DYNEX POWER INC.

REPORT FOR THE QUARTER ENDED MARCH 31st 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 report may contain forward looking statements that involve a number of risks and uncertainties, including statements regarding the outlook for the Corporation's business and results of operations. By nature, these risks and uncertainties could cause actual results to differ materially from those indicated. Such factors include, without limitation, the various factors set forth in the Management Discussion & Analysis of this report as discussed in public disclosure documents filed with the Canadian Regulatory Authorities. Dynex disclaims any intention or obligation to update or revise any forward looking statement whether as a result of new information, future events or otherwise.

Company Profile

Dynex is one of the world's leading independent suppliers of specialist, high power semiconductor products. Dynex Semiconductor Ltd is its main operating business and is based in Lincoln, England in a facility housing the fully integrated silicon fabrication, assembly and test, sales, design and development operations. The Company designs and manufactures high power bipolar discrete semiconductors, high power insulated gate bipolar transistor (IGBT) modules, high power electronic assemblies, and radiation hard silicon-on-sapphire integrated circuits (SOS IC's). Dynex power products are used world wide in power electronic applications including electric power transmission and distribution, renewable and distributed energy, marine and rail traction motor drives, aerospace, electric vehicles, industrial automation and controls and power supplies. Our IC products are used in demanding applications in the aerospace industry.

Company Facts

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

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

- 224 employees (March 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:

- Electric power transmission and distribution
- Renewable and distributed power
- Marine and rail propulsion and on-board systems
- Heavy industries such as steel and mining
- Factory automation
- Aerospace
- Medical equipment
- Telecommunications
- Electric vehicles

Letter to Shareholders

A solid foundation for growth

Over the past two years, since my appointment as CEO of Dynex Power Inc. our focus has been on building a solid foundation for growth. This has resulted in a number of achievements:

- reducing our cost base by streamlining our organisation;
- refinancing and balancing our cash flow;
- rebuilding and reducing the costs of the supply lines for our materials and services;
- re-establishing our customers' confidence in our operations; and
- strengthening our manufacturing operations to give focus on our core strengths and our most profitable sectors in high power semiconductors, high power electronic assemblies and silicon-on-sapphire integrated circuit products.

Much of this work is beginning to show returns. Our order book has grown to record levels and as a consequence we are now moving into a period of robust growth in our operations. The first such positive growth since Dynex Semiconductor Ltd. was established in the year 2000.

In 2006 our year on year growth was just 4%, but this masked an underlying 10% growth in UK sterling terms. This modest growth has heralded a more significant growth expectation for 2007 of around 18% in UK sterling terms. We are able to realise this growth because of the hard work we have undertaken during the past two years and due to our strong market position in both high power and silicon-on-sapphire technologies.

The mix of revenue in the first quarter and the increase in energy costs resulted in a reduction in margins. However, as the year progresses, and revenues rise, we expect an improvement in our margins to take place.

Developing our manufacturing operations

Through increasing our revenues we expect to report an overall profit in 2007, and it is our intention to invest these profits in the operations. At the same time, we will be working to secure capital investment in an extensive medium term programme developing our manufacturing operations. Accordingly, our management focus is being redirected from the basics of recovery and foundation to one of growth and business development.

The capital investment will be applied to service three requirements. Firstly, certain items of our equipment can be brought up to date to reduce energy usage and improve efficiencies: this will increase our equipment uptime and reduce energy costs. Secondly, the increased demand on our IGBT products places a strain on our equipment capacity, and so additional production capacity is required. Finally, to introduce new products, and to accommodate larger silicon wafers, we plan to expand our fabrication facilities for handling 125mm and 150mm material.

As reported in the last quarter of 2006, Dynex is receiving grant support from the UK Department of Trade and Industry to develop advanced high power semiconductor devices. The new products resulting from these research and development programmes will strengthen the core of our high power products. Investment in the manufacturing facilities will enable Dynex to derive the maximum return from these new products and keep us at the forefront of high power semiconductor manufacture

Growth in the second half of 2007

As you read the MD&A in this report you will see that we have made a good solid start to the year and are on track against our plans. Our expectations are that revenues in the second quarter will be very similar to the first, but higher revenues are forecast for the third and fourth quarters. The growth in the second half of 2007 is based on both integrated circuit product sales for aerospace and module power assembly shipments to the marine drive sector. In both cases these expectations are underpinned by firm customer contracts.

Whilst management is encouraged by the recent improved performance of Dynex, we believe there is still much to be done to improve the business operations. To allow us the opportunity to achieve that ambition we look forward to your continued support and management thank you along with our employees, customers and suppliers for your loyalty and commitment.

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, 2007.

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 has been satisfactory for the Company with revenue higher than in any quarter last year. The gross margin percentage of 17.2% was slightly lower than the average for 2006 of 17.7%. This reduction reflects the significantly higher energy costs that became effective from the beginning of October 2006 and provision for salary increases that will be effective from January 2007, the first increases for eighteen months. Expenses rose to $1.3 million from a quarterly average of $1.2 million last year. The weakening of the Dollar explained this increase. In Sterling terms, expenses were lower than the quarterly average in 2006. The small loss of $39,000 was better than we had forecast and strengthened management's confidence in a return to profitability for 2007 as a whole.

Revenue

Revenue for the first quarter of 2007 was $7.2 million, up by $491,000 or 7% from the fourth quarter of 2006, which had been the highest quarterly revenue in that year. Revenue was higher in all three high power sectors. Revenue was up by $1.1 million or 18% from the corresponding quarter of last year, with growth recorded in all three high power segments. Revenue for integrated circuits had risen against the corresponding quarter of last year, but was below the very high sales in the fourth quarter of 2006.

Gross Margin

The gross margin in the first quarter of $1.2 million was $4,000 lower than in the fourth quarter of 2006, which had been the highest quarterly gross margin during that year. The fall in gross margin percentage from 18.5% to 17.2% was a result of a change in the mix of sales. Gross margin was $117,000 or 10% higher than the gross margin reported in the corresponding quarter of last year with the increase coming from the increased sales. The fall in gross margin percentage from 18.3% to 17.2% reflected higher costs, particularly for electricity.

Expenses

Overhead expenses in the first quarter of 2007 of $1.3 million were $419,000 or 46% higher than in the fourth quarter of 2006. The fourth quarter figure had been lessened by a $230,000 insurance recovery. Excluding that, the rise against the fourth quarter was $189,000 or 21%. The majority of this increase occurred in sales and marketing and was related to the recruitment and training of new sales engineers. The rest of the increase in overhead expenses was a combination of devaluation of the Dollar and providing for salary increases. The figure was $196,000 or 17% higher than in the corresponding quarter of last year with the recruitment and training of new sales engineers, depreciation of the Dollar and providing for salary increases again being the explanation.

Interest & Other Income

Interest and other income was $52,000 in the first quarter of 2007, $9,000 or 14% lower than in the preceding quarter. The figure was $22,000 or 30% lower than that of the corresponding quarter of last year. The main constituent of Other Income continues to be the $39,000 quarterly release of deferred revenue arising from the sale and leaseback of a building in 2003.

Foreign Exchange Gains and Losses

There was a foreign exchange gain in the quarter of $6,000, compared to a gain of $46,000 in the fourth quarter of 2006 and a gain of $20,000 in the corresponding quarter of last year. By their nature, these gains and losses are unpredictable.

Income Taxes

No tax is payable on the small loss recorded in the quarter. As a result of brought forward tax losses, no tax was payable on the profit reported in the fourth quarter of 2006 nor on the profit reported in the corresponding quarter of last year.

Net Loss/Earnings
The Company reported a net loss of $39,000 in the quarter compared to a profit in the previous quarter of $423,000. The fall resulted from a change in mix of sales, the benefit of the insurance recovery in the fourth quarter of last year, the additional sales and marketing costs in this quarter and the impact of providing for salary increases. A net profit of $66,000 had been reported in the corresponding quarter of last year, with the increase in sales and marketing costs and salary increases being the main influences.

Segmental Analysis
Sales prices in all business segments remained stable during the quarter but a fall in the value of the dollar means that the sales figures exaggerate the volume increases.

Revenue for the Bipolar Discrete Group in the quarter of $4.1 million was $675,000 or 20% higher than the previous quarter and $598,000 or 17% higher than in the corresponding quarter of last year. The increases were 9% and 4% respectively when measured in Sterling.

Revenue for Power Modules Group in the quarter of $1.2 million was $64,000 or 6% higher than in the fourth quarter of 2006 and $175,000 or 18% higher than in the corresponding quarter of last year. When measured in Sterling, these equated to a 3% fall and a 5% rise respectively.

Revenue for the Power Electronic Assemblies Group of $1.2 million was $171,000 or 16% higher than in the previous quarter and $148,000 or 14% higher than in the corresponding quarter of last year. The increases were 6% and 10% respectively when measured in Sterling.

Revenue from Integrated Circuits for the quarter of $655,000 was £420,000 or 39% lower than in the preceding quarter but was $159,000 or 32% higher than in the corresponding quarter of 2006.

Prospects for all business segments remain good with further growth in sales forecast during the rest of the year.

Seasonality
Management does not regard the business as seasonal. Significant changes in quarterly revenues in Bipolar Discrete units and Power Modules in the past have reflected internal operating conditions. In the case of Power Electronic Assemblies and Integrated Circuits, small numbers of large contracts drive both these segments. The delivery of a large contract in a particular quarter can cause revenue to fluctuate significantly, giving the appearance of seasonality.

Liquidity & Capital Resources
During the quarter, shares were issued to directors for their services in the second half of 2006. As the value of this transaction exceeded the loss for the quarter, and as a result of the change in accounting for financial instruments (see note 2), the deficit on shareholders' funds has reduced since the year end.

The total borrowings of the Company have fallen by $465,000 during the quarter. $351,000 of this reduction relates to the change in valuation of financial instruments (see note 2). The remaining $114,000 represents a reduction primarily in short term debt.

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

The Company has a capital commitment at the quarter end of $68,000 for the purchase of air conditioning equipment. The purchase will be paid for in cash.

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

Selected Financial Information

	2007 Q1	2006 Q4	2006 Q3	2006 Q2	2006 Q1	2005 Q4	2005 Q3	2005 Q2	2006 FY	2005 FY	2004 FY
Revenue	7,163	6,671	5,707	5,253	6,082	7,356	5,681	5,559	23,713	22,761	23,886
Net earnings/(loss)	(38)	423	(132)	(629)	66	781	(293)	(671)	(273)	(1,788)	(5,380)
Basic EPS	(0.00)	0.01	(0.00)	(0.02)	0.00	0.03	(0.01)	(0.02)	(0.01)	(0.07)	(0.23)
Diluted EPS	(0.00)	0.01	(0.00)	(0.02)	0.00	0.03	(0.01)	(0.02)	(0.01)	(0.07)	(0.23)
Total assets	13,377	13,652	12,058	10,923	11,745	12,798	11,282	11,444	13,652	12,798	14,669
Long term liabilities	4,449	4,841	4,494	4,401	4,447	4,444	4,335	4,160	4,841	4,444	426
Cash Dividends declared	0	0	0	0	0	0	0	0	0	0	0

Selected quarterly financial information (taken from the unaudited quarterly reports) and annual information (taken from the annual reports) is presented above. All figures have been prepared in accordance with Canadian generally accepted accounting principles. All amounts are stated in thousands of Dollars except for earnings per share figures (EPS) which are stated in Dollars per share. The figures for long term liabilities do not include deferred revenues, as these are not a liability of the Corporation and will not give rise to a cash outflow.

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

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

Risk Management

The level of worldwide demand for power semiconductors and power semiconductor assemblies is one of the key uncertainties for the Corporation. Demand was at a relatively low level during 2002 and 2003. The incidence of widespread power blackouts, the rising cost of energy and the global plan to reduce carbon emissions have led to widespread discussion of the need for significant investment in power electronic equipment, electrification of transport systems, alternative power generation and high quality power transmission and distribution. Such investment would benefit the Corporation and management has seen strong growth in demand from such investment. The failure to carry through this investment would be detrimental to the future of the business.

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

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

Although the Corporation buys some materials in continental Europe, the Far East and North America, the bulk of its costs are incurred in Sterling. However, it sells into world markets with many sales denominated in Euros and US dollars. As a consequence, the Corporation's results are affected by changes in exchange rates between these currencies. Management monitors these exposures but does not believe that it would be beneficial to hedge them at the present time. The need to undertake such hedging is reviewed from time to time.

The Corporation's main operating business is in Lincoln, England and the majority of its assets, liabilities, revenues, expenses and cash flows take place and are recorded in Sterling. These values have to be translated to Dollars for inclusion in the consolidated financial statements of the Corporation. Movements in the Dollar-Sterling exchange rate directly affect such values. The Corporation does not hedge such exposures.

Financial Instruments & Other Instruments

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

Government Assistance

The Company received grants totalling $151,000 from the European Union and the British Government to assist in its research and development activities and a grant of $6,000 in the form of an interest free loan to purchase energy saving equipment.

Related Party Transactions

The Corporation issued a total of 571,430 common shares at $0.07 to the independent directors in January 2007 in payment of their fees for the period July 1st, 2006 to December 31st, 2006.

The Corporation incurred expenses of $20,000 in the quarter in respect of fees payable to directors. As at March 31st, 2007 a total of $20,000 was payable to Directors in respect of their fees.

The Corporation has loans from two Directors totalling $3.8 million which bear interest at rates between 7% and 10% per annum compounded monthly. Repayment of these loans is scheduled to take place between April 2007 and October 2010.

The Corporation retains a business law firm in Canada to provide legal services and advice. During the quarter, this firm was paid $16,000 in fees and expenses. One of the Corporation's independent directors is a partner of this firm.

Business Development

Revenue in Sterling terms remained stable in the first quarter and is expected to remain at the same level in the second quarter before growing strongly in the second half of the year. Subject to exchange rate movements, strong growth is expected in revenue for the year when measured in Dollars.

The business incurred a small loss in the first quarter and a similar small loss is expected in the second quarter. Nevertheless, the improving trend in our annual results is strongly established and the further growth in revenue that is forecast for the year and continuing control of all costs and overheads should enable the Company to report a profit in 2007.

Order Book

At the end of the first quarter, the order book stood at $25.0 million of which $21.4 million is for delivery during 2007. This is the highest level of orders in the order book for several years.

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 quarterly financial statements.

Disclosure Controls

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

An evaluation of the effectiveness of our disclosure controls and procedures was conducted as of March 31st, 2007, by the Chief Executive Officer and Chief Financial Officer. Based on this evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures, as defined in Multilateral Instrument 52-109 – Certication of Disclosure in Issuers' Annual and Interim Filings, are affective to ensure that information required to be disclosed in reports that we file or submit under Canadian securities legislation is recorded, processed, summarized and reported within the time periods specified in those rules

Internal Controls

Internal control over financial reporting has been designed to 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 ending March 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.

Additional Information

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

Bob Lockwood.
Director and Chief Financial Officer
May 25th 2007

DYNEX POWER INC.
Consolidated Balance Sheets (Unaudited)
Quarter Ended March 31st, 2007

		Mar 31st 2007		Dec 31st 2006
CURRENT ASSETS				
Cash	**$**	**553,788**	$	357,042
Accounts receivable		**4,504,604**		4,936,028
Inventories (Note 4)		**7,373,016**		7,198,306
Prepaid expenses and deposits		**296,817**		715,935
		12,728,225		13,207,311
CAPITAL ASSETS (Note 5)		**648,791**		444,715
	$	**13,377,016**	$	13,652,026
CURRENT LIABILITIES				
Accounts payable and accrued liabilities	**$**	**4,438,495**	$	4,592,004
Short-term loan (Note 6)		**2,940,818**		3,013,654
Current portion of long-term debt (Note 7)		**1,395,990**		1,269,994
Current portion of deferred revenue (Note 8)		**175,887**		175,832
		8,951,190		9,051,484
LONG-TERM DEBT (Note 7)		**3,052,992**		3,570,847
LONG-TERM DEFERRED REVENUE (Note 8)		**1,758,867**		1,802,283
		13,763,049		14,424,614
CONTINGENCIES (Note 18)		-		-
SHAREHOLDERS' DEFICIENCY				
Share capital (Note 9)		**14,124,319**		13,888,690
Deficit		**(13,941,188)**		(14,098,044)
Accumulated other comprehensive loss (Note 2)		**(569,164)**		(563,234)
		(386,033)		(772,588)
	$	**13,377,016**	$	13,652,026

DYNEX POWER INC.
Consolidated Statement of Losses and Deficits (Unaudited)
Quarter Ended March 31st, 2007

		3 months Mar 31st 2007		3 months Mar 31st 2006
Revenue	$	**7,162,598**	$	6,082,299
Cost of sales		**5,930,965**		4,967,543
Gross margin		**1,231,633**		1,114,756
Expenses				
General and administration		**642,765**		606,158
Sales and marketing		**325,904**		203,150
Research and development (Note 10)		**144,545**		150,271
Interest expense		**214,738**		182,392
		1,327,952		1,141,971
Loss before other income and income taxes		**(96,319)**		(27,215)
Other income				
Interest and other income		**51,584**		73,346
Foreign exchange gain		**5,877**		19,834
		57,461		93,180
Income taxes (Note 11)		**-**		-
NET (LOSS) EARNINGS		**(38,858)**		65,965
DEFICIT, BEGINNING OF PERIOD		**(14,098,044)**		(13,824,595)
Adjustment to deficit, beginning of period (Note 2)		**195,714**		-
DEFICIT, END OF PERIOD	$	**(13,941,188)**	$	(13,758,630)
(Loss) Earnings per share				
Basic	$	**(0.00)**	$	0.00
Diluted (Note 12)	$	**(0.00)**	$	0.00
Weighted average number of shares				
Basic		**33,224,757**		27,058,244
Diluted (Note 12)		**33,224,757**		28,065,387

DYNEX POWER INC.
Consolidated Statement of Comprehensive Loss (Unaudited)
Quarter Ended March 31st, 2007

		3 months Mar 31st 2007		3 months Mar 31st 2006
Net (loss) earnings	**$**	**(38,858)**	$	65,965
Other Comprehensive (loss), net of tax:				
Unrealized (loss) on translating financial statements of self-sustaining foreign operations		**(5,930)**		(15,377)
OTHER COMPREHENSIVE (LOSS)		**(5,930)**		(15,377)
COMPREHENSIVE (LOSS) INCOME	**$**	**(44,788)**	$	50,588

DYNEX POWER INC.
Consolidated Statement of Accumulated Other Comprehensive Loss (Unaudited)
Quarter Ended March 31st, 2007

		Mar 31st 2007		Dec 31st 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		**(5,930)**		(148,142)
ACCUMULATED OTHER COMPREHENSIVE LOSS	**$**	**(569,164)**	$	(563,234)

DYNEX POWER INC.
Consolidated Statement of Cash Flows (Unaudited)
Quarter Ended March 31st, 2007

		3 months Mar 31st 2007		3 months Mar 31st 2006
OPERATING				
Net (loss) earnings	**$**	**(38,858)**	$	65,965
Items not affecting cash				
Amortization		**71,475**		53,688
Gain on disposal of capital assets		**(55,581)**		(39,188)
Shares and options issued for services		**42,744**		57,110
Non cash interest (Note 2)		**51,392**		-
Non cash grant income (Note 2)		**(13,977)**		-
Changes in non-cash operating working capital (Note 14)		**527,264**		1,362,827
		584,459		1,500,402
FINANCING				
(Decrease) in short-term debt		**(74,081)**		(694,584)
(Decrease) in long-term debt		**(43,014)**		(30,921)
		(117,095)		(725,505)
INVESTING				
Proceeds of disposal of capital assets		**11,420**		-
Purchase of capital assets		**(276,290)**		(33,491)
		(264,870)		(33,491)
NET INCREASE IN CASH		**202,494**		741,406
Effect of foreign currency translation on cash flow		**(5,748)**		(430)
Cash, beginning of period		**357,042**		331,897
CASH, END OF PERIOD	**$**	**553,788**	$	1,072,873
Supplementary Information:				
Interest paid during period	**$**	**160,020**	$	202,325
Income taxes paid during period		**-**		-

1. DESCRIPTION OF BUSINESS

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

2. ADOPTION OF NEW ACCOUNTING POLICIES

From January 1st 2007, the Company has adopted the following new accounting standards. 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 quarter.

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, $563,234 of cumulative translation adjustment was reclassified as accumulated other comprehensive 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 determined as described below.

Accounts receivable, accounts payable and accrued liabilities and short term loans are valued at amortized cost with interest accretion recorded in net income. Due to the short term nature of all these assets and liabilities, the amortised cost is similar to their book value.

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

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.

3. 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 2006 apart from the changes discussed in Note 2 above and are in accordance with Canadian generally accepted accounting principles.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of consolidation

The consolidated financial statements include the accounts of the Corporation and its wholly-owned subsidiaries, Dynex Semiconductor Limited and Dynex SARL, in accordance with Canadian generally accepted accounting principles. All intercompany transactions have been eliminated.

Currency of reporting

All figures are in Canadian dollars except as otherwise stated.

Use of accounting estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires the Corporation's management to make estimates that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period presented. Examples of such estimates include the anticipated useful lives of assets, the provisions required against inventory and accounts receivable, the fair value of financial liabilities, 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 is provided for if raw materials have not moved in six months and if work in progress or finished goods have not moved in three months unless the Corporation has orders or a realistic expectation of orders for those parts.

Capital assets

Capital assets are recorded at cost. Amortization is calculated using the straight-line method over the anticipated useful lives of the assets as follows:

Equipment	3-8 years

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

Long-Term Debt

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

Deferred revenue

The gain on the sale and leaseback of the land and buildings (Note 8) is being amortized over the 15 year minimum term of the resulting lease.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition

The Corporation recognizes revenues from sales to end-customers and to its distributors at the time title passes provided that all significant contractual obligations, including customer acceptance, have been satisfied and collection is reasonably assured. Any potential for warranty claims is provided for at the time of sale, based on warranty terms and prior claims experience.

Foreign currency translation

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

Research and development costs

Research costs are expensed as incurred. Expenditures for research and development equipment are capitalized. Development costs are expensed as incurred, unless the criteria for deferral under generally accepted accounting principles are met. To date, no such costs have been capitalised.

Income taxes

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

Stock-based compensation

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

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

4. INVENTORIES

	Mar 31st 2007	Dec 31st 2006
Raw materials	**$ 1,846,651**	$ 1,896,099
Work in progress	**4,443,846**	4,240,482
Finished goods	**1,082,519**	1,061,725
	$ 7,373,016	$ 7,198,306

Inventory is stated net of a provision of $5,740,508 (Dec 31st, 2006 - $5,905,448) for obsolescence.

5. CAPITAL ASSETS

		Cost		Accumulated Amortization		Net Book Value
Mar 31st, 2007						
Equipment	**$**	**2,697,104**	**$**	**2,048,313**	**$**	**648,791**
Total	**$**	**2,697,104**	**$**	**2,048,313**	**$**	**648,791**
Dec 31st, 2006						
Equipment	$	2,428,080	$	1,983,365	$	444,715
Total	$	2,428,080	$	1,983,365	$	444,715

6. SHORT-TERM LOAN

The Corporation has a short-term loan of $2,940,818 (Dec 31st, 2006 - $3,013,654) secured by a first charge on all capital assets, inventory, cash and cash equivalents and accounts receivable. The loan is repayable on demand.

7. LONG-TERM DEBT

		Mar 31st 2007		Dec 31st 2006
Interest free unsecured loan of $92,524 payable in monthly instalments of $11,566 to November 2007 (see Note 2).	**$**	**85,207**	$	127,182
Interest free unsecured loan of $70,514 payable in monthly instalments of $1,959 from May 2007 to April 2010 (see Note 2).		**56,597**		-
Loans from individual shareholders payable in monthly instalments of $26,180 between January 2007 and October 2008, bearing interest at 10% and secured by a general security agreement. A total of $107,955 of these loans is convertible into 308,442 shares at a conversion price of $0.35 per share at any time prior to the repayment date at the option of the lender.		**497,420**		575,889
Loans from two directors of $2,774,524 payable in monthly instalments of $69,363 between April 2007 and July 2010, bearing interest at 7% and secured by a general security agreement. A total of $1,964,368 of these loans is convertible into approximately 33.2% of the share capital of Dynex Semiconductor Limited at any time prior to the repayment date at the option of the lender (see Note 2).		**2,445,238**		2,773,670
Loan from a director payable in monthly instalments of $34,113 between July 2007 and October 2010 bearing interest at 10% and secured by a general security agreement.		**1,364,520**		1,364,100
		4,448,982		4,840,841
Current portion		**1,395,990**		1,269,994
	$	**3,052,992**	$	3,570,847

7. LONG-TERM DEBT (continued)

Principal payments

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

Under 1 year	**$**	**1,395,990**
1-2 years		**1,334,760**
2-3 years		**1,208,133**
3-4 years		**510,099**
	$	**4,448,982**

Interest Expense

Total interest expense on long term debt for the quarter ended March 31st, 2007 was $145,135 (Mar 31st, 2006 - $126,511).

8. DEFERRED REVENUE

On March 25th, 2003 the Corporation's subsidiary entered into a sale and leaseback of its Lincoln, England land and buildings. The gain realized on the sale has been deferred. Amortization of this gain, amounting to $44,161, is included in other income for the quarter ended March 31st, 2007 (Mar 31st, 2006 - $39,188).

9. 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 2007		Dec 31st 2006
Common shares	- amount	**$**	**14,124,319**	$	13,888,690
	- number		**33,339,043**		32,767,613

The Corporation has no issued and outstanding preferred shares.

Common share transactions

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

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

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

8. SHARE CAPITAL (Continued)

Common share transactions(Continued)

On January 18th, 2007 the Corporation 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.

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 the quarter warrants to acquire 48,701 shares at $0.35 per share lapsed. The Corporation still has outstanding warrants to acquire 308,442 shares at the option of the holders at $0.35 per share any time before October 2008.

Stock option plan

A total of 2,657,316 (Dec 31st, 2006 – 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, 2005	875,000	$ 0.24
Granted	-	-
Exercised	-	-
Cancelled	(75,000)	1.59
Outstanding at December 31st, 2006	800,000	0.11
Granted	-	-
Exercised	-	-
Cancelled	-	-
Outstanding at March 31st, 2007	**800,000**	**$ 0.11**

The weighted average remaining life of the outstanding options is 3 years and 2 months (Dec 31st, 2006 - 3 years and 5 months). At March 31st, 2007 there are 366,667 options exercisable with a weighted average exercise price of $0.14 and a weighted average remaining life of 2 years and 7 months (Dec 31st, 2006 – 366,667 options exercisable at $0.14 cents with a remaining life of 2 years and 10 months).

9. SHARE CAPITAL (Continued)

Stock option plan(Continued)

At March 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	100,000		0.08
Total outstanding			**800,000**	**$**	**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 Corporation recorded $1,898 of stock based compensation in general & administrative expenses in the quarter ended March 31st, 2007 (Mar 31st, 2006 - $15,250).

Share Continuity

The movement in share capital is summarized below:

		Mar 31st 2007		Dec 31st 2006
Share Capital at start of the year	**$**	**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		**14,081,575**		12,955,163
Shares issued for cash		**-**		550,000
Shares issued for services		**40,000**		80,761
Stock based compensation re employee options		**2,744**		26,914
Stock based compensation re loans		**-**		275,852
Share Capital at the end of the period	**$**	**14,124,319**	$	13,888,690

10. RESEARCH & DEVELOPMENT

The Company received grants totalling $150,893 in the quarter ending March 31st, 2007 (Mar 31st, 2006 - $43,045) from the European Union and the British Government to assist in its research and development activities. These grants paid for specific work carried out under agreed research and development programmes. The income received has been credited against research and development expenditure.

11. INCOME TAXES

The provision for income taxes reported differs from the amount computed by applying the Canadian statutory rate to earnings before income taxes for the following reasons:

	3 months Mar 31st 2007	3 months Mar 31st 2006
(Loss) earnings before income taxes	**$ (38,858)**	$ 65,965
Expected tax (recovery) provision	**(14,028)**	23,813
Increase (decrease) resulting from unrecorded		
Benefit of tax loss	**-**	-
Prior year losses utilized	**(372)**	(23,813)
Permanent differences	**14,400**	-
	$ -	$ -

The Canadian statutory tax rate of 36.1% (Mar 31st, 2006 – 36.1%) comprises Federal income tax at approximately 22.1% (Mar 31st, 2006 – 22.1%) and Provincial income tax at approximately 14% (Mar 31st, 2006 – 14%). The United Kingdom statutory rate is 30% (Mar 31st, 2006 – 30%).

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

As at March 31st, 2007 the Corporation also has Canadian tax loss carry forwards available to reduce future years' income for tax purposes. These loss carry forwards expire as follows:

Year of expiry	Provincial	Federal
2007	**$ 424,000**	**$ 424,000**
2008	**421,000**	**421,000**
2010	**688,000**	**688,000**
2014	**109,000**	**109,000**
2015	**498,000**	**498,000**
2016	**305,000**	**305,000**
2017	**70,000**	**70,000**
	$ 2,515,000	**$ 2,515,000**

As at March 31st, 2007 the Corporation has United Kingdom tax loss carry forwards of approximately £3,900,000 ($8,870,000) (Dec 31st, 2006- £3,900,000 ($8,870,000)) 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.

12. LOSS PER SHARE

For the quarter ended March 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 1,108,442 (Mar 31st, 2006 – 3,488,334).

13. COMMITMENTS

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

2007	**$**	**436,928**
2008		**646,805**
2009		**662,151**
	$	**1,745,884**

14. CHANGES IN NON-CASH OPERATING WORKING CAPITAL ITEMS

		3 months Mar 31st 2007		3 months Mar 31st 2006
Accounts receivable	**$**	**434,804**	$	1,575,222
Inventories		**(173,235)**		208,294
Prepaid expenses and deposits		**421,153**		85,962
Accounts payable and accrued liabilities		**(155,458)**		(506,651)
	$	**527,264**	$	1,362,827

15. ECONOMIC DEPENDENCE

For the quarter ended March 31st, 2007 the Corporation had no customers accounting for more than 10% of revenue (Mar 31st, 2006 - one customer accounting for approximately 15% of revenue).

16. FINANCIAL INSTRUMENTS

There is financial risk to the Corporation's earnings that arises from fluctuations in foreign exchange rates and the degree of volatility of those rates. The Corporation has not used derivative instruments to hedge its exposure to foreign currency risk. The exposure to foreign currency risk is primarily to fluctuations in the value of the United Kingdom Pound, the Euro and the United States Dollar.

The Corporation is exposed to credit risk from customers. The Corporation's business is mostly with large corporations, governments and quasi-governmental organisations. The Corporation has credit evaluation, approval and monitoring processes intended to mitigate potential credit risk.

The book value for accounts receivable, accounts payable and short-term loans approximate amortized cost because of the short maturity of these instruments.

The amortized cost of long-term debt is determined by calculating the fair value of such debt when taken and then accreting interest over the life of the liability using the effective interest method.

17. BUSINESS SEGMENT INFORMATION

Business area

The business operates in four distinct product areas – high power bipolar discrete devices, high power modules, power electronic assemblies (the design and assembly of power devices into stacks) and high reliability integrated circuits. The product manufacturing for these areas are supported by common infrastructure at the Corporation's Lincoln, England facility. As at December 31st, 2006 the Corporation does not segregate assets or other balance sheet accounts by product area nor does the Corporation measure operating profits by these areas. The Corporation evaluates performance and allocates resources based on revenue by product area.

Geographic area

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

		3 months Mar 31st 2007		3 months Mar 31st 2006
Revenue:				
Business segment				
Bipolar Discrete Group	**$**	**4,106,640**	$	3,508,263
Power Modules Group		**1,160,259**		985,025
Power Electronic Assemblies		**1,240,198**		1,092,445
Integrated Circuits		**655,501**		496,566
	$	**7,162,598**	$	6,082,299
Geographic area				
Europe	**$**	**4,422,632**	$	4,132,086
North America		**1,323,015**		873,328
Far East and other		**1,416,951**		1,076,885
	$	**7,162,598**	$	6,082,299

		Mar 31st 2007		Dec 31st 2006
Capital assets:				
Geographic area				
Europe	**$**	**648,791**	$	444,715
	$	**648,791**	$	444,715

18. 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.

19. PENSION PLAN

The Corporation incurred expenses of $98,279 (Mar 31st, 2006 - $80,413) with respect to a defined contribution pension plan in place at Dynex Semiconductor Limited. The Corporation instigated a six-month suspension of contributions into this plan, commencing November, 2001. At March 31st, 2007 $43,037 (Dec 31st, 2006 - $118,945) is included in accrued liabilities relating to these contributions. This amount will be contributed to the plan by the end of May 2007.

20. RELATED PARTY TRANSACTIONS

The Corporation incurred expenses of $20,000 (March 31st, 2006 - $20,000) with respect to fees payable to directors. As at March 31st, 2007, $20,000 is payable to directors (Dec 31st, 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 Corporation has loans from two directors totalling $4,139,044 (Dec 31st, 2006 - $4,137,770). Full details of these loans are set out in Note 6.

The Corporation retains a business law firm in Canada to provide legal services and advice. During the quarter ended March 31st, 2007, this firm was paid $16,112 (Mar 31st, 2006 - $15,474) in fees and expenses. One of the Corporation's independent directors is a partner of this firm.

Corporate Information

Board of Directors

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

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

Bob Lockwood [(1)]
Director, VP Finance & CFO

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

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

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

[(1)] Member of the Governance Committee
[(2)] Member of Audit Committee
[(3)] Member of Compensation Committee

Senior Officers, VP's & Senior Managers

Paul Taylor
President & CEO

Bob Lockwood
VP Finance & CFO

Bill McGhie
Power Electronic Assemblies Business Manager

Mark Kempton
Bipolar Discretes Business Manager

Stock Exchange Listing

Toronto Ventures Exchange
Symbol: DNX

Auditors

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

Legal Counsel

LaBarge Weinstein Professional Corporation
Ottawa, Ontario

Transfer Agent

Computershare Trust Company of Canada

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