DYNEX POWER INC.

ANNUAL REPORT 2009

Our objectives are

To grow and develop as a leading manufacturer of high power and high reliability electronic products

Our key values are

Customers

Delivering confidence in our products and services through applying high standards of quality and service whilst maintaining a personal and flexible approach to our customers.

Engineering

Enabling access to the best engineering skills and applying the highest technical standards to our customers' requirements.

Profitability

Sustaining and developing our business through directing efforts into the most profitable sectors of our business.

Integrity

Being honest, straightforward and reliable in dealing with people across all areas of our business.

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This annual report may contain forward looking statements that involve a number of risks and uncertainties, including statements regarding the outlook for the Company'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's 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 suppliers of specialist, high power semiconductor products. Dynex Semiconductor Limited 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 worldwide 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. SOS 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 Limited 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)

- Zhuzhou CSR Times Electric Co., Ltd acquired 75% of the common shares of Dynex Power Inc. in October 2008
- 277 employees (December 2009)
- ISO9001:2008 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

Our customers are electronic equipment manufacturers and maintenance providers in the following sectors:

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

Letter to Shareholders

2009 has been an important year in which Dynex not only delivered a solid result, despite the worst recession in recent times, and completed the most significant capital raise in the company's history, but also successfully completed the first full year of trading under ownership by Zhuzhou CSR Times Electric Co., Ltd.

Despite the effects of the global recession, Dynex has continued to grow. Our revenue was 8% up on the previous year: this was due to strong sales of Dynex high power Bipolar Discrete products which grew by 36%, accounting for 65% of our sales; and Power Electronic Assemblies Products that grew in revenue by 7%. At the same time, our order book has remained strong at the end of 2009 representing around 41 weeks of sales. However, new order bookings were reduced giving a book to bill ratio of 0.85. In response to the economic downturn, many of our customers had become more cautious and reduced their purchasing requirements. This constrained new order bookings generally, but in particular affected Power Modules products, and resulted in a reduction on revenue compared to last year. Integrated Circuit revenue fell, and is now expected to continue to decline in 2010 as Dynex has taken a decision to focus on our core high power business.

During 2009 Dynex decided to engage on a major project to expand and upgrade its IGBT wafer fabrication facility to produce 6 inch wafers: this decision was based on an anticipated strong future demand for Power Modules, and specifically the product required by CSR Times Electric to service their railway equipment business. The expansion will increase the IGBT wafer fabrication capacity approximately tenfold, as well as enhancing the process technology to improve the product quality and technical performance. The outcome will be increased revenues, more competitive product offerings, improved profitability, and sustained business growth over the next few years.

This expansion project was initially funded by a £7.3 million loan facility. In October 2009 Dynex announced a Rights Issue which was successfully completed in December 2009, raising $22.5 million. The proceeds have been used to repay the loan and will also be used to complete the expansion project. During the Rights Issue it was a great pleasure to meet with many of our shareholders and share with them our plans and expectations for developing the Dynex Business under its new ownership by CSR Times Electric.

CSR Times Electric is a subsidiary of China South Locomotive and Rolling Stock Corporation Ltd that supplies around half of the railway rolling stock to China. Over the next few years the Chinese Government is investing heavily in expanding the national rail network and more than 20 cities in China have plans to build mass transit systems. It is the opportunity to supply power semiconductors into these applications that is driving the expansion of the Dynex business. Existing Dynex products commenced testing and field trials in China during 2009, and we anticipate production contracts to be agreed to supply components for these applications during 2010.

Looking further ahead the enhanced capability provided by the upgraded wafer fabrication facility, coupled with Dynex's existing strengths in technology development and high power semiconductor know-how, present a great opportunity for innovative research and development targeted at the high power semiconductor requirements of our global customer base. Our focus application areas will be railway locomotive, urban mass transit, electric power grid and industrial converters and motor drives.

During 2010 we expect to continue to develop our relationship with CSR Times Electric as a key part of their industrial supply chain; we will complete the installation of the 6-inch IGBT fabrication facility and ramp up production; we will further extend our Bipolar Discrete product range to the highest power and complete installation of a major new test facility. The focus on these important projects that enable our business to achieve growth in the medium term, and the associated construction and engineering work, will constrain our revenue growth and margins over the coming year. Accordingly we expect revenues in 2010 to be similar to 2009 but with a reduction in margins, before showing improvement in 2011.

Thank you for your continued interest in Dynex and I hope to have the opportunity of meeting many of you again in the near future.

PDTaylor

Paul Taylor
President and Chief Executive Officer
15th April 2010

Review of Operations

Bipolar Discrete

Representing 65% of the company's business in 2009, the Bipolar Discrete Product Group achieved sales revenues of $26 million, a growth of 36% over the previous year and delivered a fourth consecutive year of double digit growth. It remains the largest of the Dynex product groups, manufacturing a wide range of high power semiconductor products including phase control thyristors, gate turn off thyristors (GTOs), rectifier diodes, fast thyristors, fast diodes, and transistors.

Dynex supplies bipolar products into a variety of applications worldwide including railway equipment, industrial drives, aluminium smelting plants, electric power quality management, aerospace, power generation and transmission and distribution systems.

The continued growth in 2009 was supported by strong demand from global markets, particularly the industrial and railway sectors. We were able to benefit from this demand as a result of the capital investment in 2008 in expanding the bipolar manufacturing facility. As a consequence, sales of the i² thyristor and the more established GTOs and fast diodes all grew by more than 30%. Additionally, sales of rectifier diodes and fast thyristors grew by more than 60%. It was particularly pleasing to see that revenue generated from sales of newer products, primarily the i² thyristor, continued to grow contributing 29% of total bipolar revenue, up from 20% in 2008 and 12% in 2007.

European sales grew by more than 75% over the previous year and accounted for 69% of the total bipolar revenue, while sales in Asia grew by over 15%, supported largely by increased deliveries into the Indian railway and industrial markets. Sales in the Americas and the rest of the world remained flat. Maintaining and growing our current share of the European high power semiconductor market while expanding our presence in North America and Asia remains a priority for 2010.

The net intake of new orders was lower than the exceptional levels seen during 2008, with the book to bill ratio falling to 0.72. This was a direct result of the global economic downturn, with customers re-scheduling or cancelling their excess requirements. However, the level of new orders was higher than the average annual level prior to 2008 and the order book at the end of 2009 remained strong at $23.8 million. With our customers indicating continued growth in the railway sector, the extension of the i² range of thyristors for supply to a wider industrial market, and our increased capacity, we expect to see further growth in 2010.

In 2008 and 2009 Dynex improved its production facilities for bipolar products. Previously, Dynex based its production on 3 or 4-inch silicon wafers. Dynex has now suspended the use of the 3-inch silicon, which was becoming uneconomic, has increased the 4-inch capacity and has installed a 6-inch bipolar line. The 6-inch line will not only increase Dynex capacity, giving improvements in productivity, but will also allow the development of 125mm and 150mm thyristor units. By applying Dynex i² technology to these new units, the Company plans to produce ultra high power thyristors at 8500V suitable for use in thyristor based high voltage direct current converter valves. This technology is preferred for use in the long distance transmission of electric power and for the high power interconnection of national grid networks. At the same time, Dynex is working with a major customer to install a high power test line in the Dynex facility to accelerate the development of these ultra high power thyristors and enable development at even higher voltage ratings.

Dynex continues to supply a wide range of high power semiconductors worldwide with more than 350 different products supplied in 2009 to 140 customers in over 30 countries. Strategically, our focus remains on offering the highest performance high power bipolar discrete products whilst maintaining strong support for customers in mature markets, where many of our competitors have withdrawn their products. To achieve this we expect to expand our R&D activity to introduce new processes and techniques, to develop and evolve our product range and, at the same time, to improve the processes required to make the more mature products.

Good progress has been made in further developing strategic relationships in the supply chain that have enabled us to improve lead times, on time delivery and to reduce the level of overdue orders. Concentrated engineering and logistics efforts will continue as we focus on reducing component costs and minimising the impact of high energy prices to build upon the definite improvement in stock management and availability of direct materials that will support the projected business growth. During the last two years, we have seen significant efficiency improvements generated by introducing lean initiatives into the manufacturing operation. This will continue as a key objective during 2010 as we constantly strive to eliminate process waste, to improve production yields and provide a greater focus on value added activity. 2009 was a constructive year in building a solid relationship with the power semiconductor division of our new partner, CSR Times Electric, and we look forward to developing the partnership further in order to capitalise on business opportunities and on their manufacturing strengths in order to increase our joint market share.

Our niche remains supplying customers with highly engineered, reliable products with a high level of technical support. We pride ourselves in responding positively and efficiently to new technical enquiries and providing solutions to help meet the requirements of our customers. Despite the global economic downturn, this approach continues to generate exciting opportunities for us and provides us with a positive outlook for 2010.

Power Modules

Power Module Group sales were $5.0 million in 2009, representing 12% of the company's overall business. The group's products are insulated gate bipolar transistor (IGBT) and diode modules that are used in high power motor drives and power management systems. Market conditions for modules during 2009 reflected the global economic downturn and this resulted in a 21% fall in sales from the previous year. Investments in capital equipment and renewable energy generation systems were particularly hard hit and this resulted in a softer demand for our IGBT modules.

In 2009, Dynex embarked on a major project to increase the capacity of the IGBT wafer fabrication facility in Lincoln. The existing facility, based around 4 inch silicon wafers, was set up over 20 years ago originally to fabricate CMOS integrated circuits, and more recently the IGBT and fast recovery silicon chips that Dynex assembles to produce IGBT and diode power modules. Following the acquisition of a majority stake in Dynex by CSR Times Electric in 2008, and the opportunity brought by that acquisition for Dynex to participate in supplying IGBT products for the Chinese railway market, it was recognised that additional capacity and technology capability would be required to address that new opportunity. Dynex, therefore, decided to install two 6 inch IGBT wafer fabrication lines, using state of the art production tools, with the capacity to increase the die capability tenfold based on the Dynex high voltage IGBT technologies.

Dynex commenced the procurement of the major items of equipment and the facilities upgrade work in 2009, and it is anticipated that the first line in new facility will be operational in the first half of 2010, and the second line installed in the second half of the year. The new equipment has been selected to achieve the increased capacity as well as allow ongoing IGBT and fast diode product technology development. Whilst this major construction work continues in 2010, the growth of the module product group will be constrained. The impact of the new capacity will be apparent in 2011.

During 2009, Dynex engineers have worked closely with CSR Times Electric engineers to commence qualification of Dynex modules in their railway traction systems and to assist in the specification and establishment of a new module assembly line at CSR Times Electric's facility in China. This work is expected to be completed during 2010 and will establish Dynex as a major element in the CSR Times Electric industrial supply chain.

The Dynex module research and development team continues to focus on improvements in high voltage, high power modules to support traction, power distribution and other heavy industrial markets into the future. The wafer fabrication team is focused on the transition from 4 to 6 inch wafer processes and 3.3kV and 6.5kV product enhancements. In 2010 it is anticipated that Dynex and CSR Times Electric will continue to develop their technical relationship to the mutual benefit of both organisations.

Power Electronic Assemblies

Representing 16% of the company's business in 2009, the Power Electronic Assemblies Group achieved sales revenues totalling $6.3 million, a growth of 7% over the previous year. This was below expectation, but the order intake was as forecast for the year leaving the group in a very strong position for 2010. The group continues to produce assemblies used in marine drives and industrial power converters and some longer term bookings are secured for the end of 2010 and early in 2011.

High Voltage Direct Current "HVDC" Converter Module orders were secured in 2009 and these units will be manufactured steadily through 2010. Further projects have been identified for the next 2 years, and some will now incorporate Dynex thyristors, further increasing the part that we have to play in these important developing opportunities.

The group is continuing to seek opportunities, offering high power converters for very high power generation schemes, and some early success has demonstrated the robustness and capability of these assemblies.

With semiconductor device applications experience, the Power Electronic Assemblies Group has also been able to design and construct a range of high power test equipment, creating new product opportunities for the future.

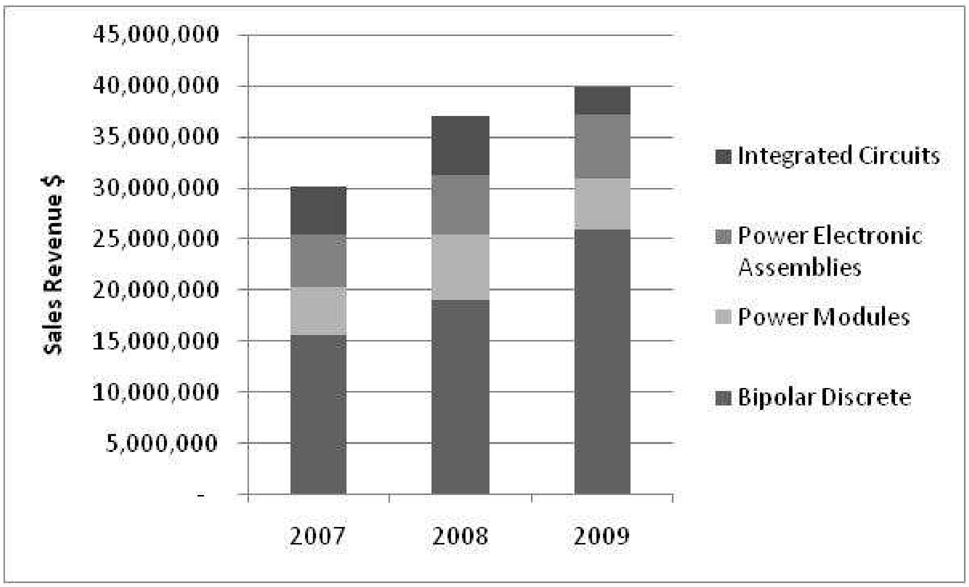
Integrated Circuits

As expected, there was a reduction in the Integrated Circuit Product Group revenue in 2009. Sales for the year of $2.6 million, 7% of the total business, were 54% below the previous year. This was forecast, with new order intake restricted by a diminished supply of existing silicon on sapphire die stock.

Because the new 6 inch IGBT wafer fabrication line would be unable to support the manufacture of 4 inch SOS wafers,and because it is uneconomic to sustain the old 4-inch line, and the technical issues that had been restricting the re-qualification of the SOS material, it has been decided to cease manufacture of new SOS die. SOS products represent the entirety of the Integrated Circuit product group revenue.

The proven long term reliability of the Dynex SOS product continues to attract enquiries from a long standing worldwide customer base and there is high confidence that these customers will continue to use Dynex designs until our small inventory of die is exhausted. New sales orders for 2009 represented a disappointing but expected decrease of 47% over the previous year which delivered a book to bill ratio of 0.64. It is forecast that the level of sales will continue to decrease during 2010.

Sales by product



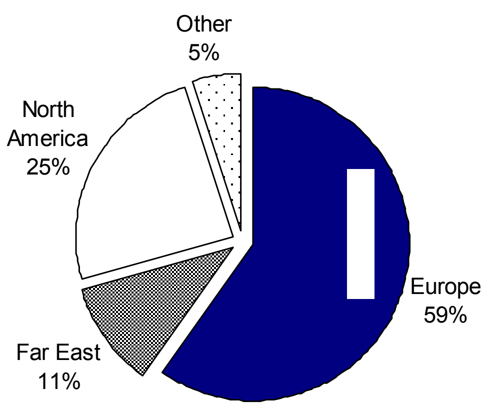
Sales and Distribution

Worldwide sales increased from $37.0 million in 2008 to $39.9 million in 2009, an annual growth of 8%. Focusing on the high power product groups alone, the growth was 19%. This is the fourth year where the growth in the high power product groups has been at this level and demonstrates that Dynex is gaining market share during the current economic difficulties.

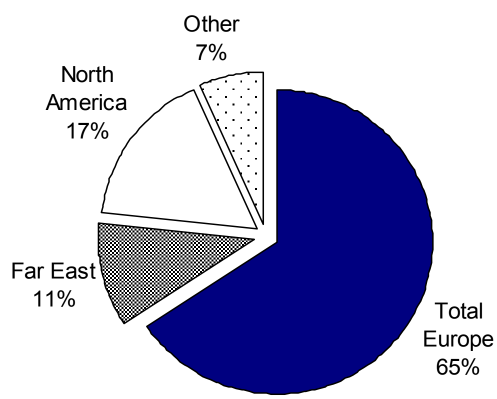
Europe remained the largest market accounting for 65% of sales with sales increasing by 8%. North American which accounted for 17% of sales experienced a reduction of 20%. This reduction is mainly the result of marine drives business and push back of shipment at the request of customers. In the Far East, the share of the total business was steady at 11% but there was an actual growth in sales of 23%. This growth is mainly the result of increasing demand from China and India. In the rest of the world there was growth of 58% in sales and the rest of the world now accounts for 7% of our total business.

Bookings (new sales orders) in 2009 were 22% lower than in 2008 with the book to bill ratio for the year falling to 0.85. Nevertheless, there was still a strong order book at the year with a total backlog of $31.5 million representing the equivalent of 41 weeks output at 2009 sales levels. The bookings of the Power Electronic Assemblies Group increased by 152% as a result of the contracts awarded to us by two of our main accounts. Bookings for Power Modules grew twentyfold, but this reflected the very low net figure recorded in 2008 as a result of large customer cancellations during the year. However, in the Bipolar Discrete Product Group, net bookings fell by 49% as a result of some large order cancellation this year following overbooking last year by customers in Europe and North America. The bookings of the Integrated Circuit Product Group fell by 47% because the Company decided that it is no longer a core business. Looking forward to 2010, we anticipate on-going growth with Europe remaining our strongest sector and the Far East having the most potential for growth.

Sales by region



2008



2009

Management's Discussion & Analysis

The following discussion and analysis should be read in conjunction with the Consolidated Financial Statements of the Company for the years ended December 31st, 2009 and 2008.

This management's discussion and analysis 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.

Overview of Operations

The Company enjoyed another successful and profitable year in 2009. Revenue was 8% higher than in 2008, the fourth consecutive year of revenue growth, during which time revenue has grown by 75%. The gross margin reduced from 28.3% in 2008 to 23.9% in 2009. This reduction had been expected. The gross margin in 2008 had been favourably impacted by an exceptional product mix in the first half of the year that was not expected to be repeated. The gross margin remains above the 22.8% reported in 2007 and management regards this as a good outcome given the current economic environment in which we are operating and the disruption to our existing business from the major capital expenditure project currently taking place.

Expenses as a percentage of revenue fell from 17.9% in 2008 to 14.5% in 2009. The 2008 figure had been increased by the costs associated with the acquisition of 75% of the common shares by CSR Times Electric. Nevertheless, the reduction re-establishes a long term trend of reducing the expenses ratio.

As a consequence of these changes, the Company reported earnings before other income for the year of $3.8 million, similar to that reported in 2008. However, as a result of a switch from a foreign exchange gain in 2008 to a foreign exchange loss in 2009 and the need to account for a tax charge on profits in the UK for the first time following the exhaustion of the brought forward UK tax losses during the year, net earnings fell from $4.6 million in 2008 to $3.4 million in 2009.

The Company is seeing some weakness in the market reflecting the economic difficulties being experienced in a number of its major markets. Nevertheless, the strength of the order book at the year-end means that management is confident that revenue in 2010 should at least be at a similar level to that seen in 2009. However, the gross margin will be reduced as a result of the impact of the significant expansion programme currently being undertaken with the benefits of that expansion not being seen until 2011. Moreover, as a result of the complete exhaustion of the brought forward tax losses in the UK operating subsidiary, the Company is expected to bear a full tax charge in 2010.

Revenue

Revenue for the fourth quarter of 2009 was $9.8 million, up by $464,000 or 5% from the third quarter of 2009 with strong growth in the Bipolar Discrete and Power Module Groups, stability in the Power Electronic Assemblies Group and a decline in Integrated Circuits. Revenue was the same as in the corresponding quarter of last year, with good growth recorded in all three high power product groups partially offset by a decline in Integrated Circuits.

Revenue for the year of $39.9 million is $2.9 million or 8% ahead of last year with strong growth in the Bipolar Discrete Group, growth in the Power Electronic Assemblies Group and declines in the Power Modules and Integrated Circuits Groups.

Gross Margin

The gross margin was 23.7% in the fourth quarter of 2009 compared to 20.3% in the third quarter and 18.6% in the corresponding quarter of 2008.

Gross margin for the year is 23.9% in 2009 compared to 28.2% in the previous year. The gross margin had been boosted in 2008 by exceptionally high gross margins in the first two quarters. The reduction had been expected.

Expenses

Expenses in the fourth quarter of 2009 of $1.5 million were $231,000 or 18% higher than in the third quarter. Compared to the fourth quarter of 2008, expenses fell by $635,000 or 69%. The fourth quarter expenses of 2008 contained some one-off costs related to the acquisition by CSR Times Electric.

For the year, expenses of $5.8 million are $860,000 or 13% lower than last year. The 2008 figure had included some costs associated with the acquisition by CSR Times Electric. The overhead cost ratio has fallen from 17.9% to 14.5%

Interest & Other Income

Interest and other income was $47,000 in the fourth quarter of 2009, compared to $63,000 in the preceding quarter and $119,000 in the corresponding quarter of last year. A major constituent of Other Income continues to be the $40,000 quarterly release of deferred revenue arising from the sale and leaseback of a building in 2003. The figure for the corresponding quarter of last year included $66,000 of non production sales.

For the year, interest and other income was $229,000 compared to $297,000 last year. Last year's figure had included approximately $80,000 of non production sales whereas the preceding year had included $130,000 of such sales.

Foreign Exchange Gains and Losses

There was a foreign exchange loss in the quarter of $33,000, compared to a gain of $181,000 in the third quarter and a gain of $315,000 in the corresponding quarter of last year. The large gain in the corresponding quarter of last year arose from the fact that the UK operating subsidiary was holding net assets (receivables less payables and borrowings) denominated in Euros and US Dollars at a time when Sterling depreciated by approximately 25% against those currencies. For the year, there was a loss of $152,000 compared to a profit of $454,000 in the previous year.

Income Taxes

The brought forward tax losses in the UK Company have been exhausted during the year but have resulted in a UK tax charge significantly lower than the statutory tax rate. In the third quarter of 2009, tax had been provided at 14% of UK profits. As a result of a reassessment of the UK Company's tax position in the fourth quarter of 2009, the estimated tax rate on UK profits for the year was reduced to 10% and it was possible to release $31,000 of the tax provision in the fourth quarter. Apart from a small amount of tax on some rental and interest income, no tax was payable on the profit reported in the corresponding quarter of last year.

As noted above, the brought forward UK tax losses were exhausted during 2009. The existence of some tax losses, however, means that the tax rate for the year on UK profits is estimated at 10% compared to 0% in 2008. The rate is expected to rise to around the UK statutory tax rate of 28% in 2010.

Net Earnings

The Company reported earnings of $823,000 in the quarter compared to earnings in the previous quarter of $701,000 and in the corresponding quarter of last year of $705,000. Moreover, the earnings in the previous quarter and in the corresponding quarter of last year had both been boosted by significant foreign exchange gains whereas the earnings of the current quarter contain a small foreign exchange loss.

The earnings for the year of $3.4 million is $1.1 million or 25% lower than that reported last year and results primarily from a switch from a substantial foreign exchange gain to a smaller but still significant foreign exchange loss and from a tax charge being applied in 2009 following the exhaustion of the UK tax losses.

Segmental Analysis

Revenue for the Bipolar Discrete Group in the quarter of $6.4 million was $272,000 or 4% higher than the previous quarter and $721,000 or 13% higher than in the corresponding quarter of last year. Significant capital expenditure has been undertaken to ensure that bipolar revenue can continue to grow.

Revenue for the Power Modules Group in the quarter of $1.2 million was $64,000 or 6% higher than the figure reported in the third quarter. It was $712,000 or 37% lower than the record figure reported in the corresponding quarter of last year. There has been some evidence of a weakening in this market during 2009 and the business has suffered some disruption from the major expansion currently taking place of the IGBT fabrication facility.

Revenue for the Power Electronic Assemblies Group of $1.6 million was $276,000 lower than in the previous quarter, which had been the highest quarterly figure for six years. It was $110,000 or 6% lower than in the corresponding quarter of last year.

Revenue from Integrated Circuits for the quarter of $611,000 was $405,000 or nearly three times the figure in the preceding quarter and $102,000 or 20% higher than the corresponding quarter of 2008. Revenue is not expected to grow significantly.

Revenues for the year are up by 36% for the Bipolar Discrete Group and 7% for the Power Electronic Assemblies Group. Revenues for the Power Modules Group fell by 21% and by 54% for Integrated

Circuits. The annual revenue recorded by the Bipolar Discrete Group was the highest ever achieved and revenue for the Power Electronic Assemblies Group was the highest for seven years. Despite the fall in revenue for Power Modules, it was still the second highest annual revenue recorded by this group.

Seasonality

Management does not regard the business as seasonal. 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

On the 30th December 2009 the Company completed a $22.5 million rights issue to fund a major capital expenditure project. As a result of this rights issue and the earnings for the year, shareholders' funds have increased from $6.5 million to $31.4 million.

The gross borrowings of the Company, including capital leases and amounts borrowed from CSR Times Electric on which the Company is paying interest, have risen from $7.2 million at the start of the year to $17.9 million at the year end. However, this figure includes a short term loan of $12.4 million taken out to fund the work on the capital expenditure project until such time as the rights issue could be completed. This loan was repaid out of the proceeds of the rights issue shortly after the year end. If that loan is excluded, then gross borrowings had fallen from $7.2 million to $5.5 million.

Given the substantial cash balance following the rights issue, the Company had no net borrowings at the year end. However, excluding from the cash balance the amount that will be used to complete the capital expenditure project, net debt has fallen from $6.8 million at the start of the year to $4.5 million at the year end.

As a result of these changes and adjusting for the debt repayment that took place shortly after the year end, the debt equity ratio has fallen from 110% at the start of the year to 17% at the year-end, thus providing a strong base for future expansion.

The Company's other short-term loan facility, a £3 million uncommitted facility, expired in March 2010. The Company has entered into a £3 million committed revolving credit agreement to replace this facility. A £1 million uncommitted overdraft facility has also been arranged at the same time.

The Company has capital commitments at the year-end of $3.8 million mainly for the purchase of new fabrication equipment for IGBT products. These capital commitments and completion of the IGBT fabrication upgrade will be paid for out of the rights issue that was completed just before the year end.

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

Selected Financial Information

	2009 Q4	2009 Q3	2009 Q2	2009 Q1	2008 Q4	2008 Q3	2008 Q2	2008 Q1	2009 FY	2008 FY	2007 FY
Revenue	9,811	9,347	9,722	11,003	9,810	9,349	9,773	8,084	39,884	37,017	30,155
Net earnings	823	701	725	1,165	705	395	2,291	1,171	3,417	4,562	2,172
Basic EPS	0.02	0.02	0.02	0.03	0.02	0.01	0.06	0.04	0.08	0.12	0.07
Diluted EPS	0.02	0.02	0.02	0.03	0.02	0.01	0.06	0.03	0.08	0.12	0.06
Total assets	56,784	30,111	28,593	23,229	20,661	18,204	18,580	15,083	56,784	20,661	15,087
Long term liabilities	652	964	1,032	3,669	3,649	2,583	2,846	3,844	652	3,649	3,726
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 that will give rise to a cash outflow.

Annual revenue rose by 23% between 2007 and 2008 and by 8% between 2008 and 2009. Quarterly revenues have been relatively stable over the period at a little under $10 million per quarter with a slightly lower quarter in the first quarter of 2008 and a slightly better quarter in the first quarter of 2009.

The strong improvement in earnings in 2008 shows the impact of revenue growth and long-term cost reduction. Revenue growth in 2009 has been more modest and as a result of the costs of preparing for strong growth in future and the disruption caused by a major expansion of the IGBT fabrication facility, earnings have fallen. The net earnings in the second quarter of 2008 resulted from an exceptionally favourable product mix and were not expected to be repeated. Net earnings in the third and fourth quarters of 2008 were both affected by significant one-off costs related to the CSR Times Electric acquisition of 75% of the common shares of the Company. Earnings in the other quarters remained reasonably stable.

Risk Management

The Company operates in a competitive market in which the major competition comes from businesses that are much larger than Dynex and which therefore have more resources at their disposal. The recent purchase of a 75% stake in the Company by CSR Times Electric made the Company part of a larger group. The Company further tries to meet this challenge by ensuring it undertakes sufficient R&D and continuous improvements in manufacture to maintain its product quality, product performance and delivery lead time at or ahead of the levels provided by competitors.

A fundamental shift in technologies in the Company's product markets could have a material adverse effect on its competitive position within the industry. Dynex is increasing the percentage of revenue spent on R&D in order to mitigate this risk.

The level of worldwide demand for power semiconductors and power semiconductor assemblies is one of the key uncertainties for the Company. Global plans to reduce carbon emissions in response to concerns about climate change, including the increased power generation from non-fossil fuels, the electrification of transport systems and the increased use of advanced power electronic equipment, together with the need for additional power generation capacity and improved power transmission and distribution systems and the increased demand for the supply of high quality electrical energy, provide strong justification for believing that demand for the Company's products will remain strong despite the current economic problems that affect many developed economies. The recent purchase of a 75% stake in the Company by CSR Times Electric gives the Company improved access to the Chinese market which is less affected by the current economic problems. However, any reduction in investment in these areas would be detrimental to the future of the business.

The Company has based its future business development plans on the assumption that CSR Times Electric will purchase its IGBT products from Dynex. This is not certain as there are many factors that may prevent CSR Times Electric purchasing such products. In particular, there is a risk that Dynex IGBT modules may prove technically incompatible or not competitive for use in CSR Times Electric equipment and that may materially reduce the future demand for IGBT modules. The Company is working closely with CSR Times Electric, has set up several joint teams and is increasing its R&D expenditure to ensure that its products are able to meet CSR Times Electric's needs.

The Company's manufacturing processes are highly complex and manufacturing efficiency is an important factor in the Company's competitiveness and profitability. The Company has been investing and continues to invest in new fabrication equipment to ensure it remains competitive.

The Company's manufacturing yields vary significantly among products, depending on the complexity of a particular product's design and the Company's experience in manufacturing that type of product, the quality of the raw materials and bought in components used in manufacture and the effects of contamination or other difficulties during the semiconductor fabrication process. Deterioration in yields will increase production costs and therefore reduce margins. In addition, failure to meet planning yields may also lead to late deliveries to customers. The Company seeks to manage these risks by constantly monitoring and seeking to improve its yields through improvements in design, materials and manufacturing processes.

The Company's business is quite concentrated with over 50% of turnover typically coming from ten to twelve customers. The failure or consolidation of any of these customers around companies owned or supplied by Dynex's major competitors could significantly reduce the opportunities available to the business in future. The recent acquisition of a major stake in the Company by CSR Times Electric gives the Company a much closer relationship with what is hoped will be a major customer in the future. The Company has developed and works to a Quality Policy, operated under ISO 9001:2008 in order to ensure it meets its customers requirements as well as it possibly can. The Company constantly seeks to acquire new customers to broaden its customer base.

As disclosed in the Financial Statements, the Company had one customer that accounted for 13% of revenue and one customer that accounted for 10% of revenue during the year. Our relationship with both these customers and with all our other major customers and suppliers remains good.

The Company had one customer at December 31st, 2009 that accounted for 19% of accounts receivable and one customer that accounted for 16% of accounts receivable. The Company monitors closely the payment record of such significant debtors.

Certain raw materials, such as silicon, neutron transmutation doped ("NTD") silicon, molybdenum, ceramic housings, substrates, baseplates, wafer fabrication chemicals and gases, electricity and assembly materials and sub-contract services are critical to the manufacture of high power semiconductors. The Company seeks to maintain close relationships with key suppliers, entering into long term supply arrangements where appropriate and by multi sourcing products where possible, in order to ensure continued access to such raw materials.

The supply of NTD silicon, which is used in the Company's highest power products, has become less secure recently due to a lack of reactor capacity. The Company has been seeking to build relationships with new suppliers to increase its security of supply.

In the case of electricity, the Company is a major user of electricity and the cost of electricity in the UK is subject to significant short term variation. The Company has developed and operates a formal Energy Management Plan in order to minimize the use of power. The Company takes independent professional advice on the purchase of electricity and seeks to enter into long term contracts to reduce the uncertainty about future prices.

Many of the Company's expenses, particularly those relating to capital equipment and manufacturing overhead, are relatively fixed, making the Company's results extremely sensitive to volume reductions. The Company seeks to manage this risk by maintaining close relationships with its main customers and by seeking new customers. The Company's capability in power electronic assemblies is an important aspect of developing and maintaining such close relationships.

The Company's operating business is in Lincoln, England and the majority of its assets, liabilities, revenues, expenses and cash flows take place in 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, believing that its shareholders have taken a positive decision to invest in a business operating out of the UK.

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 future success depends, in part, upon its ability to attract and retain suitably qualified and experienced personnel in engineering, research and development, operations, production management, sales, marketing, finance, IT and general management. The Company seeks to ensure that its remuneration, employee benefits and general terms and conditions remain competitive to ensure it is able to recruit and retain the people it needs to be competitive.

As part of its manufacturing operations, the Company uses many hazardous chemicals and gases. The Company operates a formal Health and Safety Plan and a formal Environmental Management Plan under ISO 14001 in order to ensure compliance with the relevant laws and regulations and to ensure that the risks to employees, third parties and the environment are minimized.

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 $306,000 during the year from the European Union and the British Government to assist in its research and development activities and grants of $6,000 from the UK Government to purchase equipment.

Related Party Transactions

On February 6th, 2009 the Company signed a new distributor agreement with CSR Times Electric. The Company has appointed CSR Times Electric to be its main distributor for high power semiconductors in The People's Republic of China. At the same time CSR Times Electric has appointed the Company to be its main distributor for high power semiconductors in Europe. The parts will be sold to the distributor at the market price less a discount to cover the cost of the work carried out by the party handling the distribution. CSR Times Electric placed an order for $2,521,141 on the Company for deliveries in 2009 and in order to secure this capacity CSR Times Electric has paid in advance for the full amount of this order. The Company has agreed to credit CSR Times Electric with interest on the outstanding balance each quarter at US prime rate plus 2%. At December 31st, 2009 an amount of $519,387 is outstanding to CSR Times Electric and is included in amounts owing to parent company.

The Company incurred interest expense in the year ended December 31st, 2009 of $71,345 relating to the advance from CSR Times Electric. At December 31st, 2009 accrued interest on the advanced payment amounting to $67,544 is included in amounts owing to parent company.

The Company purchased inventory in the year ended December 31st, 2009 of $41,880 relating to purchases from CSR Times Electric under the distributor agreement. All such inventory had been sold by the year end.

The Company recorded revenue in the year ended December 31st, 2009 of $1,798,196 relating to product sales to CSR Times Electric under the distributor agreement.

On May 28th, 2009 the Company arranged a $14.0 million twelve month revolving credit facility with ICBC (London) Limited with interest set at LIBOR plus 1.35%. The facility is guaranteed by CSR Times Electric. At December 31st, 2009 $12,384,295 is outstanding on this facility and is included in short term loans.

On June 10th, 2009 the Company entered into an agreement with David Banks, a director of the Company, under which Mr. Banks undertook to carry out a number of additional duties relating to the rights issue the Company launched. Under the terms of the agreement, Mr. Banks will receive a fee equal to 3% of the amounts raised under the rights issue excluding any amount subscribed by CSR Times Electric. Costs of $168,822 relating to this fee has been included in the costs of the rights issue, deducted from the gross proceeds and included in share capital. At December 31st, 2009 $168,822 is included in accounts payable and accrued liabilities.

The Company had a loan from CSR Times Electric, the majority shareholder, of $nil (2008 - $2,819,697). The loan carried interest at 8% and was repaid in full on December 22nd, 2009 (see Note 10).

The Company incurred interest expense in the year ended December 31st, 2009 of $129,482 relating to the loan from CSR Times Electric.

On December 23rd, 2009 as part of the first closing of the Rights Issue and December 31st, 2009 as part of the final closure of the Rights Issue, a total of 30,146,126 common shares was issued at $0.56 to CSR Times Electric, the majority shareholder.

On December 23rd, 2009 as part of the first closing of the Rights Issue and December 31st, 2009 as part of the final closure of the Rights Issue, a total of 3,105,225 common shares was issued at $0.56 to directors.

The Company retains a business law firm in Canada to provide legal services and advice. During the year ended December 31st, 2009, this firm was paid $247,708 in fees and expenses. At December 31st, 2009, $187,056 is payable to this firm. One of the Company's directors is a partner of this firm.

The Company incurred expenses in the year of $67,000 with respect to fees payable to directors. As at December 31st, 2009, $35,000 is payable to directors.

The Company uses CSR Times Electric to make purchases of raw materials for it in China. The Company incurred cost of sales in the year ended December 31st, 2009 of $1,751,073 (2008 - $nil) under this arrangement. At December 31st, 2009 $368,095 was outstanding to CSR Times Electric and was included in amounts owing to parent company (2008 - $nil) and advance payments of $55,178 have been made to CSR Times Electric and was included in amounts owing from parent company (2008 - $nil).

CSR Times Electric uses the Company to buy certain raw materials for it. The Company recorded revenue in the year ended December 31st, 2009 of $171,285 (2008 - $nil) relating to this arrangement. At December 31st, 2009 an amount of $163,390 was outstanding from CSR Times Electric and was included in amounts owing from parent company (2008 - $nil).

The Company recorded revenue in the year ended December 31st, 2009 of $310,629 (2008 - $nil) relating to training and support provided to CSR Times Electric in setting up an IGBT assembly & test facility in Zhuzhou, China. At December 31st, 2009 $49,534 of invoiced amounts have been carried forward and included in the current portion of deferred revenue (2008 - $nil).

The Company recorded a contribution towards research & development costs in the year ended December 31st, 2009 of $70,610 (2008 - $nil) from CSR Times Electric. At December 31st, 2009 $33,860 of invoiced amounts have been carried forward and included in the current portion of deferred revenue (2008 - $nil).

Business Development

Revenue in the fourth quarter of 2009 was just below $10 million. Quarterly revenue is expected to be around this level, and probably a little higher, in the first two quarters of 2010 with a slight decline possible in the third and fourth quarter, subject to the value of the Dollar not rising against Sterling.

Quarterly earnings before tax in the fourth quarter of 2009 were approximately $800,000. Quarterly earnings before tax are expected to fall below this level in 2010 as the Company prepares for strong growth in 2011 and because of the disruption caused by the current IGBT fabrication facility expansion. In addition, due to the exhaustion of brought forward tax losses in the UK, the Company expects to incur a tax charge in the UK in 2010 much closer to the statutory tax rate of 28%.

Order Book

At the end of December, the order book stood at $31.4 million. At the end of 2008, it had stood at $37.7m. Approximately three quarters of this reduction reflects a softening in the market with the rest the result of a strengthening of the Canadian Dollar Sterling exchange rate. Approximately 90% of these orders are for delivery in 2010.

Changes in Accounting Policies

EIC 173, Credit Risk and the Fair Value of Financial Assets and Financial Liabilities was issued in January 2009 and requires the fair value of all financial assets and liabilities to include an adjustment to reflect the creditworthiness or the non-performance risk of the counterparty.

Section 3862, Financial Instruments –Disclosure was amended during 2009 to provide enhance disclosures about fair value measurements, including the relative reliability of the inputs used in those measurements and expanded disclosures around liquidity risk.

Section 3855, Financial Instruments- Recognition and Measurement was updated during 2009 to incorporate certain changes to Canadian GAAP in order to reduce differences with International Financial Reporting Standards (IFRS) and to ease the requirements regarding impairment of certain investments in debt instruments.

In December 2009, the CICA issued EIC 175, *Multiple Deliverable Revenue Arrangements.* The Company has assessed the EIC and determined that its application does not have a significant impact on its results.

In January 2009 the CICA issued Handbook Section 1582, 1601 and 1602 *Business Combinations, Financial Statements and Non-Controlling Interests*. The Company has been assessing these changes and has concluded that they will have no material impact on the consolidated financial statements when they are adopted.

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.

Management has been reviewing the changes that will be required as a result of the introduction of IFRSs. Management is currently working with an external advisor to prepare a detailed plan for the transition to IFRS accounting. However, this work was put on hold whilst the Company completed its recent rights issue. The Company now expects to be able to report the outcome of that work as part of the interim report on the second quarter of 2010. A major adjustment to the accounts that will be required as a result of this change will be the release of the deferred revenue arising from the sale and leaseback of a property in Lincoln, England in 2003. The deferred revenue will be credited to shareholders' equity.

Disclosure Controls

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

Internal Controls

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

During the quarter and the year ending December 31st, 2009, 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
15th April, 2010

Management's Responsibility for Financial Reporting

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

Dynex's accounting procedures and related systems of internal control are designed to provide reasonable assurance that its assets are safeguarded and its financial records are reliable. In recognising that the Company is responsible for both the integrity and objectivity of the financial statements, management is satisfied that the financial statements have been prepared according to and within reasonable limits of materiality and that the financial information throughout this report is consistent with these.

The Company has an Audit Committee made up of outside directors which was set up after the Annual General Meeting in June 2001. The Committee meets periodically with management, as well as the external auditors, to discuss internal controls over the financial reporting process, auditing matters and financial reporting issues, to satisfy itself that each party is properly discharging its responsibilities, and to review the annual report, the consolidated financial statements and the external auditors' report. The Committee reports its findings to the Board for consideration when approving the consolidated financial statements for issuance to shareholders. The Committee also recommends to the Board and the shareholders, the engagement or reappointment of the external auditors.

Deloitte & Touche LLP, Chartered Accountants, serve as Dynex's auditors. The Board of Directors, along with the management team, have reviewed and approved the financial statements and information contained within this report. Deloitte & Touche LLP's report on the accompanying financial statements follows. Their report outlines the extent of their examination as well as an opinion on the statements.

PDTaylor — Bob Lockwood

Paul Taylor	Bob Lockwood
President & CEO	CFO
15th April, 2010	15th April, 2010

Auditors' Report

To the Shareholders of
Dynex Power Inc.

We have audited the consolidated balance sheets of Dynex Power Inc. as at December 31, 2009 and 2008 and the consolidated statements of earnings and deficit, comprehensive income, accumulated other comprehensive loss and deficit and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2009 and 2008 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP

Chartered Accountants
Licensed Public Accountants

15th April, 2010
Ottawa, Canada

DYNEX POWER INC.
Consolidated Statements of Earnings and Deficit
Years Ended December 31st, 2009 and 2008

		2009		2008
Revenue	$	**39,883,801**	$	37,016,731
Cost of sales		**30,349,403**		26,559,302
Gross margin		**9,534,398**		10,457,429
Expenses				
General and administration		**3,168,185**		4,077,965
Sales and marketing		**949,287**		1,010,798
Research and development (Note 4)		**1,171,970**		796,414
Interest expense (Notes 9 ,10 & 11)		**494,955**		759,128
		5,784,397		6,644,305
Earnings before other income (expenses) and income taxes		**3,750,001**		3,813,124
Other income (expenses)				
Interest and other income		**229,163**		297,254
Foreign exchange (loss) gain		**(151,714)**		453,603
		77,449		750,857
Earnings before income taxes		**3,827,450**		4,563,981
Income taxes (Note 5)		**(413,777)**		(2,298)
NET EARNINGS		**3,413,673**		4,561,683
DEFICIT, BEGINNING OF YEAR		**(7,169,144)**		(11,730,827)
DEFICIT, END OF YEAR	$	**(3,755,471)**	$	(7,169,144)

		2009		2008
Earnings per share				
Basic	$	**0.08**	$	0.12
Diluted (Note 6)	$	**0.08**	$	0.12
Weighted average number of shares				
Basic		**40,509,547**		37,120,084
Diluted (Note 6)		**40,673,893**		37,250,602

These financial statements should be read in conjunction with the notes set out on pages 23 to 40.

DYNEX POWER INC.
Consolidated Statements of Comprehensive Income
Years Ended December 31st, 2009 and 2008

		2009		2008
Net earnings	**$**	**3,413,673**	$	4,561,683
Other Comprehensive loss, net of tax:				
Unrealized foreign exchange loss on translating financial statements of self-sustaining foreign operations		**(473,090)**		(619,314)
OTHER COMPREHENSIVE LOSS		**(473,090)**		(619,314)
COMPREHENSIVE INCOME	**$**	**2,940,583**	$	3,942,369

DYNEX POWER INC.
Consolidated Statements of Accumulated Other Comprehensive Loss and Deficit
As at December 31st, 2009 and 2008

		2009		2008
Accumulated other comprehensive loss, beginning of year	**$**	**(1,380,101)**	$	(760,787)
Other comprehensive loss		**(473,090)**		(619,314)
Accumulated other comprehensive loss		**(1,853,191)**		(1,380,101)
Deficit		**(3,755,471)**		(7,169,144)
TOTAL ACCUMULATED OTHER COMPREHENSIVE LOSS AND DEFICIT	**$**	**(5,608,662)**	$	(8,549,245)

Accumulated other comprehensive loss consists entirely of translation adjustments.

These financial statements should be read in conjunction with the notes set out on pages 23 to 40.

DYNEX POWER INC.
Consolidated Balance Sheets
As At December 31st, 2009 and 2008

	2009	2008
CURRENT ASSETS		
Cash	**$ 22,942,550**	$ 404,638
Accounts receivable	**6,439,200**	6,081,965
Inventories (Note 7)	**8,872,155**	8,041,747
Amounts owing from parent company (Note 21)	**218,568**	-
Income tax recoverable	**96,413**	2,838
Prepaid expenses and deposits	**794,170**	696,625
	39,363,056	15,227,813
PROPERTY, PLANT & EQUIPMENT (Note 8)	**17,420,677**	5,433,347
	$ 56,783,733	$ 20,661,160
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	**$ 4,964,864**	$ 5,688,807
Short-term loan (Note 9)	**16,273,732**	3,551,495
Amounts owing to parent company (Note 21)	**955,026**	-
Current portion of long-term debt (Note 10)	**24,921**	45,610
Obligation under capital leases (Note 11)	**113,602**	114,146
Current portion of deferred revenue (Note 12)	**1,174,803**	137,271
	23,506,948	9,537,329
LONG-TERM DEBT (Note 10)	**942**	2,846,811
LONG-TERM OBLIGATION UNDER CAPITAL LEASES (Note 11)	**512,935**	642,659
LONG-TERM DEFERRED REVENUE (Note 12)	**949,290**	1,132,483
FUTURE INCOME TAXES (Note 5)	**380,756**	-
	25,350,871	14,159,282
SHAREHOLDERS' EQUITY		
Share capital (Note 13)	**37,041,524**	15,051,123
Deficit	**(3,755,471)**	(7,169,144)
Accumulated other comprehensive loss (Note 3)	**(1,853,191)**	(1,380,101)
	31,432,862	6,501,878
	$ 56,783,733	$ 20,661,160

These financial statements should be read in conjunction with the notes set out on pages 23 to 40.

Paul Taylor
Director
15th April, 2010

Bob Lockwood
Director
15th April, 2010

DYNEX POWER INC.
Consolidated Statements of Cash Flows
Years Ended December 31st, 2009 and 2008

	2009	2008
OPERATING		
Net earnings	**$ 3,413,673**	$ 4,561,683
Items not affecting cash		
Amortization	**693,984**	310,446
Gain on disposal of property, plant and equipment	**(137,672)**	(101,245)
Future income taxes	**399,541**	-
Shares and options issued for services (Note 13)	**-**	37,000
Non-cash interest	**6,248**	183,226
Non-cash grant income	**-**	(2,355)
Provision for inventory obsolescence	**1,823,084**	1,149,172
Changes in non-cash operating working capital (Note 14)	**(4,223,368)**	(1,799,184)
	1,975,490	4,338,743
FINANCING		
Shares issued for cash	**22,509,671**	34,500
Cost of share issue	**(35,943)**	-
Increase in amounts owing to parent company	**2,521,141**	-
Decrease in amounts owing to parent company	**(4,650,459)**	-
Increase in short-term loans	**13,619,037**	62,836
Payments on capital leases	**(99,832)**	(79,743)
Increase (decrease) in long-term debt	**(45,779)**	126,489
	33,817,836	144,082
INVESTING		
Proceeds of disposal of property, plant and equipment	**263**	4,374
Purchase of property, plant and equipment	**(13,121,302)**	(4,333,637)
	(13,121,039)	(4,329,263)
Effect of foreign currency translation on cash	**(134,375)**	110,209
NET INCREASE IN CASH	**22,537,912**	263,771
Cash, beginning of year	**404,638**	140,867
CASH, END OF YEAR	**$ 22,942,550**	$ 404,638
Supplementary Information:		
Interest paid during period	**$ 435,862**	$ 529,188
Income taxes paid during period	**$ 103,771**	$ 2,298

At December 31st, 2009 $914,398 is included in accounts payable in relation to purchases of property, plant and equipment (2008 - $559,869) and therefore has been excluded from the cash flow. The amount included in accounts payable at the end of 2008 is included in this year's cash flow.

These financial statements should be read in conjunction with the notes set out on pages 23 to 40.

1. DESCRIPTION OF BUSINESS

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

2. ADOPTION OF NEW ACCOUNTING POLICIES

The Company adopted the following new accounting standards in accordance with their transitional provisions.

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 or measurement of the Company's inventory.

Financial Instruments
On January 1st 2008, the Company adopted the new accounting standards on financial instrument disclosure.

Capital Disclosures
On January 1st, 2008 the Company adopted the new accounting standard on capital disclosures.

Goodwill and Intangible Assets
On January 1st, 2009 the Company adopted the new accounting standard on goodwill and intangible assets The adoption of this new standard had no material impact on the Company's consolidated financial statements.

Credit Risk and the Fair Value of Financial Assets and Liabilities
In January 2009, CICA released EIC 173, *Credit Risk and the Fair Value of Financial Assets and Liabilities*. The Company has assessed the EIC and determined that its application does not have a significant impact on the Company's consolidated financial statements.

Financial Instruments
In June 2009, the CICA amended Handbook Section 3862, *Financial Instruments-Disclosure.* The adoption of this amendment did not have a material impact on the Company's consolidated financial statements.

In August 2009, the CICA amended Handbook Section 3855, *Financial Instruments-Recognition and Measurement.* The adoption of this amendment did not have a material impact on the Company's consolidated financial statements.

Revenue Recognition
In December 2009, the CICA issued EIC 175, *Multiple Deliverable Revenue Arrangements.* The Company has assessed the EIC and determined that its application does not have a significant impact on the Company's consolidated financial statements.

Business Combinations, Consolidations and Non-Controlling Interests
In January 2009 the CICA issued Handbook Sections 1582, 1601 and 1602, *Business Combinations, Consolidations and Non-Controlling Interests*. The Company has been assessing these changes and has concluded that they will have no material impact on the consolidated financial statements when they are adopted.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of consolidation

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, Dynex Semiconductor Limited and Dynex SARL, and are prepared in accordance with Canadian generally accepted accounting principles. All intercompany transactions and balances have been eliminated. Dynex SARL was closed during 2007 and wound up during 2008 and thus no values for it are included in the balance sheets at December 31st, 2009 or December 31st, 2008.

Financial instruments

All financial assets and liabilities which are recorded on the balance sheet at fair value use a fair value hierarchy with the following levels:

Level 1-the valuation is based on prices quoted in an active market for identical assets or liabilities.
Level 2- valuation techniques based on prices or derived from prices for the asset or liability that are observable but do not meet the requirements of Level 1.
Level 3- valuation techniques based on inputs that are not based on observable market data.

A financial instrument is classified to the lowest level of the hierarchy possible.

Cash is classified as a Level 1 financial instrument. During the year there have been no transfers of amounts between Level 1 and Level 2. There are no items classified as Level 2 or Level 3.

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.

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.

Currency of reporting

All figures are in Canadian dollars except as otherwise stated.

Use of accounting estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires the Company's management to make estimates that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period presented. Examples of such estimates include the anticipated useful lives of property, plant and equipment, certain accruals for liabilities incurred, the provisions required against inventory and accounts receivable, the fair value of financial liabilities and assets, stock based compensation and warranties. Actual results could differ from the estimates made by management.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Inventories

Raw materials and work in progress are valued at the lower of cost and replacement cost, and finished goods at the lower of cost and net realizable value. Raw materials are valued at standard cost that accurately reflects their purchase cost. Work in progress and finished goods are valued at the standard cost of direct materials and labour plus allocated overheads. Inventory obsolescence is provided for if raw materials have not moved in six months and if work in progress or finished goods have not moved in three months unless the Company has orders or a realistic expectation of orders for those parts.

Property, Plant & Equipment

Property, plant and equipment is recorded at cost. Amortization is calculated using the straight-line method over the anticipated useful lives of the assets as follows:

Equipment	3-12 years
Equipment under Capital Leases	3-8 years
Leasehold Improvements	8-19 years

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

Long-term debt

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

Deferred revenue

The gain on the sale and leaseback of the land and buildings (Note 12) is being amortized over the 15 year minimum term of the resulting lease.

Revenue recognition

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

Foreign currency translation

The Company considers its wholly owned subsidiary, Dynex Semiconductor Limited, to be self-sustaining and the accounts in foreign currency are translated into Canadian dollars using the current rate method of foreign currency translation. Under this method, assets and liabilities are translated at the exchange rate in effect as of the balance sheet date and income and expense items are translated at the average exchange rate for the period. Net unrealized exchange adjustments arising on translation of foreign currency are included in Accumulated Other Comprehensive Loss.

Stock-based compensation

The fair value of stock options granted to employees is calculated using the Black-Scholes option pricing model. The resulting fair value is charged to General and Administrative Expenses over the period to the vesting date of the options. In 2008, the Company stopped granting stock options.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Research and development costs

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

Income taxes

The Company and its subsidiary 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 using the enacted or substantively enacted income tax rates for the years in which the differences are expected to reverse. Tax assets for the benefits of tax losses and other deductible temporary timing differences available to be carried forward to future years are recognised when management believes they are more likely than not to be realized.

4. RESEARCH & DEVELOPMENT

The Company received grants totalling $306,366 in the year ended December 31st, 2009 (2008 - $685,308) from the European Union and the British Government to assist in its research and development activities. These grants paid for specific work carried out under agreed research and development programmes. The income received has been credited against research and development expenses.

5. INCOME TAXES

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

	2009	2008
Earnings before income taxes	**$ 3,827,450**	$ 4,563,981
Expected tax provision at statutory rates	**1,263,058**	1,528,934
Change in statutory rates	**-**	122,489
Change in valuation allowance	**(606,941)**	(1,443,313)
Foreign tax differential	**(200,029)**	(275,873)
Permanent differences	**(31,280)**	70,061
Other	**(11,031)**	-
	$ 413,777	$ 2,298

The Canadian statutory tax rate is 33% (2008 – 33.5%). The United Kingdom statutory tax rate is 28% (2008 – 28%).

5. INCOME TAXES (continued)

As at December 31st, 2009 the Company has undeducted Canadian research and development expenditures of approximately $43,000 (2008- $43,000) which are available without expiry to reduce future years' income for tax purposes.

As at December 31st, 2009 the Company also has Canadian tax loss carry forwards available to reduce future years' income for tax purposes. These loss carry forwards expire as follows:

Year of expiry		Losses
2013	**$**	**109,000**
2014		**498,000**
2025		**260,000**
2026		**521,000**
2027		**938,000**
2028		**522,000**
2029		**301,000**
	$	**3,149,000**

The benefits of these research and development expenditures and tax losses have not been recognised in these financial statements.

As at December 31st, 2009 the Company has United Kingdom tax loss carry forwards of approximately £880,000 ($1,490,000) (2008- £640,000 ($1,136,000)) available to reduce future years' income for tax purposes. These tax loss carry forwards have no expiry date. The Company also has taxable temporary timing differences relating to the differences between the accounting and the tax basis of assets of approximately £1,660,000 ($2,810,000) (2008- £470,000 ($834,000)).

6. EARNINGS PER SHARE

For the year ended December 31st, 2009 the number of shares that could potentially dilute basic earnings per share in the future but which were not included in the computation of diluted earnings per share because to do so would have been anti-dilutive was nil (2008 – nil).

7. INVENTORIES

		2009		2008
Raw materials	**$**	**2,850,069**	$	2,315,925
Work in progress		**5,009,084**		4,852,995
Finished goods		**1,013,002**		872,827
	$	**8,872,155**	$	8,041,747

7. INVENTORIES (continued)

Inventory is stated net of a provision of $7,275,806 (2008 - $5,783,687) for obsolescence. Movements in the provision during the year were as follows:

	2009	2008
Provision at the start of the year	**$ 5,783,687**	$ 5,135,938
New provisions created	**3,879,994**	3,569,485
Provisions released	**(2,056,910)**	(2,420,313)
Changes in exchange rate	**(330,965)**	(501,423)
	$ 7,275,806	$ 5,783,687

The new provisions created arose in respect of inventories that had not moved for the periods set out in Note 3 and the releases arose where products that had not previously moved for those periods then moved. The changes in exchange rate arose from changes in the value of the Dollar compared to Sterling in which all provisions are held in the books of the operating company.

During the year $22,137,452 of inventory was charged to cost of sales (2008 - $21,266,307).

8. PROPERTY, PLANT & EQUIPMENT

	Cost	**Accumulated Amortization**	**Net Book Value**
2009			
Equipment	**$ 11,936,764**	**$ 5,024,839**	**$ 6,911,925**
Equipment under construction	**9,306,021**	**-**	**9,306,021**
Equipment under capital leases	**812,225**	**232,015**	**580,210**
Leasehold improvements	**641,731**	**19,210**	**622,521**
Total	**$ 22,696,741**	**$ 5,276,064**	**$ 17,420,677**
2008			
Equipment	$ 3,422,438	$ 1,780,884	$ 1,641,554
Equipment under construction	3,080,334	-	3,080,334
Equipment under capital leases	831,683	120,224	711,459
Leasehold Improvements	-	-	-
Total	$ 7,334,455	$ 1,901,108	$ 5,433,347

The amount of amortization related to equipment under capital leases charged to expense for the year ended December 31st, 2009 is $123,057 (2008 - $134,039).

9. SHORT-TERM LOAN

The Company has a short-term loan of $3,889,437 (2008 - $3,551,495) secured by a first charge on all property, plant and equipment (excluding equipment under capital leases), inventories, cash and accounts receivable. These items have a combined carrying value of $55,094,372 (2008 - $16,169,904). The facility is due to expire in March 2010. The loan is repayable on demand. Interest on the loan is on a floating rate basis. During the year the Company borrowed Sterling at an average interest rate of approximately 2.5% (2008 – 7.2%), US Dollars at an average rate of approximately 1.9% (2008 – 4.6%) and Euros at an average rate of approximately 2.5% (2008 – 6.2%).

The Company has a short term unsecured loan of $12,384,295 (2008 - $nil) under a revolving credit facility, bearing interest at 1.9%. The facility expires in June 2010. The loan is guaranteed by CSR Times Electric, the Company's majority shareholder (see note 21).

Total interest expense on short term loans for the year ended December 31st, 2009 was $173,105 (2008 - $210,996)

10. LONG-TERM DEBT

		2009		2008
Interest free unsecured loan with a face value of $11,661 payable in monthly instalments of $2,915 to April 2010 (see Note 2).	**$**	**11,164**	$	43,812
Interest free unsecured loan with a face value of $6,731 payable in monthly instalments of $481 to February 2011 (see Note 2).		**6,353**		11,888
Interest free unsecured loan with a face value of $8,655 payable in monthly instalments of $721 to December 2010 (see Note 2).		**8,346**		17,024
Unsecured loan from CSR Times Electric (the Company's majority shareholder) repaid in full during the year.		**-**		2,819,697
		25,863		2,892,421
Current portion		**24,921**		45,610
	$	**942**	$	2,846,811

Principal payments

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

2010	**$**	**24,921**
2011		**942**
	$	**25,863**

Interest expense

Total interest expense on long-term debt for the year ended December 31st, 2009 was $135,731 (2008 - $449,704).

11. OBLIGATION UNDER CAPITAL LEASES

		2009		2008
Obligation under capital leases	**$**	**626,537**	$	756,805
Current portion		**113,602**		114,146
	$	**512,935**	$	642,659

The future minimum lease payments under the leases are as follows:

		2009		2008
2009	**$**	**-**	$	212,228
2010		**188,348**		189,960
2011		**183,344**		184,713
2012		**174,759**		181,963
2013		**157,117**		164,717
2014		**85,391**		89,522
2015		**35,904**		37,641
		824,863		1,060,744
Less: imputed interest		**(197,945)**		(303,539)
Less: executory costs		**(381)**		(400)
Obligation under capital leases	**$**	**626,537**	$	756,805

Total interest expense on obligations under capital leases for the year ended December 31st, 2009 was $100,345 (2008 - $67,519).

The imputed interest rate under capital leases range from 10.6% to 11.6%.

12. DEFERRED REVENUE

On March 25th, 2003 the Company's subsidiary entered into a sale and leaseback of its Lincoln, England land and buildings. The gain realized on the sale has been deferred. Amortization of this gain, amounting to $137,828, is included in other income for the year ended December 31st, 2009 (2008 - $151,569).

Included in the current portion of deferred revenue for the year ended December 31st, 2009 is an amount of $1,043,867 (2008-$nil) relating to amounts invoiced to customers which has not yet been recognised as revenue in the accounts.

13. SHARE CAPITAL

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

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

	2009		**2009**	2008		2008
	No of shares			No of shares		
Share Capital at the start of the year	**40,194,834**	**$**	**15,051,123**	33,348,562	$	14,133,999
Shares issued on conversion of debt	**-**		**-**	6,250,220		845,624
Shares issued for cash on the exercise of options	**880**		**71**	150,000		34,500
Shares issued under rights issue	**40,195,714**		**21,990,330**			
Shares issued for no proceeds on the purchase of options (see below)	**-**		**-**	446,052		-
Stock based compensation re employee options	**-**		**-**	-		33,290
Stock based compensation re loans	**-**		**-**	-		3,710
Share Capital at the end of the year	**80,391,428**	**$**	**37,041,524**	40,194,834	$	15,051,123

The Company has no issued and outstanding preferred shares.

Common share transactions

On June 2nd, 2008 the Company issued 6,250,220 common shares on conversion of £434,500 of loans to Dynex Semiconductor Limited. 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.

On October 31st, 2008 as part of the acquisition of shares by CSR Times Electric Co. Ltd, 521,970 share options with an exercise price of $0.08 were offered to CSR Times Electric by certain officers and employees of the Company. CSR Times Electric paid the holders of these options $0.47 for each option (being the share purchase price of $0.55 less the exercise price of $0.08) and were issued 446,052 shares at zero cost as agreed by shareholders as part of the plan of arrangement.

13. SHARE CAPITAL (continued)

Common share transactions (continued)

On July 8th, 2009 the Company issued 880 common shares at $0.08 per share following an exercise of an option under the Company's stock option plan.

On December 23rd, 2009 the Company issued 8,279,948 common shares at $0.56 per share in respect of the first closure of the rights issue. On December 31st, 2009 the Company issued a further 31,915,766 common shares at $0.56 per share following the final closure of the rights issue. The Company incurred costs of $519,270 which have been deducted from the gross proceeds and included in share capital.

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 2008 warrants to acquire 162,338 shares at $0.35 per share expired. There are no warrants outstanding at December 31st, 2009 (2008 - Nil).

Stock option plan

A total of 2,657,316 (2008 – 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, 2007	790,472	$ 0.11
Granted	150,000	0.30
Exercised	(150,000)	0.23
Cancelled	(521,970)	0.08
Outstanding at December 31st, 2008	268,502	0.20
Exercised	(880)	0.08
Outstanding and exercisable at December 31st, 2009	**267,622**	**$ 0.20**

13. SHARE CAPITAL (Continued)

Stock option plan (continued)

At December 31st, 2009 there are 267,622 options outstanding and exercisable with a weighted average exercise price of $0.20 and a weighted average remaining life of 1 year and 11 months (2008 – 268,502 options outstanding and exercisable with a weighted average exercise price of $0.20 and with a weighted average remaining life of 2 years and 11 months).

At December 31st, 2009 the following stock options are outstanding:

	Grant Date	Expiry Date	Number of Options		Exercise Price
Directors	Aug 9, 2005	Aug 8, 2010	64,757	$	0.08
	Dec 10, 2007	Dec 9, 2012	100,000		0.30
	Feb 14, 2008	Feb 13, 2013	50,000		0.30
All other employees	Aug 9, 2005	Aug 8, 2010	52,865		0.08
Total outstanding			**267,622**	**$**	**0.20**

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 $nil of stock based compensation in general & administrative expenses in the year ended December 31st, 2009 (2008 - $33,290).

14. CHANGES IN NON-CASH OPERATING WORKING CAPITAL ITEMS

		2009		2008
Accounts receivable	**$**	**(655,785)**	$	(964,994)
Inventories		**(3,074,480)**		(2,546,790)
Prepaid expenses and deposits		**(132,288)**		(168,257)
Accounts payable and accrued liabilities		**(261,979)**		1,883,879
Income tax recoverable		**(98,836)**		(3,022)
	$	**(4,223,368)**	$	(1,799,184)

15. COMMITMENTS

Minimum operating lease commitments are as follows:

2010	**$**	**733,297**
2011		**644,594**
2012		**486,499**
2013		**527,304**
2014		**546,060**
Thereafter		**1,729,191**
	$	**4,666,945**

At December 31st, 2009 the Company has capital commitments of $3.8 million mainly for the purchase of new fabrication equipment for power module products.

16. ECONOMIC DEPENDENCE

For the year ended December 31st, 2009 the Company had one customer accounting for approximately 13% of revenue and one customer accounting for approximately 10% of revenue (2008 - one customer accounting for approximately 14% of revenue).

At December 31st, 2009 the Company had one customer accounting for 19% of accounts receivable and one customer accounting for 16% of accounts receivable (2008 – one customer accounting for 17% of accounts receivable).

17. 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, capital leases and long term debt. At December 31st, 2009 the split of these financial instruments by currency was as follows:

		Analysis in $'000 by Currency					
	Total	$	GBP	Euro	US$	JPY	CHF
Cash	22,943	17,995	4,645	54	251	-	(2)
Accounts receivable	6,439	7	3,013	2,492	664	-	263
Accounts payable and accrued liabilities	(4,965)	(554)	(3,391)	(745)	(195)	(80)	-
Short term loans	(16,274)	-	(14,171)	(1,526)	(577)	-	-
Capital leases	(627)	-	(627)	-	-	-	-
Long term debt	(26)	-	(26)	-	-	-	-
Net total	7,490	17,448	(10,557)	275	143	(80)	261

A 10% increase (decrease) in the value of Sterling against the Euro, US Dollar, Japanese Yen and Swiss Franc at the end of the year would have (decreased) increased net earnings for the year by approximately $60,000. The Company does not hedge these exposures, as the net exposure is quite small, but it keeps the need to monitor them under review.

17. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

Market risk (continued)

A 10% increase (decrease) in the average value of Sterling against the Euro would have decreased (increased) net earnings for the year by $1,500,000. A 10% increase (decrease) in the average value of Sterling against the US Dollar would have decreased (increased) net earnings for the year by $275,000.

Management monitors these exposures but to date has not used derivative instruments to hedge them as it believes that the netting of such exposures in each currency and the exposure to two separate currencies that have in the past moved in opposite directions provides sufficient protection. The need to actively hedge these exposures using derivative instruments is kept under review.

A 10% increase (decrease) in the value of the Dollar against Sterling at the end of the year would have decreased (increased) other comprehensive income by approximately $2.9 million. 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 year by $375,000. 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.

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 $52,300, $10,300 and $4,400 respectively in the year.

Credit risk

The Company is exposed to credit risk in relation to the $6.4 million of accounts receivable (2008 - $6.1 million), $22.9 million of cash balances (2008 - $405,000) and $0.2 million of amounts due from the parent company (2008 - $nil).

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 six years the Company has suffered bad debt losses of approximately $277,000.

The ageing of the Company's accounts receivable at December 31st, 2009 was as follows:

Ageing of account receivable		$'000
Not yet overdue	$	4,530
Less than one month overdue		1,655
Between one and two months overdue		359
Greater than two months overdue		148
Less provision for doubtful debts		(253)
Net total	$	6,439

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, accounts receivable and amounts due from the parent company as set out on the balance sheet.

17. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

Liquidity risk

The Company generally makes one major payment run each week. At December 31st, 2009 none of the Company's 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 short term uncommitted borrowing facility expired in March 2010. The Company has put in place a three year £3 million committed, revolving credit facility with its main banker to replace the uncommitted facility. 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. At the present time the Company is committed to significant capital expenditure on the upgrade of its IGBT fabrication facility (see Note 15). The Company recently raised $22 million through a rights issue which was used to repay the loan taken out, to pay for the work already carried out on the upgrade, and will be used to pay for the committed expenditure and the completion of the project.

18. FAIR VALUES

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

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

The fair value of the interest free loans at December 31st, 2009 was $26,641 (2008 - $76,119) based on the Company's current borrowing rate.

The fair value of the loan from CSR Times Electric was the same as its carrying value at December 31st, 2008 as the loan reflected the borrowing rate for the Company at that time.

19. 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. The recent rights issue completed by the Company has improved significantly the Company's debt to equity ratio and the Company now has a stronger balance sheet. The Company is not subject to any externally imposed capital requirements.

20. 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 December 31st, 2009 the Company does not segregate assets or other balance sheet accounts by product area nor does the Company measure operating profits by these areas. The Company evaluates performance and allocates resources based on revenue by product area.

Geographic area

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

	2009	2008
Revenue:		
Business segment		
Bipolar Discrete Group	**$ 25,968,526**	$ 19,101,412
Power Modules Group	**4,964,407**	6,301,747
Power Electronic Assemblies	**6,330,866**	5,898,843
Integrated Circuits Group	**2,620,002**	5,714,729
	$ 39,883,801	$ 37,016,731
Geographic area		
Canada	**$ 466,305**	$ 140,371
United Kingdom	**8,079,222**	6,834,213
Germany	**6,536,114**	3,541,258
United States of America	**6,067,108**	8,959,576
France	**5,655,691**	7,735,099
Other	**13,079,361**	9,806,214
	$ 39,883,801	$ 37,016,731

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

21. RELATED PARTY TRANSACTIONS

On February 6th, 2009 the Company signed a new distributor agreement with CSR Times Electric. The Company has appointed CSR Times Electric to be its main distributor for high power semiconductors in The People's Republic of China. At the same time CSR Times Electric has appointed the Company to be its main distributor for high power semiconductors in Europe. The parts will be sold to the distributor at the market price less a discount to cover the cost of the work carried out by the party handling the distribution. CSR Times Electric placed an order for $2,521,141 on the Company for deliveries in 2009 and in order to secure this capacity CSR Times Electric paid in advance for the full amount of this order. The Company has agreed to credit CSR Times Electric with interest on the outstanding balance each quarter at US prime rate plus 2%. At December 31st, 2009 an amount of $519,387 was outstanding to CSR Times Electric and was included in amounts owing to parent company (2008 - $nil).

The Company incurred interest expense in the year ended December 31st, 2009 of $71,345 (2008 - $nil) relating to the advance from CSR Times Electric. At December 31st, 2009 accrued interest on the advanced payment amounting to $67,544 was included in amounts owing to parent company (2008 - $nil).

The Company purchased inventory in the year ended December 31st, 2009 of $41,880 (2008 - $nil) relating to purchases from CSR Times Electric under the distributor agreement. All such inventory was sold by the year end.

The Company recorded revenue during the year ended December 31st, 2009 of $1,798,196 (2008 - $nil) relating to product sales to CSR Times Electric under the distributor agreement.

On May 28th, 2009 the Company arranged a $14.0 million twelve month revolving credit facility with ICBC (London) Limited with interest set at LIBOR plus 1.35%. The facility is guaranteed by CSR Times Electric. At December 31st, 2009 $12,384,295 was outstanding on this facility and was included in short term loans (2008 - $nil) (see Note 9).

On June 10th, 2009 the Company entered into an agreement with David Banks, a director of the Company, under which Mr. Banks undertook to carry out a number of additional duties relating to the rights issue the Company launched. Under the terms of the agreement, Mr. Banks will receive a fee equal to 3% of the amounts raised under the rights issue excluding any amount subscribed by CSR Times Electric. Costs of $168,822 relating to this fee has been included in the costs of the rights issue, deducted from the gross proceeds and included in share capital (see Note 13). At December 31st, 2009 $168,822 was included in accounts payable and accrued liabilities (2008 - $nil).

The Company had a loan from CSR Times Electric, the majority shareholder, of $nil (2008 - $2,819,697). The loan carried interest at 8% and was repaid in full on December 22nd, 2009 (see Note 10).

The Company incurred interest expense in the year ended December 31st, 2009 of $129,482 (2008 - $40,171) relating to the loan from CSR Times Electric (see Note 10). At December 31st, 2009 accrued interest on the loan amounting to $nil was included in accruals (2008 - $37,722).

On December 23rd, 2009 as part of the first closing of the Rights Issue and December 31st, 2009 as part of the final closing of the Rights Issue, a total of 30,146,126 common shares was issued at $0.56 to CSR Times Electric, the majority shareholder.

On December 23rd, 2009 as part of the first closing of the Rights Issue and December 31st, 2009 as part of the final closing of the Rights Issue, a total of 3,105,225 common shares was issued at $0.56 to directors.

The Company incurred interest expenses in the year ended December 31st, 2009 of $nil (2008 - $388,210) relating to loans from two directors. The loans were repaid in full on October 31st, 2008.

21. RELATED PARTY TRANSACTIONS (continued)

The Company retains a business law firm in Canada to provide legal services and advice. During the year ended December 31st, 2009, this firm was paid $247,708 (2008 - $294,611) in fees and expenses. At December 31st, 2009, $187,056 was payable to this firm (2008 - $264,265). One of the Company's directors is a partner of this firm.

The Company incurred expenses in the year of $67,000 (2008 - $81,676) with respect to fees payable to directors. As at December 31st, 2009 $35,000 was payable to directors (2008 - $34,667).

The Company uses CSR Times Electric to make purchases of raw materials for it in China. The Company incurred cost of sales in the year ended December 31st, 2009 of $1,751,073 (2008 - $nil) under this arrangement. At December 31st, 2009 $368,095 was outstanding to CSR Times Electric and was included in amounts owing to parent company (2008 - $nil) and advance payments of $55,178 have been made to CSR Times Electric and was included in amounts owing from parent company (2008 - $nil).

CSR Times Electric uses the Company to buy certain raw materials for it. The Company recorded revenue in the year ended December 31st, 2009 of $171,285 (2008 - $nil) relating to this arrangement. At December 31st, 2009 an amount of $163,390 was outstanding from CSR Times Electric and was included in amounts owing from parent company (2008 - $nil).

The Company recorded revenue in the year ended December 31st, 2009 of $310,629 (2008 - $nil) relating to training and support provided to CSR Times Electric in setting up an IGBT assembly & test facility in Zhuzhou, China. At December 31st, 2009 $49,534 of invoiced amounts has been carried forward and included in the current portion of deferred revenue (2008 - $nil).

The Company recorded a contribution towards research & development costs in the year ended December 31st, 2009 of $70,610 (2008 - $nil) from CSR Times Electric. At December 31st, 2009 $33,860 of invoiced amounts has been carried forward and included in the current portion of deferred revenue (2008 - $nil).

Advances to and from the parent company are recorded at the carrying amounts. The directors' fees and other related party amounts are recorded at the negotiated amounts.

22. PENSION PLAN

The Company incurred expenses of $345,457 (2007 - $351,973) with respect to a defined contribution pension plan in place at Dynex Semiconductor Limited.

23. FUTURE ACCOUNTING CHANGES

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.

23. FUTURE ACCOUNTING CHANGES (Continued)

Management has been reviewing the changes that will be required as a result of the introduction of IFRSs. Management is currently working with an external advisor to prepare a detailed plan for the transition to IFRS accounting. However, this work was put on hold whilst the Company completed its recent rights issue. The Company now expects to be able to report the outcome of that work as part of the interim report on the second quarter of 2010. A major adjustment to the accounts that will be required as a result of this change will be the release of the deferred revenue arising from the sale and leaseback of a property in Lincoln, England in 2003. The deferred revenue will be credited to shareholders' equity.

24. SUBSEQUENT EVENTS

At the year end, the Company had a $12,384,295 loan under a revolving credit agreement, bearing interest at 1.9% and guaranteed by CSR Times Electric, the Company's majority shareholder. This loan had been taken in order to start work on the upgrade of the Company's IGBT fabrication facility. The long term funding of the upgrade is being financed by the rights issue completed in December 2009. During January 2010, the Company repaid this loan out of the proceeds of the rights issue.

During March 2010, the Company's main short term financing agreement expired. The Company has entered into a new £3,000,000 ($5,079,000), three year revolving credit agreement.

Corporate Information

Board of Directors

Lu Penghu [(1) (3)]
Chairman

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

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

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

David Banks [(1) (3)]
Director

Feng JiangHua [(1) (2)]
Director

Shu Lihui [(1) (2) (3)]
Director

Peter Tan [(1)]
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

Peter Tan
Sales & Marketing Director

Liu Guoyou
Senior Manager – Global Technology

Debra Clipson
Human Resources Manager

Stock Exchange Listing

Toronto Ventures Exchange
Symbol: DNX

Auditors

Canada – Deloitte & Touche LLP
UK – Deloitte LLP

Legal Counsel

LaBarge Weinstein Professional Corporation
Ottawa, Ontario

Transfer Agent

Computershare Trust Company of Canada

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