7,521,573**	$	7,198,306

Inventory is stated net of a provision of $5,135,938 (2006 - $5,905,448) for obsolescence.

8. PROPERTY, PLANT & EQUIPMENT

		Cost		**Accumulated Amortization**		**Net Book Value**
2007						
Equipment	**$**	**2,969,890**	**$**	**1,886,350**	**$**	**1,083,540**
Total	**$**	**2,969,890**	**$**	**1,886,350**	**$**	**1,083,540**
2006						
Equipment	$	2,428,080	$	1,983,365	$	444,715
Total	$	2,428,080	$	1,983,365	$	444,715

9. SHORT-TERM LOAN

The Company has a short-term loan of $3,814,585 (2006 - $3,013,654) secured by a first charge on all capital assets, inventories, cash and accounts receivable. These items have a combined carrying value of $14,489,030. The loan is repayable on demand. Interest on the loan is on a floating rate basis. During the year the Company borrowed Sterling at an average interest rate of approximately 7.8% (2006 – 6.9%), US Dollars at an average rate of approximately 7.3% (2006 – 7.4%) and Euros at an average rate of approximately 6.1% (2006 – 5.0%).

10. LONG-TERM DEBT

		2007		2006
Interest free unsecured loan repaid during the year (see Note 2).	**$**	**-**	$	127,182
Interest free unsecured loan with a face value of $94,725 payable in monthly instalments of $3,383 to April 2010 (see Note 2).		**79,399**		-
Loans from individual shareholders payable in monthly instalments of $24,887 to October 2008, bearing interest at 10% per annum and secured by a general security agreement. A total of $56,818 of these loans is convertible into 162,338 shares at a conversion price of $0.35 per share at any time prior to the repayment date at the option of the lender (See Note 2).		**248,866**		575,889
Loans from two directors with a face value of $2,396,812 payable in monthly instalments of $66,578 between January 2009 and December 2011, bearing interest at 7% per annum and secured by a general security agreement. A total of $1,696,947 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 lenders (see Note 2 and 20). The repayment dates of these loans were renegotiated in December 2007. The repayment schedule below reflects the outcome of the renegotiation.		**2,219,338**		2,773,670
Loan from a director payable in monthly instalments of $32,743 between January 2009 and December 2011 bearing interest at 10% per annum and secured by a general security agreement. The repayment dates of this loans were renegotiated in December 2007. The repayment schedule shown here reflects the outcome of the renegotiation.		**1,178,760**		1,364,100
		3,726,363		4,840,841
Current portion		**279,768**		1,269,994
	$	**3,446,595**	$	3,570,847

Principal payments

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

Under 1 year	**$**	**279,768**
1-2 years		**1,190,114**
2-3 years		**1,145,441**
3-4 years		**1,111,040**
	$	**3,726,363**

Interest expense

Total interest expense on long-term debt for the year ended December 31st, 2007 was $555,762 (2006 - $609,627).

11. DEFERRED REVENUE

On March 25th, 2003 the Company'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 $166,186, is included in other income for the year ended December 31st, 2007 (2006 - $161,244).

12. SHARE CAPITAL

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

Issued:
The movement in the Company's issued and outstanding share capital is summarized below:

	2007	2006		**2007**		2006
	No of shares	No of shares				
Share Capital at start of the year	32,767,609	27,058,240	**$**	**13,888,690**	$	12,955,163
Adjustment to share capital at start of year (see Note 2)				**192,885**		-
Adjusted share capital at start of year	32,767,609	27,058,240		**14,081,575**		12,955,163
Shares issued for cash	9,523	5,000,000		**762**		550,000
Shares issued for services	571,430	709,369		**40,000**		80,761
Stock based compensation re employee options				**7,210**		26,914
Stock based compensation re loans				**4,452**		275,852
Share Capital at the end of the period	33,348,562	32,767,609	**$**	**14,133,999**	$	13,888,690

The Company has no issued and outstanding preferred shares.

Common share transactions

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

On May 8th, 2006 the Company 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 Company 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.

12. SHARE CAPITAL (Continued)

Common share transactions(continued)

On January 18th, 2007 the Company issued 571,430 shares to the independent directors who are related parties for their services in the second half of 2006 under the Independent Directors' Share Plan at a price of $0.07 per share.

On August 14th, 2007 the Company issued 9,523 shares to an employee at $0.08 per share following an exercise of an option under the Company's stock option plan.

Independent Directors' Share Plan

The Independent Directors' Share Plan was adopted by the Board and shareholders in 2002. Under the plan, directors who are not employees are entitled to receive some or all of their remuneration in the form of common shares. When taking their fees in this way, the issue price of the shares is taken as the average trading price of the first 20 days of the year to which the fees relate.

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.

During 2007 warrants to acquire 194,805 shares at $0.35 per share lapsed. There are warrants outstanding to acquire 162,338 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 (2006 – 2,657,316) of the common shares of the Company outstanding from time to time are reserved for the issuance of stock options pursuant to the Company'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, 2005	875,000	$ 0.24
Expired	(75,000)	1.59
Outstanding at December 31st, 2006	800,000	0.11
Exercised	(9,528)	0.08
Outstanding at December 31st, 2007	**790,472**	**$ 0.11**

The weighted average remaining life of the outstanding options is 2 years and 5 months (2006 - 3 years and 5 months). At December 31st, 2007 there are 573,810 options exercisable with a weighted average exercise price of $0.12 and a weighted average remaining life of 2 years and 3 months (2006 – 366,667 options exercisable with a weighted average exercise price of $0.14 and with a weighted average remaining life of 2 years and 10 months).

12. SHARE CAPITAL (Continued)

Stock option plan (continued)

At December 31st, 2007 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	90,472		0.08
Total outstanding			**790,472**	**$**	**0.11**

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 Company recorded $7,210 of stock based compensation in general & administrative expenses in the year ended December 31st, 2007 (2006 - $26,914).

13. CHANGES IN NON-CASH OPERATING WORKING CAPITAL ITEMS

		2007		2006
Accounts receivable	**$**	**(1,534,266)**	$	1,160,463
Inventories		**(1,436,821)**		(430,313)
Prepaid expenses and deposits		**61,912**		(87,129)
Accounts payable and accrued liabilities		**303,339**		(1,054,092)
	$	**(2,605,836)**	$	(411,071)

14. COMMITMENTS

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

2008	**$**	**559,537**
2009		**572,793**
2010		**555,578**
2011		**546,603**
2012		**546,603**
	$	**2,781,114**

15. ECONOMIC DEPENDENCE

For the year ended December 31st, 2007 the Company had no customers accounting for more than 10% of revenue (2006 - no customers accounting for more than 10% of revenue).

At December 31st, 2007 the Company had one customer accounting for 19% of accounts receivable and one customer accounting for 13% of accounts receivable (2006 – one customer accounting for 17% of accounts receivable and one customer accounting for 16% of accounts receivable).

16. RISK MANAGEMENT

There is financial risk to the Company's earnings that arises from fluctuations in foreign exchange rates and the degree of volatility of those rates.

The UK operating business buys and sells in United States Dollars and Euros as well as its domestic currency. In 2007, the Company had a net cash inflow of approximately US$3.6 million (2006 – US$2.6 million) and €6.0 million (2006 – €5.0 million). The level of these net cash flows may change substantially from year to year. Fluctuations in the exchange rate of these currencies against Sterling will affect the Sterling results of the UK business. Management monitors these exposures but to date has not used derivative instruments to hedge them as it believes that the netting of such exposures in each currency and the exposure to two separate currencies that have in the past moved in opposite directions provides sufficient protection. The need to actively hedge the exposures using derivative instruments is kept under review.

As the Company's only operating business is in the UK, the whole of its earnings are subject to fluctuations in the Dollar Sterling exchange rate. As a matter of principle, the Company does not hedge this exposure on the basis that shareholders are aware of it and have taken a positive decision to invest in a stream of Sterling earnings.

At the balance sheet date, the Company had approximately US$44,000 (2006 – US$82,000) and €325,000 (2006 - €140,000) cash and accounts receivables net of accounts payable and short term loans in each of these currencies. All other assets and liabilities are denominated in Sterling. As a matter of principle, the exposure to Sterling assets and liabilities is not hedged.

The company is exposed to interest rate risk and cash flow risk on its borrowings. Long-term debt is taken at fixed interest rates and short-term loans are taken on floating interest rates. Management believes that this balance provides the best position for managing interest rate fluctuations.

The Company is exposed to credit risk from customers. The Company's business is mostly with large corporations, governments and quasi-governmental organisations. The Company has credit evaluation, approval and monitoring processes intended to mitigate potential credit risk and maintains a provision against potential credit losses. The Company's maximum credit risk is equal to the carrying value of accounts receivable. At December 31st, 2007, one customer accounted for 19% and one customer accounted for 16% of accounts receivable.

17. FAIR VALUES

The fair value for accounts receivable, accounts payable and accrued liabilities and short-term loans approximates their carrying value because of the short maturity of these instruments.

The fair value of long-term debt is determined using the present value of future cash flows under current financing agreements, based on the Company's current estimated borrowing rate for loans with similar terms and conditions.

The fair value of the interest free loans at December 31st, 2007 was $87,902 (2006 - $134,395) based on the Company's current borrowing rate.

The fair value of the loans from individual shareholders and the loan from a director are the same as their carrying value at December 31st, 2007 and 2006 as the loans reflect the current borrowing rates for the Company.

The fair value of the loans from two directors at December 31st, 2007 was $2,155,168 (2006 - $2,693,472) based on the Company's current borrowing rate.

18. 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 Company's Lincoln, England facility. As at December 31st, 2007 the Company does not segregate assets or other balance sheet accounts by product area nor does the Company measure operating profits by these areas. The Company 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.

		2007		2006
Revenue:				
Business segment				
Bipolar Discrete Group	**$**	**15,551,480**	$	13,701,623
Power Modules Group		**4,719,351**		3,713,152
Power Electronic Assemblies		**5,152,409**		3,533,853
Integrated Circuits		**4,732,054**		2,764,537
	$	**30,155,294**	$	23,713,165
Geographic area				
Canada	**$**	**162,243**	$	307,214
United Kingdom		**8,821,140**		6,740,809
France		**6,592,994**		4,588,066
United States of America		**4,479,338**		3,176,176
Other		**10,099,579**		8,900,900
	$	**30,155,294**	$	23,713,165

All capital assets of the Company are located in the UK.

19. RELATED PARTY TRANSACTIONS

The Company incurred expenses in the year of $80,000 (2006 - $80,000) with respect to fees payable to directors. As at December 31st, 2007, $40,000 is payable to directors (2006 - $40,000). The directors fees are recorded at the negotiated amounts.

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.

The Company has loans from two directors totalling $3,398,098 (2006 - $4,137,770). Full details of these loans are set out in Note 10.

The Company incurred interest expenses in the year ended December 31st, 2007 of $485,531 (2006 - $542,904) relating to loans from two directors.

The Company retains a business law firm in Canada to provide legal services and advice. During the year ended December 31st, 2007, this firm was paid $113,891 (2006 - $64,000) in fees and expenses. One of the Company's independent directors is a partner of this firm.

20. PENSION PLAN

The Company incurred expenses of $374,728 (2006 - $317,540) with respect to a defined contribution pension plan in place at Dynex Semiconductor Limited.

21 SUBSEQUENT EVENTS

At a Special Meeting of Shareholders of the Company held on January 30, 2008, the shareholders approved amendments to $1,696,947 of convertible loans outstanding from Dynex Semiconductor Ltd. to two directors to provide that such loans would thereafter be convertible into a maximum of 12,425,093 common shares of Dynex Power Inc. At the same meeting, the shareholders also approved the conversion of $853,619 of the convertible debt into 6,250,221 Common Shares of the Company. The Company has subsequently received final approval of the TSX Venture Exchange for these changes and the issuance of 6,250,221 Common Shares will be completed shortly.

On March 12, 2008, the Company announced that the Chief Executive Officer and the Chief Financial Officer had been awarded 100,000 and 50,000 share options respectively exercisable at $0.27.

On March 31st, 2008 the Company announced that it had signed a non-binding letter of intent with the Times Electric Group of Zhuzhou, Hunan Province, China. Times Electric, at its option, will acquire either 80% or 100% of the outstanding common equity shares of Dynex for cash at a price of $0.55 per share. The price is non-binding on Times Electric. The transaction is subject to a definitive agreement being entered into by Dynex and Times Electric.

Corporate Information

Board of Directors

David F. Banks [1] [3]
Chairman

Paul Taylor [1]
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]
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

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