DYNEX POWER INC.

REPORT FOR THE QUARTER ENDED JUNE 30th 2008

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 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)

- 244 employees (June 2008)
- 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 power transmission and distribution
  - -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

The first half-year of 2008 has seen Dynex return a remarkable result. This has been the best quarter for Dynex to date and may be the strongest this year. As you read this financial report you will find that a combination of high sales activity, a better than normal gross margin product mix, and on going cost controls has yielded not only strong revenue but also excellent quarterly net earnings.

At the same time we must be take account of the current economic climate and remain cautious about the impact of rising inflation. On the one hand high energy costs, the high price of oil, and a growing response to climate change encourage the wider use of power electronics and stimulate demand for Dynex power semiconductor products. On the other, our costs are sensitive to energy and oil prices and whilst we can share cost inflation with our customers a proportion will detract from our product margins.

Driven by the global demand for power electronics our order book as been further strengthened, and in particular we announced on May 8^{th} the receipt of a large series of orders from one industrial group for Bipolar products. Overall our bookings in this second quarter exceeded $15 million bringing the book to bill for the first half year to 1.4, and extending our order book to the equivalent of 50 weeks at our year to date sales levels. This is good news for our business: the long term order book brings stability to our operations and allow us to focus on increasing our manufacturing efficiencies to take advantage of the increased volumes. At the same time the extended order book means that many of our customers will be facing longer lead times for our products.

In response to the extended order book for our power products, and with the support of certain of our partner customers, Dynex is taking further steps to increase its manufacturing capacity for both bipolar products and IGBT power module products. In particular we are taking steps to install additional wafer fabrication equipment for the i^2 range of bipolar thyristors, and to increase the production of our high voltage IGBT and fast recovery diode die. As a consequence we are committed in 2008 to a higher than normal expenditure on capital plant and equipment. The full impact of these manufacturing enhancements will not be seen in our revenue figures until later in 2008, owing to the long lead time for procuring and commissioning the production equipment. The real benefits will be seen in 2009 for the Bipolar sector with a reduction in lead times and an increase in revenue.

Our Integrated Circuits business has been largely unaffected by capacity constraints, and in fact generated a higher than normal revenue during the second quarter. As indicated in my previous quarterly letter to shareholders new order intake has been limited by a diminished die stocks and delayed qualification of new material due to technical issues. This will result in reduced sales in this sector in the second half of this year. Our engineers have been working on resolving these issues, progress has been encouraging and currently we expect a resolution in the coming quarter. With a favourable outcome we anticipate a recovery of Integrated Circuit revenue during 2009

In May 2008 we announced that Dynex had received a letter from CSR Times Electric reaffirming its intention to proceed with the proposed transaction by way of a plan of arrangement based on acquiring between 70% to 80% of the issued common shares of Dynex at the offered price of Cdn$0.55 per share. Dynex management remains fully supportive of this transaction and believes it to be in the best interests of both the business and its stakeholders. In particular we consider that this provides our preferred solution to financing the significant capital expenditure essential in support of our business growth in the next few years.

To conclude, management is pleased with the performance of Dynex in recent quarters, and especially with the unusually strong result for this quarter. However, whilst we expect a robust third quarter, and similar levels of revenue, management also expect a decrease in gross margin and net earnings based on the current product mix in the order book profile. Overall we remain on track to deliver revenue and earnings that for 2008, as a whole, are expected to be significantly better than those reported in 2007.

PBTaylor

Paul Taylor
President and Chief Executive Officer
5 August 2008

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 quarters ended June 30th, 2008 and 2007.

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 has enjoyed another excellent quarter. Revenue was some 21% higher than the previous quarter which itself had been well above the average quarterly revenue in 2007. This growth in revenue and another good product mix resulted in the gross profit percentage rising by nearly 9 percentage points compared to the preceding quarter and by over 17 percentage points compared to 2007 in total. Overhead expenses as a percentage of revenue fell to 17.8% for the second quarter compared to 18.7% for the preceding quarter and 19.4% for the corresponding quarter of last year. As a consequence of these changes, the Company reported net earnings for the quarter of $2.3 million, compared to net earnings of $1.2 million for the preceding quarter and just $189,000 for the corresponding quarter of last year.

The results for the year to date plus the strength of the order book at the quarter end means that management expects that both revenue and net earnings in 2008 as a whole will improve on the figures reported in 2007.

Revenue

Revenue for the second quarter of 2008 was $9.8 million, up by $1.7 million or 21% from the first quarter. The rise in revenue was accounted for by increased sales of Bipolar Discrete units and Integrated Circuits. Revenue from the other two power semiconductor product groups had been stable.

Compared to the corresponding quarter of last year, revenue was up by $3.1 million or 47%. The increase was accounted for by strong increases in sales of Integrated Circuits, Bipolar Discrete Units and Power Modules.

For the year to date, revenue was $17.9 million, up by $4.1 million or 29% over last year. The increase was accounted for by strong rises in sales of Integrated Circuits, Bipolar Discrete units and Power Modules, with sales of Power Assemblies down slightly.

Gross Margin

The gross margin was 40.2% in the second quarter of 2008 compared to 31.5% in the first quarter. The increase reflected the increase in revenue and a better mix of products. The product mix in the quarter was especially good and this level of gross margin will not continue in the longer term. The gross margin was 21.9% in the corresponding quarter of 2007. The increase over the corresponding quarter of last year was as a result of the large increase in volume with the largest increases in sales being in the higher margin products.

For the year to date, gross margin was 36.3% compared to 19.5% last year. Here again, increased volume and a particularly favourable product mix so far this year accounts for the improvement. The product mix is not expected to be as favourable in the second half of this year.

Expenses

Overhead expenses in the second quarter of 2008 of $1.7 million were $225,000 or 15% higher than in the first quarter. The increase in overhead costs reflected the increasing level of operations and from the costs associated with the discussions on a possible acquisition of the Company. The increase in costs in percentage terms was much lower than the increase in revenue.

Compared to the corresponding quarter of 2007, overhead expenses rose by $450,000 or 35%. The increase arose from the same factors discussed above. Here again, the increase in percentage terms was much lower than the increase in revenue.

For the year to date, overhead expenses of $3.2 million were $632,000 or 24% higher than last year. The increase in cost arose from the increasing level of operations and the costs associated with the discussions on a possible acquisition of a majority of the Company. The increase in percentage terms was much lower than the increase in revenue.

Interest & Other Income

Interest and other income was $46,000 in the second quarter of 2007, compared to $47,000 in the preceding quarter and $86,000 in the corresponding quarter of last year. A major constituent of Other Income continues to be the $38,000 quarterly release of deferred revenue arising from the sale and leaseback of a building in 2003. The figure in the corresponding quarter of 2007 had been boosted by $25,000 of non production sales.

Foreign Exchange Gains and Losses

There was a foreign exchange gain in the quarter of $46,000, compared to a gain of $86,000 in the preceding quarter and a loss of $62,000 in the corresponding quarter of last 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 earnings recorded in the quarter nor on the earnings recorded in the preceding quarter and the corresponding quarter of last year.

Net Earnings/Loss

The Company reported net earnings of $2.3 million in the quarter compared to net earnings in the previous quarter of $1.2 million. The improvement in net earnings reflected the increase in revenue and a better product mix during the quarter.

The net earnings in the second quarter were substantially better than the net earnings of $189,000 reported in the corresponding quarter of last year. The improvement reflected the significantly higher level of sales and in particular the good product mix achieved in the last quarter.

Net earnings for the year to date of $3.5 million compare favourably with the net earnings in the same period of last year of $151,000. The dramatic improvement reflects the significant increase in the volume of sales that took place around the middle of last year combined with the very favourable product mix in the first two quarters of 2008.

Segmental Analysis

Sales prices in Sterling in all business segments remained stable over the last 12 months. The average dollar rate against sterling has remained reasonably stable between the current quarter and the preceding quarter but has strengthened by 10% since the corresponding quarter of last year.

Revenue for the Bipolar Discrete Group in the quarter of $4.8 million was $975,000 or 26% higher than the previous quarter and $1.2 million or 35% higher than in the corresponding quarter of last year. These increases reflect the strength of global demand and our ability to respond quickly to this increased demand. Significant capital expenditure is being invested in this area to ensure that we can continue to respond to increases in demand.

Revenue for Power Modules Group in the quarter of $1.3 million was $21,000 or 2% higher than the preceding quarter and $482,000 or 57% higher than in the corresponding quarter of last year. As with the Bipolar Discrete Group, the increases reflect our ability to respond to increased demand. Some further growth can be accommodated with relatively modest capital expenditure. However, at some stage in the medium term management expects that additional capacity will be required and this will require very major capital expenditure.

Revenue for the Power Electronic Assemblies Group of $1.2 million was $20,000 or 2% lower than in the previous quarter and $121,000 or less than 9% lower than in the corresponding quarter of last year. The fall had been less than 1% when measured in Sterling terms.

Revenue from Integrated Circuits for the quarter of $2.4 million was $713,000 or 41% higher than the figure in the preceding quarter and $1.5 million or more than two and a half times the figure in the corresponding quarter of 2007. The high quarterly figure resulted from a few. Large contracts that all fell into the second quarter and revenue will not be maintained at this level. A significant fall is expected in the next quarter.

Seasonality

Management does not regard the business as seasonal. Changes in quarterly revenues in Bipolar Discrete units and Power Modules generally reflect the customers’ operational needs or the lead time for key raw materials. 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 strong earnings figure for the quarter and the conversion of $860,000 of debt, the total borrowings of the Company have fallen by $1.7 million.

Management expects to complete approximately $5 million of capital expenditure during 2008 in order to improve efficiency, to provide additional capacity to meet customer orders and to enable further growth of the business. A leasing facility has been agreed to finance roughly half of this expenditure with much of the rest being financed from cash flow. Further significant capital expenditure is expected in the next few years and the proposed acquisition of a majority of the Company by Zhuzhou CSR Times Electric Co. Ltd. provides our preferred solution to support and facilitate the financing of this expenditure.

The Company has capital commitments at the quarter end of $1.7 million mainly for the purchase of new fabrication equipment for bipolar products. The purchases will be paid for through leasing and from cash flow.

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

Selected Financial Information

	Quarterly Figures								Annual Figures		
	2008	2008	2007	2007	2007	2007	2006	2006	2007	2006	2005
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3	FY	FY	FY
Revenue	9,773	8,084	7,656	8,706	6,630	7,163	6,671	5,707	30,155	23,713	22,761
Net earnings/(loss)	2,291	1,171	1,106	915	189	(38)	423	(132)	2,172	(273)	(1,788)
Basic EPS	0.06	0.04	0.03	0.03	0.01	(0.00)	0.01	(0.00)	0.07	(0.01)	(0.07)
Diluted EPS	0.06	0.03	0.03	0.03	0.01	(0.00)	0.01	(0.00)	0.06	(0.01)	(0.07)
Total assets	18,580	15,083	15,087	14,763	13,094	13,377	13,652	12,058	15,087	13,652	12,798
Long term liabilities	2,846	3,844	3,726	3,908	4,165	4,449	4,841	4,494	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 has grown significantly since then, suggesting the improvement in sales volumes started in early 2007. However, when viewed in Sterling terms, in which all revenues are initially recorded, revenue grew by over 10% in 2006, indicating an earlier start to the volume growth. Quarterly revenues are more volatile but the general upward trend is still quite discernible. Management believes that there will be little further growth in revenue in the short term.

The reduction in the annual loss between 2005 and 2006 clearly shows the impact of long-term cost reduction initiatives. The return to profitability in 2007 and the increased profitability in 2008 resulted more from revenue growth in a business with relatively high fixed costs. The step change in profitability arising from the increase in volume is shown more clearly in the quarterly figures supplemented in the last quarter by a particularly good product mix.

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 are benefiting the Company. The continuing attention to carbon emissions and the recent rises in oil prices both suggest that high power semiconductor demand will remain strong for the foreseeable future. Any changes in the sentiment towards these global issues 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 one customer accounting for 15% of revenue and one customer accounting for 10% of revenue during the quarter. Our relationship with these two customers and all our other customers and suppliers remains good.

The Company has one customer at June 30th, 2008 that accounted for 21% of accounts receivable, one customer that accounted for 14% of accounts receivable and one company that accounted for 12% 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 accrued for grants totalling $165,000 during the quarter from the European Union and the British Government to assist in its research and development activities and a grant of $3,000 in the form of an interest free loan to purchase energy saving equipment.

Related Party Transactions

The Company incurred expenses of $20,000 in the quarter in respect of fees payable to Directors. As at June 30th, 2008 a total of $40,000 was payable to Directors in respect of their fees.

On June 2nd 2008, the Company issued 6,250,220 shares at $0.14 to two Directors on the conversion of loans that they had made to Dynex Semiconductor Limited. The conversion was approved by a meeting of the shareholders on January 30th 2008.

On June 10th 2008, the Company issued 150,000 shares at $0.23 to a Director on the exercise of a share option.

The Company has loans from two Directors totalling $2.7 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 incurred an interest expense in the quarter of $101,546 in relation to these loans.

The Company retains a business law firm in Canada to provide legal services and advice. During the quarter, this firm was paid $93,588 in fees and expenses. One of the Company's independent directors is a partner of this firm.

Business Development

Revenue in the quarter was at its highest level since 2001. It is not expected to rise any further during the remaining quarters of this year. Moreover, management expects the mix of sales to deteriorate and earnings to fall back from the level reported in this quarter. Nevertheless, for 2008 as a whole, revenue and earnings are expected to be significantly better than those reported in 2007.

Order Book

At the end of June, the order book stood at $33.9 million, another record figure for Dynex.

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.

On 1st January 2008, the CICA introduced four new accounting standards. Section 1535 of the CICA Handbook, Capital Disclosures deals with the need to disclose information on the Company's capital and how it is managed. Section 3031 Inventories prescribes the accounting treatment for inventories. Sections 3862 Financial Instruments - Disclosures and Section 3862 Financial Instruments – Presentation sets out further information to be disclosed in relation to financial instruments.

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

Preparation for the Introduction of IFRS's

On February 13th 2008, The Canadian Accounting Standards Board announced that Canadian profit-oriented publicly accountable entities, such as Dynex Power Inc., would be required to prepare their accounts using International Financial Reporting Standards (IFRS) from January 1st 2011. This announcement initiates a major change in financial reporting for the Company. The management of Dynex Power Inc. is currently preparing a detailed plan in order to prepare for this change. This plan should be completed before the end of this year.

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.

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 during the year ended 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.

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
5 August 2008

DYNEX POWER INC.
Consolidated Statements of Earnings and Deficit (Unaudited)
Quarters and Years To Date Ended June 30th, 2008 and 2007

	3 months June 30th 2008	3 months June 30th 2007	**YTD June 30th 2008**	YTD June 30th 2007
Revenue	**$ 9,773,194**	$ 6,630,330	**$ 17,857,332**	$ 13,792,928
Cost of sales	**5,839,609**	5,179,214	**11,374,942**	11,110,179
Gross margin	**3,933,585**	1,451,116	**6,482,390**	2,682,749
Expenses				
General and administration	**1,067,128**	659,591	**1,968,599**	1,302,356
Sales and marketing	**269,218**	253,582	**493,143**	579,486
Research and development	**206,507**	157,488	**418,976**	302,033
Interest expense	**192,085**	214,417	**364,305**	429,155
	1,734,938	1,285,078	**3,245,023**	2,613,030
Earnings before other income	**2,198,647**	166,038	**3,237,367**	69,719
Other income				
Interest and other income	**45,576**	85,596	**92,146**	137,180
Foreign exchange gain (loss)	**46,363**	(62,185)	**131,964**	(56,308)
	91,939	23,411	**224,110**	80,872
Income taxes	**-**	-	**-**	-
NET EARNINGS	**2,290,586**	189,449	**3,461,477**	150,591
DEFICIT, BEGINNING OF PERIOD, as originally stated	**(10,559,936)**	(13,941,188)	**(11,730,827)**	(14,098,044)
Adjustment to deficit, beginning of period (Note 2)	**-**	-	**-**	195,714
DEFICIT, END OF PERIOD	**$ (8,269,350)**	$ (13,751,739)	**$ (8,269,350)**	$ (13,751,739)
Earnings per share				
Basic	**$ 0.06**	$ 0.01	**$ 0.10**	$ 0.00
Diluted (Note 4)	**$ 0.06**	$ 0.01	**$ 0.09**	$ 0.00
Weighted average number of shares				
Basic	**35,375,006**	33,339,043	**34,327,442**	33,282,216
Diluted (Note 4)	**39,965,996**	33,678,595	**38,680,452**	33,561,126

These financial statements should be read in conjunction with the notes set out on pages 15 to 24

DYNEX POWER INC.
Consolidated Statements of Comprehensive Income (Unaudited)
Quarters and Year To Date Ended June 30th, 2008 and 2007

		3 months June 30th 2008		3 months June 30th 2007		YTD June 30th 2008		YTD June 30th 2007
Net earnings	$	**2,290,586**	$	189,449	$	**3,461,477**	$	150,591
Other Comprehensive income (loss), net of tax:								
Unrealized profit (loss) on translating financial statements of self-sustaining foreign operations		**(13,314)**		27,970		**98,815**		22,040
OTHER COMPREHENSIVE INCOME (LOSS)		**(13,314)**		27,970		**98,815**		22,040
COMPREHENSIVE INCOME	$	**2,277,272**	$	217,419	$	**3,560,292**	$	172,631

DYNEX POWER INC.
Consolidated Statements of Accumulated Other Comprehensive Loss (Unaudited)
As At June 30th, 2008 and December 31st, 2007

		June 30th 2008		Dec 31st 2007
Accumulated other comprehensive loss, beginning of period	$	**(760,787)**	$	(563,234)
Other comprehensive income (loss)		**98,815**		(197,553)
ACCUMULATED OTHER COMPREHENSIVE LOSS	$	**(661,972)**	$	(760,787)

Accumulated other comprehensive income consists entirely of translation adjustments.

These financial statements should be read in conjunction with the notes set out on pages 15 to 24.

DYNEX POWER INC.
Consolidated Balance Sheets (Unaudited)
As At June 30th, 2008 and December 31st, 2007

		June 30th 2008		Dec 31st 2007
CURRENT ASSETS				
Cash	**$**	**199,969**	$	140,867
Accounts receivable		**5,835,148**		5,743,050
Inventories		**9,366,746**		7,521,573
Prepaid expenses and deposits		**774,113**		597,805
		16,175,976		14,003,295
PROPERTY, PLANT AND EQUIPMENT		**2,403,841**		1,083,540
	$	**18,579,817**	$	15,086,835
CURRENT LIABILITIES				
Accounts payable and accrued liabilities	**$**	**5,126,170**	$	4,346,095
Short-term loan		**2,988,333**		3,814,585
Current portion of long-term debt		**545,553**		279,768
Current portion of deferred revenue		**156,165**		151,942
		8,816,221		8,592,390
LONG-TERM DEBT (Note 5)		**2,300,617**		3,446,595
LONG-TERM DEFERRED REVENUE		**1,366,443**		1,405,465
		12,483,281		13,444,450
SHAREHOLDERS' EQUITY				
Share capital (Note 5)		**15,027,858**		14,133,999
Deficit		**(8,269,350)**		(11,730,827)
Accumulated other comprehensive loss (Note 2)		**(661,972)**		(760,787)
		(8,931,322)		(12,491,614)
		6,096,536		1,642,385
	$	**18,579,817**	$	15,086,835

These financial statements should be read in conjunction with the notes set out on pages 15 to 24.

DYNEX POWER INC.
Consolidated Statements of Cash Flows (Unaudited)
Quarters and Years To Date Ended June 30th, 2008 and 2007

	3 months June 30th 2008	3 months June 30th 2007	YTD June 30th 2008	YTD June 30th 2007
OPERATING				
Net earnings	**$ 2,290,586**	$ 189,449	**$ 3,461,477**	$ 150,591
Items not affecting cash				
Amortization	**75,163**	52,559	**119,214**	124,034
Gain on disposal of property, plant and equipment	**(39,122)**	(43,563)	**(77,527)**	(99,144)
Shares and options issued for services (Note 5)	**11,177**	2,574	**13,735**	45,318
Non-cash interest	**27,047**	50,313	**53,530**	101,705
Non-cash grant income	**-**	(14,684)	**(2,355)**	(28,661)
Provision for inventory obsolescence	**243,510**	317,540	**277,500**	150,065
Changes in non-cash operating working capital (Note 6)	**(1,980,361)**	(1,323,085)	**(1,326,762)**	(628,346)
	628,000	(768,897)	**2,518,812**	(184,438)
FINANCING				
Shares issued for cash (Note 5)	**34,500**	-	**34,500**	-
Increase in loans from a director	**-**	1,098,138	**-**	1,098,138
Increase (decrease) in short-term loan	**535,973**	(408,936)	**(912,719)**	(483,016)
Decrease in long-term debt (Note 5)	**(110,102)**	(31,973)	**(156,532)**	(74,988)
	460,371	657,229	**(1,034,751)**	540,134
INVESTING				
Proceeds of disposal of property, plant and equipment	**401**	1,098	**401**	12,518
Purchase of property, plant and equipment	**(1,110,293)**	(69,597)	**(1,396,835)**	(345,887)
	(1,109,892)	(68,499)	**(1,396,434)**	(333,369)
NET (DECREASE) INCREASE IN CASH	**(21,521)**	(180,167)	**87,627**	22,327
Effect of foreign currency translation on cash	**(34,715)**	6,395	**(28,525)**	647
Cash, beginning of period	**256,205**	553,788	**140,867**	357,042
CASH, END OF PERIOD	**$ 199,969**	$ 380,016	**$ 199,969**	$ 380,016
Supplementary Information:				
Interest paid during period	**$ 174,545**	$ 155,986	**$ 293,419**	$ 316,006
Income taxes paid during period	**-**	-	**-**	-

These financial statements should be read in conjunction with the notes set out on pages 15 to 24.

1. DESCRIPTION OF BUSINESS

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

2. ADOPTION OF NEW ACCOUNTING POLICIES

On January 1st, 2007 the Company 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 statement of earnings, and other comprehensive income. Other Comprehensive Income includes changes in net assets other than from transactions with shareholders. 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. On January 1st 2007, $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 are 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.

On January 1st, 2007 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.

On January 1st, 2007 the following adjustments were made to reflect the impact of the valuation of the conversion feature associated with the 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, which is the recognition of an asset on the day it is received and the derecognition of an asset and recognition of any gain or loss on disposal on the day it is delivered by the Company, is used.

2. ADOPTION OF NEW ACCOUNTING POLICIES (continued)

On January 1st, 2008 the Company adopted the following new accounting standards in accordance with their transitional provisions. The adoption of these standards has not required any adjustment to the opening figures nor have they had any impact on the results for the year.

Inventories

On January 1st, 2008 the Company adopted the new accounting standard on inventories. Adoption of this new standard has had no material impact on the valuation of the Company's inventory.

Financial Instruments

On January 1st 2008, the Company adopted the new accounting standards on financial instrument disclosure and financial instrument presentation. Information to meet these two new standards is set out in Notes 8 and 9.

Capital Disclosures

On January 1st, 2008 the Company adopted the new accounting standard on capital disclosures. A discussion of what management regards as capital and its objectives in managing its capital is set out in Note 10.

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 2007, apart from the changes discussed in Note 2 above, and are in accordance with Canadian generally accepted accounting principles. These interim financial statements should be read in conjunction with the annual financial statements for the year ended December 31st, 2007.

Currency of reporting

All figures are in Canadian dollars except as otherwise stated.

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 weighted average 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.

4. EARNINGS PER SHARE

For the quarter ended June 30th, 2008 there were no 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 (June 30th, 2007 – 409,741).

5. 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 common shares is summarized below:

	Jun 30th 2008		**Jun 30th 2008**	Dec 31st 2007		Dec 31st 2007
	No of shares			No of shares		
Share Capital at start of the period	**33,348,562**	**$**	**14,133,999**	32,767,609	$	13,888,690
Adjustment to share capital at start of period (see Note 2)	**-**		**-**	-		192,885
Adjusted share capital at start of period	**33,348,562**		**14,133,999**	32,767,609		14,081,575
Shares issued for cash on conversion of debt	**6,400,220**		**880,124**	9,523		762
Shares issued for services	**-**		**-**	571,430		40,000
Stock based compensation re employee options	**-**		**11,509**	-		7,210
Stock based compensation re loans	**-**		**2,226**	-		4,452
Share Capital at the end of the period	**39,748,782**	**$**	**15,027,858**	33,348,562	$	14,133,999

The Company has no issued and outstanding preferred shares.

Common share transactions

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.

SHARE CAPITAL (Continued)

Common share transactions (cont'd)

On June 2nd, 2008 the Company issued 6,250,220 common shares on conversion of £434,500 of loans to Dynex Semiconductor Ltd. The conversion had been approved by shareholders at a meeting on January 30th, 2008. The conversion of debt to shares resulted in a reduction of the outstanding debt.

On June 10th, 2008 the Company issued 150,000 common shares at $0.23 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 2007 and 2008 warrants to acquire 292,208 shares at $0.35 per share lapsed. There are warrants outstanding to acquire 64,935 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, 2007 – 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, 2006	799,995	$ 0.11
Exercised	(9,523)	0.08
Outstanding at December 31st, 2007	790,472	0.11
Granted	150,000	0.30
Exercised	(150,000)	0.23
Outstanding at June 30th, 2008	**790,472**	**$ 0.12**

The weighted average remaining life of the outstanding options is 2 years and 10 months (Dec 31st, 2007 - 2 years and 5 months). At June 30th, 2008 there are 423,810 options exercisable with a weighted average exercise price of $0.08 and a weighted average remaining life of 2 years and 5 months (Dec 31st, 2007 – 573,810 options exercisable with a weighted average exercise price of $0.12 and with a weighted average remaining life of 2 years and 3 months).

5. SHARE CAPITAL (Continued)

Stock option plan (continued)

At June 30th, 2008 the following stock options are outstanding:

	Grant Date	Expiry Date	Number of Options		Exercise Price
Officers	Nov 30, 2005	Nov 29, 2010	550,000		0.08
	Dec 10, 2007	Dec 9, 2012	100,000		0.30
	Feb 12, 2008	Feb 11, 2013	50,000		0.30
All other employees	Nov 30, 2005	Nov 29, 2010	90,472		0.08
Total outstanding			**790,472**	**$**	**0.12**

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 $10,064 of stock based compensation in general & administrative expenses in the quarter ended June 30th, 2008 (June 30th, 2007 - $1,898) and $11,509 for the year to date (2007 year to date - $3,796). The assumptions used in calculating these values reflected the conditions at the time each of the options was issued. The assumptions on annualised volatility ranged between 58% and 85% and on the annual discount rate ranged between 2.5% and 3%.

6. CHANGES IN NON-CASH OPERATING WORKING CAPITAL ITEMS

		3 months Jun 30th 2008		3 Months Jun 30th 2007		**YTD Jun 30th 2008**		YTD Jun 30th 2007
Accounts receivable		**(1,499,875)**		360,249	**$**	**54,019**	$	795,053
Inventories		**(1,227,276)**		(1,309,902)		**(1,895,015)**		(1,315,662)
Prepaid expenses and deposits		**(146,668)**		(92,500)		**(158,424)**		328,653
Accounts payable and accrued liabilities		**893,458**		(280,932)		**672,658**		(436,390)
	$	**(1,980,361)**	$	(1,323,085)	**$**	**(1,326,762)**	$	(628,346)

7. ECONOMIC DEPENDENCE

For the quarter ended June 30th, 2008 the Company had one customer accounting for 15% of revenue and one customer accounting for 10% of revenue (June 30th, 2007 - one customer accounting for 13% of revenue and one customer accounting for 12% of revenue). For the year to date the Company had one customer who accounted for 11% of revenue (2007 year to date – one customer who accounted for 11%).

At June 30th, 2008 the Company had one customer accounting for 21% of accounts receivable, one customer accounting for 14% of accounts receivable and one customer accounting for 12% of accounts receivable (Dec 31st, 2007 – one customer accounting for 19% of accounts receivable and one customer accounting for 13% of accounts receivable).

8. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Market Risk

The Company is exposed to foreign currency fluctuations on its cash balances, accounts receivable, accounts payable and accrued liabilities, short term loans and long term debt. At the end of June 2008, the split of these financial instruments by currency was as follows:

$’000	Total	$	GBP	Euro	US$	JPY
Cash	200	45	125	24	6	
Accounts receivable	5,835		3,184	1,379	1,272	
Accounts payable and accrued liabilities	(5,126)	(609)	(4,299)	(63)	(133)	(22)
Short term loans	(2,988)		(1,387)	(1,179)	(422)	
Long term debt	(2,846)	(63)	(2,783)			
Net total	(4,925)	(627)	(5,160)	161	723	(22)

A 10% increase (decrease) in the value of Sterling against all the other currencies at the end of the quarter would have decreased (increased) net earnings for the quarter by approximately $24,000. The Company does not hedge these exposures, as the net exposure is quite small, but it keeps the need to monitor them under review.

A 10% increase (decrease) in the average value of Sterling against the Euro would have decreased (increased) net earnings for the quarter by $270,000 and for the year to date by $440,000. A 10% increase (decrease) in the average value of Sterling against the US Dollar would have decreased (increased) net earnings for the quarter by $40,000 and for the year to date by $130,000. The Company does not hedge this exposure as a matter of principle, believing that an investor in the Company has made a positive decision to invest in a UK based operating business.

A 10% increase (decrease) in the value of the dollar against Sterling at the end of the quarter would have decreased (increased) other comprehensive income by approximately $600,000. The Company does not hedge this exposure as a matter of principle, believing that an investor in the Company has made a positive decision to invest in a UK based operating business.

A 10% increase (decrease) in the average value of Sterling against the Dollar would have increased (decreased) net earnings for the quarter by $250,000 and for the year to date by $370,000.

The Company is exposed to interest rate risk on its short-term debt, which is borrowed on variable rate terms. A one percentage point increase (decrease) in sterling, Euro and US$ interest rates would decrease (increase) earnings by approximately $4,500, $2000 and $1,500 respectively in each case in the quarter and by $6,500, $4,000 and $3,500 respectively for the year to date.

8. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

Credit Risk

The Company is exposed to credit risk in relation to the $5.8 million of accounts receivable and the $200,000 of cash balances.

The majority of the Company's accounts receivable is due from customers with whom the Company has had a business relationship for many years. Over the last five years the Company has suffered bad debt losses of less than $60,000.

The ageing of the Company's accounts receivable at June 30th, 2008 was as follows:

Ageing of account receivable		$'000
Not yet overdue	$	4,072
Less than one month overdue		1,347
Between one and two months overdue		325
Greater than two months overdue		146
Less provision for doubtful debts		(55)
Net total	$	5,835

The cash is held by the Company's bankers. Over the last five years, the Company has not suffered any loss in relation to cash held by bankers.

The Company's maximum exposure to credit risk is equal to the carrying value of cash and accounts receivable as set out on the balance sheet.

Liquidity Risk

The Company generally makes one major payment run each week. At June 30th, 2008 none of the Company' accounts payable was overdue by more than one week. The vast majority of accounts payable fall due for payment within one month. Accrued liabilities are generally due after more than one month and in many cases it may not yet be possible to determine the contractual date for payment.

The Company seeks to ensure that it has adequate access to liquidity to meet all its obligations as they fall due. The Company believes that the short term uncommitted borrowing facility will remain available to the Company and following frequent contact with the supplier of that facility, management has no reason to believe that it will not remain available. In relation to long term debt, management believes it can repay all the smaller facilities as they fall due (and indeed is currently meeting those repayment schedules) out of its cash flow. Management also believes that the loans provided by the directors of the Company can be rescheduled if necessary. Such rescheduling has in fact taken place on several occasions in the past. At the present time, the Company is planning significant capital expenditure and has already committed to some of the purchases. The Company believes that its own cash flow plus new leasing facilities it is currently negotiating will supply the liquidity necessary for these plans, but for additional security a new undrawn loan facility of £750,000 has been negotiated with two of its directors. The Company also believes that the discussions taking place for the acquisition of the Company by the Zhuzhou CSR Times Electric Co., Ltd. will provide access to additional funds for future expansion should that be necessary.

9. 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 interest free loans at June 30th, 2008 was $86,600 (Dec 31st, 2007 – 87,902) based on the Company's current borrowing rate.

The fair values of the loans from individual shareholders and the loan from a director are the same as their carrying value at June 30th, 2008 and December 31st, 2007 as the loans reflect the current borrowing rates for the Company.

The fair values of the loans from two directors at June 30th, 2008 was $1,451,967 (Dec 31st, 2007 - $2,155,168) based on the Company's current borrowing rate.

10. CAPITAL MANAGEMENT

The Company considers that its capital consists of the value of shareholders' equity plus the deferred revenue.

The Company's objectives when managing capital are to safeguard its ability to continue as a going concern and to provide its shareholders with an adequate return on capital. Management believes at the current time, and bearing in mind its current investment plans, that the debt to equity ratio is too high and is therefore seeking to increase shareholders' equity, primarily through retaining earnings, in order to reduce this ratio.

The Company is not subject to any externally imposed capital requirements.

11. 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 is supported by common infrastructure at the Company's Lincoln, England facility. As at June 30th, 2008 the Company does not segregate assets or other balance sheet accounts by product area nor does the Company measure operating earnings 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.

		3 months June 30th 2008		3 months June 30th 2007		**YTD June 30th 2008**		YTD June 30th 2007
Revenue:								
Business segment								
Bipolar Discrete Group	**$**	**4,790,600**	$	3,551,152	**$**	**8,606,127**	$	7,657,792
Power Modules Group		**1,333,765**		852,155		**2,646,725**		2,012,414
Power Electronic Assemblies		**1,203,593**		1,324,354		**2,427,169**		2,564,552
Integrated Circuits		**2,445,236**		902,669		**4,177,311**		1,558,170
	$	**9,773,194**	$	6,630,330	**$**	**17,857,332**	$	13,792,928
Geographic area								
Canada	**$**	**13,095**	$	67,621	**$**	**66,657**	$	84,317
UK		**2,522,580**		2,642,797		**3,324,938**		4,395,837
France		**2,754,721**		1,060,261		**5,601,444**		2,200,878
USA		**1,589,904**		670,622		**3,636,697**		1,976,941
Other		**2,892,894**		2,189,029		**5,227,596**		5,134,955
	$	**9,773,194**	$	6,630,330	**$**	**17,857,332**	$	13,792,928

All property, plant and equipment of the Company is located in the UK.

12. RELATED PARTY TRANSACTIONS

The Company incurred expenses in the quarter of $20,000 (June 30th, 2007 - $20,000) with respect to fees payable to directors. As at June 30th, 2008, $40,000 is payable to directors (Dec 31st, 2007 - $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.

On June 2nd, 2008 the Company issued 6,250,220 shares at $0.14 to two directors on conversion of loans that they made to Dynex Semiconductor Limited. The conversion was approved by a meeting of the shareholders on January 30th, 2008.

On June 10th, 2008 the Company issued 150,000 shares at $0.23 to a director on the exercise of a share option.

The Company has loans from two directors totalling $2,663,487 (Dec 31st, 2007 - $3,398,098).

The Company incurred interest expenses in the quarter ended June 30th, 2008 of $101,546 (June 30th, 2007 - $124,576) relating to loans from two directors.

The Company retains a business law firm in Canada to provide legal services and advice. During the quarter ended June 30th, 2008, this firm was paid $93,588 (June 30th, 2007 - $18,156) in fees and expenses. One of the Company's independent directors is a partner of this firm.

13. CONTINGENCIES

Under the terms of a Letter of Intent between the Company and Zhuzou CSR Times Electric Co., Ltd., the Company may have to pay a break fee to CSR Times Electric if the Company closes an offer from another party to acquire the Company, or if it refuses to execute a mutually agreed support agreement or if it otherwise fails to proceed with the closing after the execution of the support agreement. A separate break fee would be payable by the Company, if Mr Banks or Mr Owen, who are directors of the Company, fail to comply with the terms of the lock up agreement they have entered into with CSR Times Electric. The maximum amount that could be payable under these break fees is $1.7 million.

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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