DYNEX POWER INC.

ANNUAL REPORT 2010

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 high 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

- GLG Dynex Power Inc. was founded in February 1996
- DPI Technologies Inc. was founded in February 1998 and changed its name to Dynex Power Inc. in June 1999
- GLG Dynex Power Inc. and Dynex Power Inc. amalgamated in June 1999 to form Dynex Power Inc.
- Dynex Semiconductor Limited was formed to acquire the assets of the Lincoln Business Unit in January 2000
- The Lincoln Business Unit had been founded in Lincoln England in 1956 and 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
- 285 employees (December 2010)
- 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

During the past year Dynex has put priority on business development, and most notably upon the construction and commissioning of two new 6-inch IGBT wafer fabrication lines. During this period we had anticipated some disruption to our business due to both the adverse impact of installation and engineering work on normal production, and the associated expenses being incurred in advance of revenue. Additionally, we anticipated some ongoing effects from the soft global economic environment.

I am pleased to report that, despite these expected difficulties, the company has delivered what Management and the Board regard as a solid profitable result in 2010 whilst at the same time making significant progress with our business development projects that we regard as transformational to the business.

As anticipated, the construction of the IGBT lines affected the revenues for the Power Module sector. The production capacity was constrained and, despite a strong market opportunity for IGBT products, the revenue for power modules was 27% lower than the previous year. It was also expected that the Integrated Circuits business would decline as this is no longer core for Dynex and its revenue fell by 70%. Power Electronic Assemblies delivered an excellent result and grew by 19%, whilst Bipolar Discrete revenue was 7% lower than last year, impacted by the soft market conditions. The net result was a 9% decline in revenue compared to 2009.

Actually these revenue results, as reported in Dollars, do not reflect the true trading situation, due to the distortion of exchange rates. Discounting the non-core Integrated Circuit business, the combined power business of Bipolar Discrete, Power Modules and Power Electronic Assemblies, delivered a 6% revenue growth over the prior year as measured in Sterling to reach record levels, with both Bipolar Discrete and Power Electronic Assemblies individually achieving all time record Sterling sales.

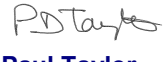
Although there was strong growth in demand for power modules, the demand for high power bipolar discrete was quite slow in 2010. As a result our order book has fallen from an equivalent of 43 weeks of sales at the start of the year to around 20 weeks at the year end. Although it is not possible to predict that a trend has been established, there was an increase in new bookings in the second half of the year compared to the first half.

During the year, we successfully completed the installation and qualification of the first IGBT 6-inch wafer line and production is now being ramped up. The construction of the facility for the second line has also been completed and is already partially operating: during Q1 2011 we expect to complete installation of the last few remaining items of equipment and achieve the capacity ramp up. The first line has given a capacity increase of a factor of three over the now discontinued line, and combined with the second line we will have a tenfold increase. We have been impressed by the technical performance and capability of the new lines, and look forward to benefitting from these improvements during the coming year.

The new 6-inch high power bipolar line, installed in 2009, has been used for the development of 125mm 8,500V thyristor products. These new products are suitable for use in high voltage direct current "HVDC" converter valves: this technology is preferred for use in long distance electric power transmission and for the interconnection of national grid networks. At the same time, Dynex has completed the installation of an HVDC thyristor test facility in Lincoln to accelerate the development of these thyristors and enable development at even higher voltage ratings: we are very grateful for the support of our major HVDC customer in undertaking this work.

In addition to the production line improvements, we were very pleased to have established in Lincoln the Power Semiconductor R&D Centre. Over the next three years, this centre will be funded 80% by CSR Times Electric and 20% by Dynex, with the IPR being shared. The development projects to be undertaken by the R&D Centre include: advanced IGBT power module design; high voltage bipolar power thyristor design; manufacturing technologies for IGBT modules and chips; and new materials for power devices. The resultant products will enable effective participation in the next generation of systems in our key target market sectors: rail transportation, wind power, smart grids, industrial power control and electric vehicles.

Thank you for your support of Dynex. I hope that you are pleased with the development of the Dynex business, and I look forward to a successful 2011 as we benefit from the transformational impact of our new production lines and enhanced R&D activities.



Paul Taylor
President and Chief Executive Officer
19th April, 2011

Review of Operations

Power Semiconductors

The Bipolar Discrete and Power Modules product groups together form the Power Semiconductor manufacturing operation of Dynex. Representing 77% of the Company's revenue in 2010, Power Semiconductors achieved sales revenues of $27.8 million, a reduction of 10% over the previous year.

Representing 67% of total revenue, Bipolar Discrete products accounted for $24.2 million, a 7% reduction on 2009. In sterling terms, a sales record was delivered by the group with the 7% fall in Dollar revenue entirely due to the Sterling Dollar exchange rate. It remains the largest of the Dynex product groups manufacturing a wide range of products including phase control thyristors, gate turn off thyristors (GTOs), rectifier diodes, fast thyristors, fast diodes and transistors with typical applications including railway equipment, industrial drives, aluminium smelting plants, electric power quality management, aerospace, power generation and transmission and distribution systems.

Power Module product sales were $3.6 million in 2010 representing 10% of the Company's overall business and equating to a 25% reduction in sales over the previous year. The group's main products are insulated gate bipolar transistors (IGBTs) and diode modules that are used in high power motor drives and power electronic management systems.

The strong bookings for Dynex GTOs in 2009 from the railway sector resulted in a 70% increase in sales for this particular product in 2010. Rectifier diode sales also increased by over 10% whilst sales fell for thyristors, fast diodes, fast thyristors, IGBT modules and transistors. The decline in sales for the thyristors, fast diodes and fast thyristors was attributable to the economic downturn in the industrial sector. In addition, some major customers had been holding excessive stocks due to over ordering when the global high power semiconductor industry had been operating close to its manufacturing capacity in 2008 and 2009. IGBT module sales were constrained due to the engineering work being carried out to upgrade the IGBT wafer fabrication facility.

2010 saw the completion of a new bipolar 6-inch wafer fabrication line. The 6-inch line has not only increased capacity but has also enabled the development of a new 125mm 8500V thyristor for use in thyristor based high voltage direct current 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. This larger diameter thyristor utilises the already established i^2 technology and the range will be further extended with the development of a 150mm version. Through 2009 and 2010, Dynex has worked with one of its major customers to install a new high power test suite at Dynex. This test suite was completed during 2010 providing a facility for the accelerated development of ultra high power thyristors for the requirements of today and for even higher voltage ratings in the future.

In 2009, Dynex began a major project to replace its original 4-inch IGBT and CMOS integrated circuit production line with two new 6-inch lines capable of processing IGBT and fast recovery diode silicon chips for use in Dynex IGBT and diode power modules. The planning and procurement for this program began in 2008 with the major items of new equipment and the upgrade to the cleanroom facility commencing in 2009. The first line was officially opened in May 2010. The state of the art equipment has enabled the first successfully processed wafers to generate good quality silicon chips. Phase 2 of the project has been undertaken during the second half of 2010 with completion planned for Q1 of 2011. The new equipment has been selected to achieve both increased capacity as well as allow ongoing IGBT and fast diode product technology development. The IGBT wafer fabrication team has been focused during 2010 on the transition from 4 to 6 inch wafer processes and 3.3kV and 6.5kV product enhancements. Consequently, sales revenue for the Power Module group has been constrained during this transitional period but increased sales are expected in the second half of 2011.

During 2010, Dynex engineers have worked closely with their counterparts at CSR Times Electric to procure and install the relevant equipment for a power module assembly and test production line at CSR Times Electric's facility in Zhuzhou, China. This provides an excellent opportunity for the silicon chips processed at Dynex to be assembled locally in Zhuzhou to service the rapidly expanding Chinese railway market. Dynex engineers are also working on the qualification of power modules for use on CSR Times Electric railway systems. Once qualified, Dynex will become firmly established as a key element in the CSR Times Electric industrial supply chain.

Dynex continues to supply a wide range of high power semiconductors, both bipolar discrete and power module products with more than 500 different products supplied in 2010 to 170 customers in over 30 countries. Strategically, our focus remains on offering the highest performance, high power products to the market place whilst maintaining strong support for customers in mature markets, where many of our competitors have withdrawn their products.

Over recent years, significant progress has been achieved by implementing lean initiatives in the manufacturing operations. These initiatives will be extended during 2011 into the new production lines where economies of scale and lean principles will lead to efficiency improvements as we eliminate waste from our manufacturing and business processes. Our engineering and logistics departments will place greater emphasis on re-engineering materials and products to reduce component costs and negate the impact of energy price increases. A focus has been placed on developing strategic partnerships within the supply chain which has helped to improve lead times and on-time delivery steadily leading to increased customer satisfaction.

The outlook in 2011 for Dynex power semiconductor products is for significant growth in the Power Module revenues following completion of the second phase of the wafer fabrication upgrade, whilst expecting a contraction of the Bipolar Discrete product sales until global industrial markets have recovered from the economic downturn first experienced in 2008. Dynex prides itself on providing its customers with highly engineered, technically supported and reliable products with fast responses to technical enquiries that allow customers to maximise their potential in their respective markets. 2010 was a stepping stone in the flourishing relationship with the power semiconductor division of our partner, CSR Times Electric, and we look forward to further strengthening that partnership during 2011 to capitalise on business opportunities and jointly benefit from the combined strengths of the two companies.

Power Electronic Assemblies

The Power Electronic Assemblies product group grew to account for 21% of total revenue in 2010, achieving sales revenues totalling $7.5 million, a growth of 19% over the previous year. The growth was even greater at 33% when measured in Sterling.

The completion in 2010 of a new high voltage direct current “HVDC” test suite for one of our customers was a significant achievement for the group. This has contributed to a growing business supplying bespoke high power test equipment to customers.
Significant HVDC converter module orders which were secured in 2009 and 2010 will continue to provide steady work for the Power Assemblies product group during 2011. There is continued worldwide interest in Power Assembly products with 30% of the sales coming from new designs and the intention is to grow this figure to underpin a healthy future for this product group. With the continuing growth in renewable energy schemes, the group will also continue to develop power conversion products for such systems working closely with customers in this sector.

Integrated Circuits

As expected, 2010 saw a continued reduction in the Integrated Circuit product group revenue. Sales for the year of $773,000, 2% of the total business, were less than one third of sales in the previous year. This was forecast, with new order intake restricted by a diminished supply of existing silicon on sapphire “SOS” die stock.

Because the new 6 inch IGBT wafer fabrication lines are not able to support the manufacture of 4 inch SOS wafers and the technical issues that had been restricting the re-qualification of the SOS material, it was decided to cease in-house manufacture of new IC die although assembly and test will remain at Dynex as long as die is available.

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. These customers have requested that we attempt to outsource our wafer fabrication so that a continued supply of SOS product can be provided. To try to meet this request, we are piloting a trial batch of an existing high demand SOS device through an independent wafer foundry. Results from this initiative will be obtained during 2011.

It is forecast that the level of sales will increase slightly during 2011, as there is strong demand for the small amount of remaining stock.

Research and Development

During 2010, Dynex sustained an active R&D activity focused on two main areas: the development of IGBT chips and modules, and the development of high voltage thyristors for HVDC power transmission applications.

The main thrust of IGBT R&D has been the successful introduction of the necessary chip processes to establish the new 6 inch IGBT fabrication lines. This work was undertaken with emphasis placed on current and future IGBT module requirements for railways, this being the major market opportunity provided by CSR Times Electric. At the same time, the basic IGBT module products were assessed and evaluated under realistic rapid transit and locomotive railway motor drive application conditions, leading to improvements in the IGBT chip and module constructions.

The focus of the high voltage thyristor development in 2010 was to industrialise designs for application in HVDC electric power transmission systems. This work has been successfully completed and the team is now working on a more advanced product technology that brings together the i^2 process technology, already being successfully applied to Dynex high power thyristors, alongside the technologies of low temperature bonding and novel edge profiling initially developed under UK government funded, collaborative projects between industry and academia.

The power assemblies engineering group worked on the development of high voltage AC switch systems (particularly for Static VAR Compensators "SVC", used for regulating voltage and stabilising electric power transmission systems) and in pulsed power assemblies for a number of applications. This work has resulted in sales growth in SVC and a developing interest in pulsed power from a number of customers. High isolation thyristor triggering systems have also been developed as a technology enabler for high voltage switches suitable for power grid applications as well as high voltage DC systems.

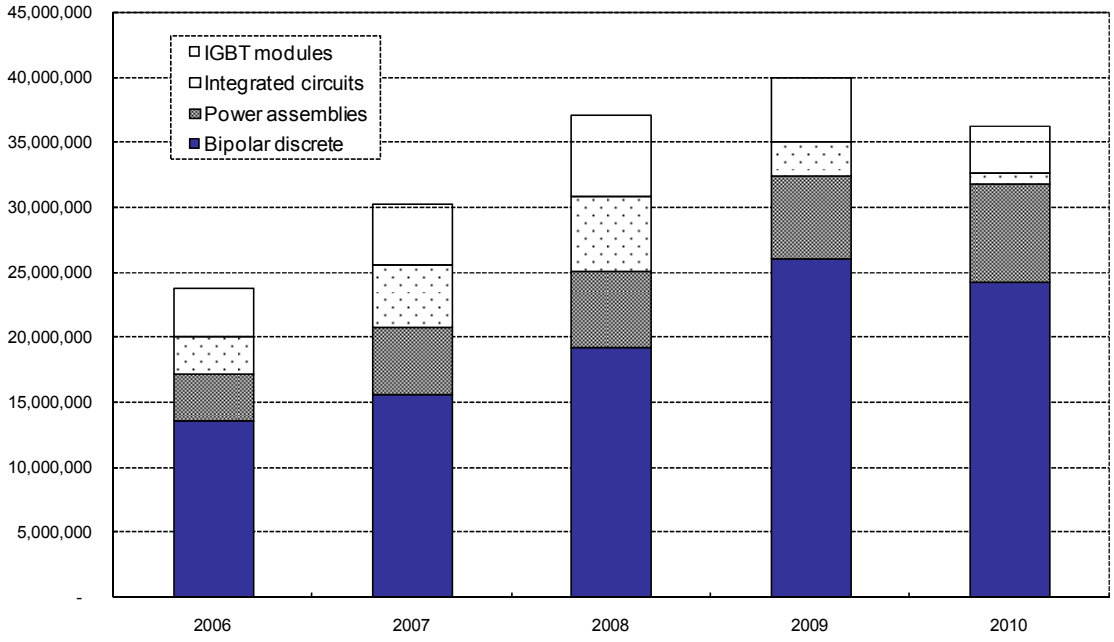
Dynex has continued to undertake collaborative contact with UK university research groups, and as a result benefits from the latest knowledge of new technologies. In particular Dynex provides direct and indirect support to a wide range of power electronic product and materials research projects with leading UK academic groups. The UK government funded Knowledge Transfer "KT" schemes are being utilised. Two associates are undertaking research at Dynex on IGBT module technologies. Improved dielectric materials are being evaluated for use in higher voltage modules and new non-destructive test methods are being developed to explore the power limits of IGBT modules. A third KT Partnership has introduced new data acquisition techniques that are being successfully applied to the test and assessment equipment used in our thyristor fabrication line.

A significant development during 2010 was the agreement reached with Zhuzhou CSR Times Electric to set up an R&D centre. The R&D Centre, announced in May 2010, was formed to bring together the existing power semiconductor R&D activities of Dynex and CSR Times Electric into a single centre of excellence as a department of Dynex Semiconductor located in Lincoln, UK.

The launch of the R&D centre initiated several new projects to provide a full range of leading edge power semiconductor products fit for the next decade. A central objective is the development of new higher power density IGBT modules across the full voltage range of 1200V to 6500V. These products will enable effective participation in the next generation of systems in key target market sectors: rail transportation; wind power; smart grids and electric cars. Advances will be made in both chip and package technologies. New silicon chips will be designed to operate at higher currents and will utilise the more advanced chip processing technologies provided by the 6 inch IGBT wafer fabrication lines. Improvements in package materials, design and assembly technology will enable the IGBT modules to utilise fully the new chip sets. Reliability is crucially important in the target applications, so the study of failure mechanisms and improvements in module robustness will also be at the heart of these new developments.

Within the R&D Centre, and in addition to the IGBT projects, new projects have been established to continue work on advanced high power bipolar products. These new products are based on the advanced i^2 thyristor and gate turn off "GTO" thyristor technology introduced by Dynex in recent years and they target a range of smart power grid applications, including HVDC electric power transmission, power quality management, interconnection and renewable energy.

Sales by product



Sales and Distribution

Sales decreased by 9% from $39.9 million in 2009 to $36.2 million in 2010. The reduction was entirely due to the strength of the Dollars against Sterling. In Sterling terms sales had grown by 1%. Focusing on the high power business alone, the growth was over 3% in Sterling terms although there was a 5% reduction in Dollar values.

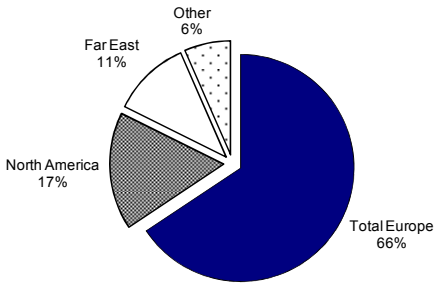
After four consecutive years of growth, the Bipolar Discrete Group's order book was affected by weaker market demand in 2010. This was mainly because our major customers were slow to place new orders in the gloomy economic environment. The Power Modules Group saw strong market demand but unfortunately our supply was affected by the interruption to wafer production caused by the major expansion project being carried out in our IGBT wafer fabrication facility. Power Electronic Assemblies were the best performing group due to good success in securing new business as well as steady contracts from our existing customers. As previously stated, the Integrated Circuits business is no longer a core business and sales of IC products continue to shrink.

Sales by region (see chart on next page) remained similar to previous years. Europe remains the largest sector with a 66% share of the total sales revenue. The proportion of sales to North America decreased slightly from 17% to 16% whilst sales to the Far East grew slightly from 11% to 12%. Within the Far Eastern region, sales to China grew by 22%.

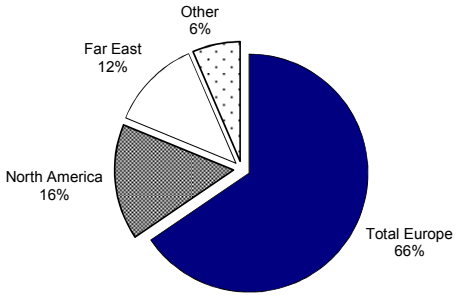
Bookings (new sales orders) in 2010 were a little disappointing at just over $23 million. This was mainly caused by weak demand for bipolar products from the high power application market. Demand was stronger for IGBT modules but our ability to book new orders was limited by the reduction in capacity during the build of the new fabrication lines. However, with nearly 60% of new orders coming in the second half of the year, there is some evidence of demand picking up and this trend has continued in the early part of 2011.

Looking forward to 2011, we anticipate that sales of our bipolar discrete products will continue to be affected by the soft market but we expect strong growth in the power module business including the sale of IGBT and FRD die. Sales of power electronic assemblies are expected to remain strong. Europe should remain the strongest sector with the fastest growth coming from China.

Sales by Region



2009



2010

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, 2010 and 2009.

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

Notwithstanding the significant disruption to operations caused by the capital expenditure project, the Company enjoyed another successful and profitable year, although the key focus in 2010 was on building and commissioning two new 6 inch IGBT fabrication lines. The first line is now commissioned and the second line is expected to be fully commissioned before the end of April 2011. The cost and disruption caused by this expansion had a significant impact on the results for the year but are an essential part of preparing the business for future growth and success.

Revenue of $36.2 million was 9% lower than in 2009. The decline is entirely due to the strength of the dollar. The UK operating business recorded a 1% increase in Sterling revenues, the sixth consecutive year of Sterling revenue growth, during which time revenue has grown by 125%.

The gross margin reduced from 23.9% in 2009 to 19.1% in 2010. This reduction had been expected. During the year, the business has borne approximately $500,000 of additional depreciation and $500,000 of commissioning costs related to the two new 6 inch IGBT lines even though they produced no revenue during 2010. But for these additional costs, the gross margin would have been much closer to that recorded in 2009, even before taking account of the disruption to other production caused by the construction work.

Expenses as a percentage of revenue fell from 14.5% in 2009 to 13.6% in 2010. The reduction re-establishes a long-term trend of reducing the expenses ratio.

As a consequence of these changes, the Company reported earnings before income tax for the year of $2.1 million compared to $3.8 million in 2009.

Despite the fall in earnings before income taxes, the Company's tax charge increased from $414,000 in 2009 to $650,000 in 2010. Although the UK tax losses were exhausted in 2009, there had been sufficient losses available to enable the UK business to only incur a 10% tax charge in 2009. In 2010, without the benefit of brought forward losses, the UK business incurred a 27% tax charge.

The Company saw some weakness in the market during 2010 reflecting the economic difficulties being experienced in a number of its major markets. As a result of this weakness, the Company's order book declined substantially during the year. Nevertheless, the Company expects to see sales from the two new 6 inch IGBT lines starting in the second quarter of 2011 and has started to see evidence of a recovery in some of its traditional markets. As a consequence, the Company expects to see revenue in the first half similar to or slightly below that seen in the second half of 2010, but with growth in the second half of the year. Moreover, the gross margin should recover as the commissioning costs and disruption caused by the two new lines comes to an end.

Revenue

Revenue for the fourth quarter of 2010 was $8.4 million, up by $263,000 or 3% from the third quarter of 2010 with growth in the Bipolar Discrete and Integrated Circuit Groups, and declines in the Power Modules and Power Electronic Assemblies Groups. Revenue was down $1.4 million or 15% from the corresponding quarter of last year. Over half of this decline was a result of a stronger dollar. The rest of the decline was a result of lower Power Module and Integrated Circuit sales.

Revenue for the year of $36.2 million is $3.7 million or 9% lower than last year, with strong growth in the Power Electronic Assemblies Group, growth in the Bipolar Discrete Group, a decline in the Power Modules Group and a significant decline in the Integrated Circuits Group.

Gross Margin

The gross margin was 12.6% in the fourth quarter of 2010 compared to 17.1% in the third quarter and 23.7% in the corresponding quarter of 2009.

Gross margin for the year is 19.1% in 2010 compared to 23.9% in the previous year.

The gross margin in 2010 has been adversely affected by the depreciation on the two new 6 inch IGBT lines and by the costs of developing and proving the new processes used for these lines. These costs including depreciation are all charged against cost of sales even though the lines are not yet generating revenue. These costs alone exceeded $1.1 million in 2010 before taking account of the disruption caused by the work on other manufacturing operations. The costs have increased each quarter during the year which is why the gross profit has declined quarter by quarter in 2010. Gross profit was also impacted by a reduction in integrated circuit sales which carry a relatively high margin.

Expenses

Expenses in the fourth quarter of 2010 of $1.0 million were $141,000 or 12% lower than in the third quarter. Compared to the fourth quarter of 2009, expenses fell by $516,000 or 33%. Approximately a quarter of this fall is a result of the stronger dollar.

For the year, expenses of $4.9 million are $852,000 or 15% lower than last year. Approximately two thirds of this fall is as a result of the stronger dollar. The other third is a result of lower interest costs following the rights issue completed at the end of 2009. The overhead cost ratio has fallen from 14.5% to 13.6%

Interest & Other Income

Interest and other income was $67,000 in the fourth quarter of 2010, compared to $79,000 in the preceding quarter and $47,000 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 the factory in 2003.

For the year, interest and other income was $276,000 compared to $229,000 last year.

Foreign Exchange Gains and Losses

There was a foreign exchange loss in the quarter of $69,000, compared to a gain of $96,000 in the third quarter and a loss of $33,000 in the corresponding quarter of last year. For the year, there was a loss of $121,000 compared to a loss of $152,000 in the previous year.

Income Taxes

Tax on UK profits in the quarter was provided at 10%, well below the UK statutory rate of 28%, but due to the costs incurred in the parent company which generate no tax benefits, this resulted in a tax rate on consolidated earnings for the quarter of 52%. The tax rate in the preceding quarter of 29% reflected the UK rate much more closely. In the corresponding quarter of 2009 a tax release had been recorded on a reassessment of the brought forward tax losses available in that year. The brought forward tax losses in the UK Company were exhausted during 2009.

The tax rate for 2010 of 31% reflected the UK tax rate of 28% and the fact that losses in Canada do not generate any usable tax credits for the Group. As noted above, some brought forward UK tax losses were available in 2009. The existence of these tax losses resulted in a tax rate for 2009 of 10%.

Net Earnings

The Company reported earnings of $13,000 in the quarter compared to earnings in the previous quarter of $281,000 and in the corresponding quarter of last year of $792,000. As has previously been mentioned, the decline in earnings is accounted for by the depreciation on the new lines and the costs of developing and proving the processes being used on the new lines.

The earnings for the year of $1.5 million were $1.9 million or 57% lower than that reported last year. In excess of $1.1 million of that decline is costs related to the new 6 inch IGBT lines before they have started generating revenue. A further $236,000 is a result of higher taxes even though there has been a decline in earnings and $350,000 is a result of the strength of the dollar.

Product Group Analysis

Revenue for the Bipolar Discrete Group in the quarter of $6.0 million was $388,000 or 7% higher than the previous quarter and $392,000 or 6% lower than in the corresponding quarter of last year. The decline compared to the corresponding quarter of last year was entirely due to the strength of the dollar. In Sterling terms, revenue had increased.

Revenue for the Power Modules Group in the quarter of $756,000 was $99,000 or 12% lower than the figure reported in the third quarter. It was $450,000 or 37% lower than the corresponding quarter of last year. The business has suffered significant disruption from the major expansion currently taking place of the IGBT fabrication facility.

Revenue for the Power Electronic Assemblies Group

of $1.4 million was $169,000 lower than in the previous quarter and $205,000 or 13% lower than in the corresponding quarter of last year. More than half of the decline compared to the corresponding period was as a result of the strength of the dollar.

Revenue from Integrated Circuits for the quarter of $226,000 was $143,000 or more than two and a half times the figure in the preceding quarter but $385,000 or 63% lower than the corresponding quarter of 2009. Integrated Circuits is no longer a core business and sales are highly volatile.

Revenue for the Bipolar Discrete Group for the year of $24.2 million was $1.8 million or 7% lower than the previous year. The decline was entirely accounted for by the increase in the value of the dollar. In Sterling terms, revenue had increased. Indeed, the figure recorded in Sterling was an all time record for the Bipolar Discrete Group.

Revenue for the Power Modules Group for the year of $3.6 million was $1.3 million or 27% lower than last year. The business has suffered significant disruption from the major expansion currently taking place of the IGBT fabrication facility.

Revenue for the Power Electronic Assemblies Group for the year of $7.5 million was $1.2 million or 19% higher than in the previous year despite the strengthening of the dollar. The figure recorded in Sterling was an all time record for the Power Electronic Assemblies Group.

Revenue from Integrated Circuits for the year of $773,000 was $1.8 million or 70% lower than the previous year. Integrated Circuits is no longer a core business and the decline was expected.

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

Although the Company had net earnings of $1.5 million in the year, Shareholders' Equity declined from $31.4 million to $30.6 million during the year as a result of a $2.3 million unrealised foreign exchange loss on the translation of the financial statements of the UK subsidiary.

The gross borrowings of the Company, including capital leases and amounts borrowed from CSR Times Electric on which the Company is paying interest, have fallen from $17.4 million at the start of the year to $465,000 at the year end. The figure at the end of last year included a short term loan of $12.4 million taken out to fund the work on the capital expenditure project until such time as a rights issue could be completed. This loan was repaid out of the proceeds of the rights issue shortly after last year end. If that loan is excluded, then gross borrowings have fallen from $5.0 million to $465,000.

Given the cash balance, the Company had no net borrowings at the year end. Excluding from the cash balance the amount that will be used to complete the major capital expenditure project, net debt has fallen from $4.5 million at the start of the year to zero at the year end.

As a result of these changes, the debt equity ratio has fallen from 17% at the start of the year to 0% at the year-end, thus providing a strong base for future expansion.

The Company has a £3 million ($4.7 million) committed, revolving credit facility and a £1 million ($1.6 million) uncommitted overdraft facility. Neither of these facilities was being drawn upon at the year end.

The Company has capital commitments at the year-end of $2.9 million. These capital commitments will be funded from the cash balances available at the year end, the Company's cash flow and the unutilized facilities referred to above.

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

Selected Financial Information

	2010 Q4	2010 Q3	2010 Q2	2010 Q1	2009 Q4	2009 Q3	2009 Q2	2009 Q1	2010 FY	2009 FY	2008 FY
Revenue	8,379	8,116	9,233	10,433	9,811	9,347	9,722	11,003	36,161	39,884	37,017
Net earnings	26	281	389	786	823	701	725	1,165	1,469	3,417	4,562
Basic EPS	0.00	0.00	0.00	0.01	0.02	0.02	0.02	0.03	0.02	0.08	0.12
Diluted EPS	0.00	0.00	0.00	0.01	0.02	0.02	0.02	0.03	0.02	0.08	0.12
Total assets	38,934	39,916	39,028	37,232	56,784	30,111	28,593	23,229	38,934	56,784	20,661
Long term liabilities	465	515	535	547	652	964	1,032	3,669	465	652	3,649
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 8% between 2008 and 2009 and declined by 9% between 2009 and 2010. The decline between 2009 and 2010 was entirely accounted for by a strengthening of the Dollar. In Sterling terms, revenue of the UK operating business rose by 1% between 2009 and 2010. Quarterly revenues were relatively stable until the last two quarters at a little under $10 million per quarter with slightly better figures in the first quarter of 2009 and 2010. During the last two quarters, a slightly weaker bipolar discrete market and the disruption to power modules production as a result of commissioning new lines, has caused revenue to decline.

An exceptionally favourable gross margin in 2008 resulted in a high earnings before tax and as the UK operating company had sufficient tax losses available, there was only a very minor tax charge in 2008. In 2009, the fall in gross margin resulting from a less favourable product mix and a partial tax charge of $414,000 as earnings exceeded the tax losses available, resulted in a modest decline in net earnings. In 2010, the depreciation on the two new 6 inch IGBT lines and costs of developing and proving the new processes used for these lines together with the disruption caused to other production by this work, caused net earnings before tax to decline. In addition, the Company incurred a higher tax charge despite the fall in net earnings before tax as a result of the exhaustion of tax losses in 2009 The additional depreciation and costs of developing and proving the new processes are all charged against cost of sales even though the lines are not yet generating revenue. These costs alone exceeded $1.1 million in 2010 before taking account of the disruption caused by the work on other manufacturing operations. After the particularly good first quarter in 2009, net earnings remained stable throughout 2009 before the additional costs and higher tax charge cause the reduction in the second quarter and the second half of 2010.

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 purchase of a 75% stake in the Company by CSR Times Electric in 2008 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 manufacturing 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. With the help of financial assistance from CSR Times Electric, Dynex is increasing its investment in 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 purchase of a 75% stake in the Company by CSR Times Electric in 2008 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 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 60% 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 acquisition of a major stake in the Company by CSR Times Electric in 2008 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 15% of revenue during the year. Our relationship with this customer and with all our other major customers and suppliers remains good.

The Company had one customer at December 31st, 2010 that accounted for 13% of accounts receivable and one customer that accounted for 12% 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 building 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 $135,000 during the year from the European Union and the British Government to assist in its research and development activities.

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, 2010 the advance was fully utilised (2009 - $519,387 was outstanding to CSR Times Electric and was included in amounts owing to parent company).

The Company incurred interest expense in the year ended December 31st, 2010 of $12,438 relating to the advance from CSR Times Electric. At December 31st, 2010 accrued interest on the advanced payment amounting to $68,460 was included in amounts owing to parent company.

The Company purchased inventory in the year ended December 31st, 2010 of $43,158 relating to purchases from CSR Times Electric under the distributor agreement. At December 31st, 2010 $5,989 was outstanding to CSR Times Electric and was included in amounts owing to parent company.

The Company recorded revenue during the year ended December 31st, 2010 of $2,388,443 relating to product sales to CSR Times Electric under the distributor agreement. At December 31st, 2010 $79,938 was outstanding from CSR Times Electric and was included in amounts owing from parent company and advance payments of $37,337 have been received from CSR Times Electric and was included in amounts owing to parent company.

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The Company retains a business law firm in Canada to provide legal services and advice. During the year ended December 31st, 2010, this firm was paid $65,018 in fees and expenses. At December 31st, 2010, $22,170 was payable to this firm. One of the Company's directors is a partner of this firm.

The Company incurred expenses in the year of $20,000 with respect to fees payable to directors. At December 31st, 2010 $10,000 was payable to directors.

The Company uses CSR Times Electric to make purchases of raw materials for it in China. In the year ended December 31st, 2010 the Company purchased inventory of $2,751,123 and purchased materials that were charged to research and development expenses of $3,324 under this arrangement. At December 31st, 2010 $112,843 was outstanding to CSR Times Electric and was included in amounts owing to parent company.

The Company recorded revenue in the year ended December 31st, 2010 of $305,682 relating to the construction of a piece of equipment for CSR Times Electric for use in its IGBT assembly & test facility in Zhuzhou, China.

The Company recorded revenue in the year ended December 31st, 2010 of $48,062 relating to training and support provided to CSR Times Electric in setting up an IGBT assembly & test facility in Zhuzhou, China.

The Company recorded revenue in the year ended December 31st, 2010 of $136,246 relating to sales of IGBT die products to CSR Times Electric for its own use.

The Company recorded a contribution towards research & development costs in the year ended December 31st, 2010 of $337,708 from CSR Times Electric. At December 31st, 2010 $2,212,677 of invoiced amounts related to this research and development agreement has been carried forward and included in the current portion of deferred revenue.

The Company recorded a contribution towards staff costs in the year ended December 31st, 2010 of $106,522 from CSR Times Electric.

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 was guaranteed by CSR Times Electric and expired on May 27th, 2010.

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. Mr Banks was paid $130,000 relating to this fee during the year.

Business Development

Revenue in the fourth quarter of 2010 was just below $8.4 million. Quarterly revenue is expected to be around this level in the first and second quarter of 2011 and then to rise by quarter during the rest of the year subject to the value of the Dollar not rising against Sterling.

Quarterly earnings after tax in the fourth quarter of 2010 were $13,000. Quarterly earnings after tax are expected to remain at a similar level in the first and second quarter of 2011 but then to rise strongly as the year progresses.

Order Book

At the end of December, the order book stood at $16.8 million. At the end of 2009, it had stood at $31.4 million. Approximately 90% of this reduction reflects softness in the market with the rest the result of a strengthening of the Canadian Dollar Sterling exchange rate. Approximately 96% of these orders are for delivery in 2011. The Company continues to believe this softness will be offset by the revenue opportunities for its IGBT products in China once the capital expenditure is complete and production from the two new lines is ramped up.

Changes in Accounting Policies

The Company did not adopt any new accounting standards in 2010.

Preparation for the Introduction of IFRS's

The Canadian Accounting Standards Board announced that Canadian profit-oriented publicly accountable entities, such as Dynex Power Inc., would be required to prepare their accounts using International Financial Reporting Standards (IFRS) from January 1st 2011. This announcement initiates a major change in financial reporting for the Company.

The Company's transition date to IFRS was January 1st 2010 for reporting beginning in 2011. The financial statements for the year ending December 31st 2011 will be presented in accordance with IFRS

and the quarterly financial statements issued during 2011 will be prepared in accordance with International Accounting Standard 34, Interim Financial Reporting.

As part of this change, the Company has restated its balance sheet in accordance with IFRS at the transition date, January 1st 2010. The table below shows a comparison between the balance sheet as originally reported under Canadian Generally Accepted Accounting Principles and as restated under IFRS.

These adjustments are based on the information the Company has at the date of this Management's Discussion and Analysis. They have not been audited and may change.

	Jan 1, 2010 IFRS Unaudited $000	Jan1, 2010 GAAP Unaudited $000	Explanation
NON-CURRENT ASSETS			
Property, plant and equipment	17,421	17,421	No change
Total non-current assets	17,421	17,421	
CURRENT ASSETS			
Inventories	8,872	8,872	No change
Accounts receivable		6,439	Reallocated between Trade receivables and Prepayments, deposits and other receivables
Prepaid expenses and deposits		794	Now part of Prepayments, deposits and other receivables
Trade receivables	5,908		
Prepayments, deposits and other receivables	1,325		
Cash	22,943	22,943	No change
Amounts owing from parent company	219	219	No change
Tax recoverable	96	96	Previously called Income tax recoverable
Total current assets	39,363	39,363	
CURRENT LIABILITIES			
Accounts payable and accrued liabilities		4,965	Reallocated between Trade payables and Other payables and accruals
Trade Payables	2,101		See above
Other payables and accruals	3,908		See above and see Note 1
Short-term loan		16,274	Now included in Borrowings
Current portion of long-term debt		25	Now included in Borrowings
Obligations under capital leases		113	Now included in Borrowings
Borrowings	16,412		See above
Amounts owing to parent company	955	955	No Change
Current portion of deferred revenue		1,175	See Note 1
Total current liabilities	23,376	23,507	

NON-CURRENT LIABILITIES			
Long-term debt		1	Now included in Borrowings
Long-term obligation under capital leases		513	Now included in Borrowings
Borrowings	514		See above
Deferred tax liabilities	381	381	Previously called Future income taxes
Long term deferred revenue		949	See note 1
Total non-current liabilities	895	1,844	
EQUITY			
Share capital	37,042	37,042	No change
Retained Deficit	4,529	(3,756)	Previously called Deficit. See Note 2
Accumulated other comprehensive loss		(1,853)	Transferred to Retained Deficit at the transition date
Total equity	32,513	31,433	

Note 1: Under Canadian GAAP, income from customers that had not been earned at the balance sheet had been reported under a separate heading of deferred revenue. Under IFRS, deferred revenue is reported as part of other payable and accruals. At the transition date, $1 million of the Company's deferred revenue related to income that had not been earned and so had to be reclassified.

Note 2: Under Canadian GAAP, the Company had $1 million of deferred revenue relating to the profit made on the sale of land and buildings in 2003. The revenue was deferred under Canadian GAAP because part of the site was leased back to the Company. The deferred revenue was being released to earnings over the minimum life of the lease. Under IFRS the remaining deferred revenue has been released to retained deficit at the transition date.

Optional Exemptions on Adoption of IFRS

The general principle underlying IFRS is that a first-time adopter should prepare its financial statements as if it had always accounted under IFRS. However, in view of the work that may be involved in carrying this out, IFRS 1 provides 16 optional exemptions from the full retrospective application of IFRS. Set out below are the details of which exemptions the Company will be taking advantage:

1. Business combinations. The Company will be electing not to retrospectively apply IFRS 3 to business combinations.

2. Share-based payment transactions. The Company will be taking this exemption.

3. Insurance contracts. As the Company does not issue insurance contracts, this exemption is not applicable.

4. Fair value as deemed cost. The Company will not be electing to value property, plant and equipment at fair value at the date of transition, but will continue to use historical cost.

5. Leases. The Company will not be electing to use the fair value of a leased asset at the date of transition.

6. Employee benefits. As the Company does not have a defined benefit pension plan, this exemption is not applicable.

7. Cumulative translation adjustments. The Company will be electing to reset translation differences to zero at the date of adoption and transfer the balance to reserves.

8. Investments in Subsidiaries, jointly controlled entities and associates. The Company will not be electing to value its investment in Dynex Semiconductor in its own legal entity accounts at fair value but will continue to value it at its GAAP carrying amount.

9. Assets and liabilities of subsidiaries, associates and joint ventures. As the Company and its subsidiary, Dynex Semiconductor Limited, are adopting IFRS at the same time, the option is not applicable.

10. Financial Instruments. As the way in which the Company accounts for financial instruments is already in accordance with IFRS, none of the three elections available are applicable.

11. Decommissioning liabilities included in the cost of property, plant and equipment. As the Company does not have any decommissioning liabilities relating to assets with a remaining useful life, the election is not applicable.

12 Service concession arrangements. As the Company is not involved in the provision of public sector infrastructure assets, the election is not applicable.

13. Borrowing costs. The Company will be taking this exemption and will not be adding borrowing costs to the transition date cost of its property, plant and equipment.

14. Transfers of assets from customers. As the Company has not in the past taken transfers of property, plant and equipment from customers, the election is not applicable.

Impact of Adopting IFRS on Net Earnings

Set out below are the principal impacts that are expected to occur from adopting IFRS on the net earnings of the Company. These adjustments are based upon the information available to the Company at the date of this Management's Discussion and Analysis. They have not been audited and may change.

	Year to Dec 31, 2010 IFRS $000	Year to Dec 31, 2010 GAAP $000	Explanation
Revenue	36,160	36,160	No change
Cost of sales	29,265	29,265	No change
Gross profit	6,895	6,895	Previously called Gross margin
Investment income	3	3	Previously part of Interest and other income
Other gains and losses	113	273	Previously part of Interest and other income. See also Note 1
Sales and marketing	(873)	(873)	No change
Research and development	(1,087)	(1,087)	No change
General and administration	(2,841)	(2,841)	No change
Finance costs	(131)	(131)	Previously called Interest expense
Other expenses	(121)	(121)	Previously called Foreign exchange loss
Profit before tax	1,958	2,118	Previously called Earnings before income taxes
Income tax expense	650	650	Previously called Income taxes
Profit for the year	1,308	1,468	Previously called Net earnings

Note1. The $160,000 annual release from deferred revenue, that was part of Interest and other income, no longer applies as the total deferred revenue relating to the profit on the sale of land and buildings in 2003 has been released under IFRS to reserves.

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.

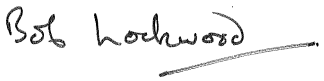
Internal Controls

Internal controls over financial reporting have 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 ended December 31st, 2010, there have been no changes in the design of the Company's internal controls over financial reporting that has materially affected, or is reasonably likely to affect materially the Company's internal control over financial reporting.

Additional Information

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



Bob Lockwood.
Director and Chief Financial Officer
19th April, 2011

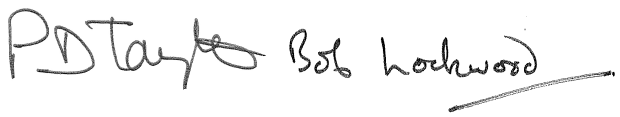
Management's Responsibility for Financial Reporting

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 auditor. 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.



Paul Taylor	Bob Lockwood
President & CEO	CFO
6th April, 2011	6th April, 2011

Independent Auditor's Report

To the Shareholders of
Dynex Power Inc.

We have audited the accompanying consolidated financial statements of Dynex Power Inc., which comprise the consolidated balance sheets as at December 31, 2010 and 2009, and the consolidated statements of earnings and deficit, comprehensive income, accumulated other comprehensive loss and deficit and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Dynex Power Inc. as at December 31, 2010 and 2009 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

6th April, 2011
Ottawa, Canada

DYNEX POWER INC.
Consolidated Statements of Earnings and Deficit
Years Ended December 31st, 2010 and 2009

		2010		2009
Revenue	**$**	**36,160,624**	$	39,883,801
Cost of sales		**29,265,276**		30,349,403
Gross margin		**6,895,348**		9,534,398
Expenses				
General and administration		**2,840,790**		3,168,185
Sales and marketing		**872,747**		949,287
Research and development (Note 4)		**1,087,234**		1,171,970
Interest expense (Notes 9,10 & 11)		**131,673**		494,955
		4,932,444		5,784,397
Earnings before other income (expenses) and income taxes		**1,962,904**		3,750,001
Other income (expenses)				
Interest and other income		**276,398**		229,163
Foreign exchange (loss)		**(121,161)**		(151,714)
		155,237		77,449
Earnings before income taxes		**2,118,141**		3,827,450
Income taxes (Note 5)		**(649,532)**		(413,777)
NET EARNINGS		**1,468,609**		3,413,673
DEFICIT, BEGINNING OF YEAR		**(3,755,471)**		(7,169,144)
DEFICIT, END OF YEAR	**$**	**(2,286,862)**	$	(3,755,471)
Earnings per share				
Basic	**$**	**0.02**	$	0.08
Diluted (Note 6)	**$**	**0.02**	$	0.08
Weighted average number of shares				
Basic		**80,457,488**		40,509,547
Diluted (Note 6)		**80,531,118**		40,673,893

These financial statements should be read in conjunction with the notes set out on pages 28 to 43.

DYNEX POWER INC.
Consolidated Statements of Comprehensive Income
Years Ended December 31st, 2010 and 2009

		2010		2009
Net earnings	**$**	**1,468,609**	$	3,413,673
Other Comprehensive loss, net of tax:				
Unrealized foreign exchange loss on translating financial statements of self-sustaining foreign operations		**(2,339,129)**		(473,090)
OTHER COMPREHENSIVE LOSS		**(2,339,129)**		(473,090)
COMPREHENSIVE (LOSS) INCOME	**$**	**(870,520)**	$	2,940,583

DYNEX POWER INC.
Consolidated Statements of Accumulated Other Comprehensive Loss and Deficit
As at December 31st, 2010 and 2009

		2010		2009
Accumulated other comprehensive loss, beginning of year	**$**	**(1,853,191)**	$	(1,380,101)
Other comprehensive loss		**(2,339,129)**		(473,090)
Accumulated other comprehensive loss		**(4,192,320)**		(1,853,191)
Deficit		**(2,286,862)**		(3,755,471)
TOTAL ACCUMULATED OTHER COMPREHENSIVE LOSS AND DEFICIT	**$**	**(6,479,182)**	$	(5,608,662)

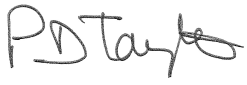
Accumulated other comprehensive loss consists entirely of translation adjustments.

These financial statements should be read in conjunction with the notes set out on pages 28 to 43.

DYNEX POWER INC.
Consolidated Balance Sheets
As At December 31st, 2010 and 2009

		2010		2009
CURRENT ASSETS				
Cash	**$**	**3,094,626**	$	22,942,550
Accounts receivable		**5,323,324**		6,439,200
Inventories (Note 7)		**7,619,442**		8,872,155
Amounts owing from parent company (Note 21)		**79,938**		218,568
Income tax recoverable		**51,598**		96,413
Prepaid expenses and deposits		**272,738**		794,170
		16,441,666		39,363,056
PROPERTY, PLANT & EQUIPMENT (Note 8)		**22,492,575**		17,420,677
	$	**38,934,241**	$	56,783,733
CURRENT LIABILITIES				
Accounts payable and accrued liabilities	**$**	**3,568,678**	$	4,964,864
Short-term loan (Note 9)		**-**		16,273,732
Amounts owing to parent company (Note 21)		**224,629**		955,026
Current portion of long-term debt (Note 10)		**866**		24,921
Obligation under capital leases (Note 11)		**110,991**		113,602
Current portion of deferred revenue (Note 12)		**2,334,550**		1,174,803
		6,239,714		23,506,948
LONG-TERM DEBT (Note 10)		**-**		942
LONG-TERM OBLIGATION UNDER CAPITAL LEASES (Note 11)		**353,217**		512,935
LONG-TERM DEFERRED REVENUE (Note 12)		**751,987**		949,290
FUTURE INCOME TAXES (Note 5)		**972,313**		380,756
		8,317,231		25,350,871
SHAREHOLDERS' EQUITY				
Share capital (Note 13)		**37,096,192**		37,041,524
Deficit		**(2,286,862)**		(3,755,471)
Accumulated other comprehensive loss (Note 3)		**(4,192,320)**		(1,853,191)
		30,617,010		31,432,862
	$	**38,934,241**	$	56,783,733

These financial statements should be read in conjunction with the notes set out on pages 28 to 43.



Paul Taylor
Director
6th April, 2011

Bob Lockwood
Director
6th April, 2011

DYNEX POWER INC.
Consolidated Statements of Cash Flows
Years Ended December 31st, 2010 and 2009

	2010	2009
OPERATING		
Net earnings	**$ 1,468,609**	$ 3,413,673
Items not affecting cash		
Amortization	**1,554,003**	693,984
Gain on disposal of property, plant and equipment	**(122,697)**	(137,672)
Future income taxes	**643,827**	399,541
Non-cash interest	**1,107**	6,248
Provision for inventory obsolescence	**105,087**	1,823,084
Changes in non-cash operating working capital (Note 14)	**2,747,215**	(4,223,368)
	6,397,151	1,975,490
FINANCING		
Shares issued for cash	**9,410**	22,509,671
Cost of share issue	**(438,069)**	(35,943)
Increase in amounts owing to parent company	**-**	2,521,141
Decrease in amounts owing to parent company	**(525,021)**	(4,650,459)
(Decrease) increase in short-term loans	**(15,849,830)**	13,619,037
Payments on capital leases	**(114,639)**	(99,832)
Decrease in long-term debt	**(24,749)**	(45,779)
	(16,942,898)	33,817,836
INVESTING		
Proceeds of disposal of property, plant and equipment	**14,440**	263
Purchase of property, plant and equipment	**(8,729,369)**	(13,121,302)
	(8,714,929)	(13,121,039)
Effect of foreign currency translation on cash	**(587,248)**	(134,375)
NET (DECREASE) INCREASE IN CASH	**(19,847,924)**	22,537,912
Cash, beginning of year	**22,942,550**	404,638
CASH, END OF YEAR	**$ 3,094,626**	$ 22,942,550
Supplementary Information:		
Interest paid during year	**$ 159,878**	$ 435,862
Income taxes (refunded) paid during year	**$ (32,237)**	$ 103,771

At December 31st, 2010 $332,233 is included in accounts payable in relation to purchases of property, plant and equipment (2009 - $914,398) and therefore has been excluded from the cash flow. The amount included in accounts payable at the end of 2009 is included in this year's cash flow.

These financial statements should be read in conjunction with the notes set out on pages 28 to 43.

1. DESCRIPTION OF BUSINESS

The Company is engaged in the design and manufacture of high power semiconductors, high power electronic assemblies and the manufacture of high reliability silicon on sapphire integrated circuits.

2. ADOPTION OF NEW ACCOUNTING STANDARDS

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

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 not early adopted this standard.

Business Combinations, Financial Statements and Non-Controlling Interests
In January 2009 the CICA issued Handbook Sections 1582, 1601 and 1602, *Business Combinations, Financial Statements and Non-Controlling Interests*. These standards are effective for interim and annual consolidated statements for fiscal years beginning on or after January 1st, 2011 but with earlier adoption permitted and provide the Canadian equivalent to IFRS IAS27 Consolidated and Separate Financial Statements. The Company has not early adopted these standards.

International Financial Reporting Standards
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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of consolidation

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

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 input that is significant.

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, obligations under capital leases and long term debt are classified as other liabilities and are valued at amortized cost using the effective interest rate method.

Amounts owing from the parent company are recorded at the exchange amount.

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 warranty accrual. 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 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 $134,834 in the year ended December 31st, 2010 (2009 - $306,366) 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.

The Company recorded a contribution towards research & development costs in the year ended December 31st, 2010 of $337,708 (2009 - $70,610) from CSR Times Electric. 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:

	2010	2009
Earnings before income taxes	**$ 2,118,141**	$ 3,827,450
Expected tax provision at Canadian statutory rates	**656,624**	1,263,058
Change in valuation allowance	**48,255**	(606,941)
Foreign tax differential	**(71,919)**	(200,029)
Permanent differences	**(24,790)**	(31,280)
Other	**41,362**	(11,031)
	$ 649,532	$ 413,777

The Canadian statutory tax rate is 31% (2009 – 33%). The United Kingdom statutory tax rate is 28% (2009 – 28%).

5. INCOME TAXES (continued)

As at December 31st, 2010 the Company has undeducted Canadian research and development expenditures of approximately $43,000 (2009 - $43,000) which are available without expiry to reduce future years' income for tax purposes.

As at December 31st, 2010 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	**514,000**
2027	**938,000**
2028	**522,000**
2029	**534,000**
2030	**466,000**
	$ 3,841,000

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

Movements in the provision for future income taxes in the year were as follows:

	Fixed Assets	**Timing Differences**	**Tax losses Carried Forward**	**Total**
Opening balance – provided	$ (925,902)	$ 142,212	$ 402,934	$ (380,756)
Movement in the year	(258,939)	-	(380,181)	(639,120)
Exchange differences	81,850	(11,534)	(22,753)	47,563
Closing balance – provided	$(1,102,991)	$ 130,678	$ -	$ (972,313)

6. EARNINGS PER SHARE

For the year ended December 31st, 2010 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 (2009 – nil).

7. INVENTORIES

	2010	2009
Raw materials	**$ 2,779,048**	$ 2,850,069
Work in progress	**4,463,235**	5,009,084
Finished goods	**377,159**	1,013,002
	$ 7,619,442	$ 8,872,155

7. INVENTORIES (continued)

Inventory is stated net of a provision of $6,772,091 (2009 - $7,275,806) for obsolescence. Movements in the provision during the year were as follows:

		2010		2009
Provision at the start of the year	**$**	**7,275,806**	$	5,783,687
New provisions created		**105,086**		1,823,084
Changes in exchange rate		**(608,801)**		(330,965)
	$	**6,772,091**	$	7,275,806

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 $23,099,972 of inventory was charged to cost of sales (2009 - $22,137,452).

8. PROPERTY, PLANT & EQUIPMENT

		Cost		**Accumulated Amortization**		**Net Book Value**
2010						
Equipment	**$**	**19,620,989**	**$**	**5,910,261**	**$**	**13,710,728**
Equipment under construction		**6,337,766**		**-**		**6,337,766**
Equipment under capital leases		**728,970**		**313,295**		**415,675**
Leasehold improvements		**2,163,231**		**134,825**		**2,028,406**
Total	**$**	**28,850,956**	**$**	**6,358,381**	**$**	**22,492,575**
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

The amount of amortization related to equipment under capital leases charged to expense for the year ended December 31st, 2010 is $107,258 (2009 - $123,057).

9. SHORT-TERM LOAN

The Company has a short term secured loan of $nil (Dec 31st, 2009 - $nil) under a £3,000,000 ($4,667,100) three year revolving credit facility, bearing interest at UK base rate plus 2.25%. The loan is secured by a first charge on all property, plant and equipment (excluding equipment under capital leases), inventories, cash and accounts receivable. At December 31st, 2010 these items have a combined carrying value of $38,518,566 (At Dec 31st, 2009 the Company had a short term secured loan of $3,889,437 under a different facility).

The Company has a short term unsecured loan of $nil (2009 - $12,384,295) under a revolving credit facility, bearing interest at 1.9%. The facility expired in May 2010. The loan was 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, 2010 was $44,901 (2009 - $173,105).

10. LONG-TERM DEBT

		2010		2009
Interest free unsecured loan repaid in full during the year.	**$**	**-**	$	11,164
Interest free unsecured loan with a face value of $884 payable in monthly instalments of $442 to February 2011.		**866**		6,353
Interest free unsecured loan repaid in full during the year.		**-**		8,346
		866		25,863
Current portion		**866**		24,921
	$	**-**	$	942

Principal payments

Principal payments required in the next year are:

2011	**$**	**884**

Interest expense

Total interest expense on long-term debt for the year ended December 31st, 2010 was $1,107 (2009 - $135,731).

11. OBLIGATION UNDER CAPITAL LEASES

		2010		2009
Obligation under capital leases	**$**	**464,208**	$	626,537
Current portion		**110,991**		113,602
	$	**353,217**	$	512,935

11. OBLIGATION UNDER CAPITAL LEASES (continued)

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

		2010
2011	**$**	**161,902**
2012		**159,490**
2013		**144,375**
2014		**78,466**
2015		**32,992**
		577,225
Less: imputed interest		**(112,667)**
Less: executory costs		**(350)**
Obligation under capital leases	**$**	**464,208**

Total interest expense on obligations under capital leases for the year ended December 31st, 2010 was $71,119 (2009 - $100,345).

The imputed interest rates 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 $123,545, is included in other income for the year ended December 31st, 2010 (2009 - $137,828).

Included in the current portion of deferred revenue for the year ended December 31st, 2010 is an amount of $2,214,232 (2009 - $1,043,867) relating to amounts invoiced to customers which has not yet been recognised as income 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:

	2010		**2010**	2009		2009
	No of shares			No of shares		
Share Capital at start of the year	**80,391,428**	**$**	**37,041,524**	40,194,834	$	15,051,123
Shares issued for cash on the exercise of options	**117,619**		**9,410**	880		71
Shares issued under rights issue net of issue costs	**-**		**-**	40,195,714		21,990,330
Release overprovision of costs relating to the 2009 rights issue	**-**		**45,258**	-		-
Share Capital at the end of the year	**80,509,047**	**$**	**37,096,192**	80,391,428	$	37,041,524

The Company has no issued and outstanding preferred shares.

Common share transactions

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 $474,012 which have been deducted from the gross proceeds and included in share capital.

On June 10th, 2010 the Company issued 117,619 common shares at $0.08 per share following an exercise of options under the Company's stock option plan.

Independent directors' share plan

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

13. SHARE CAPITAL (continued)

Stock option plan

A total of 2,657,316 (2009 – 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, 2008	268,499	$ 0.20
Exercised	(880)	0.08
Outstanding at December 31st, 2009	267,619	0.20
Exercised	(117,619)	0.08
Outstanding and exercisable at December 31st, 2010	**150,000**	**$ 0.30**

At December 31st, 2010 there are 150,000 options outstanding and exercisable with a weighted average exercise price of $0.30 and a weighted average remaining life of 2 years (2009 – 267,622 options outstanding and exercisable with a weighted average exercise price of $0.20 and with a weighted average remaining life of 1 year and 11 months).

At December 31st, 2010 the following stock options are outstanding:

	Grant Date	Expiry Date	Number of Options	Exercise Price
Directors	Dec 10, 2007	Dec 9, 2012	100,000	0.30
	Feb 14, 2008	Feb 13, 2013	50,000	0.30
Total outstanding			**150,000**	**$ 0.30**

14. CHANGES IN NON-CASH OPERATING WORKING CAPITAL ITEMS

	2010	2009
Accounts receivable	**$ 560,471**	$ (655,785)
Inventories	**435,966**	(3,074,480)
Prepaid expenses and deposits	**477,802**	(132,288)
Accounts payable and accrued liabilities	**1,236,203**	(261,979)
Income tax recoverable	**36,773**	(98,836)
	$ 2,747,215	$ (4,223,368)

15. COMMITMENTS

Minimum operating lease commitments are as follows:

2011	**$ 703,004**
2012	**475,145**
2013	**500,409**
2014	**501,775**
2015	**501,775**
Thereafter	**1,087,180**
	$ 3,769,288

At December 31st, 2010 the Company has capital commitments of $2.9 million.

16. ECONOMIC DEPENDENCE

For the year ended December 31st, 2010 the Company had one customer accounting for approximately 15% of revenue (2009 - one customer accounting for approximately 13% of revenue and one customer accounting for approximately 10% of revenue).

At December 31st, 2010 the Company had one customer accounting for 13% of accounts receivable and one customer accounting for 12% of accounts receivable (2009 – one customer accounting for 19% of accounts receivable and one customer accounting for 16% of accounts receivable).

17. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Market Risk

The Company is exposed to foreign currency fluctuations on its cash, accounts receivable, amounts owing from parent company, income tax recoverable, accounts payable and accrued liabilities, amounts owing to parent company, capital leases, long term debt and future tax liability. At December 31st, 2010 the split of these financial instruments by currency was as follows:

		Analysis in $'000 by Currency				
	Total	$	GBP	Euro	US$	JPY
Cash	3,095	173	899	337	1,686	-
Accounts receivable	5,323	7	3,167	1,571	578	-
Amounts owing from parent company	80	-	-	-	80	-
Income tax recoverable	52	-	52	-	-	-
Accounts payable and accrued liabilities	(3,569)	(101)	(2,647)	(566)	(234)	(21)
Amounts owing to parent company	(225)	-	(106)	(6)	(113)	-
Capital leases	(464)	-	(464)	-	-	-
Long term debt	(1)	-	(1)	-	-	-
Future tax liability	(972)	-	(972)	-	-	-
Net total	3,319	79	(72)	1,336	1,997	(21)

17. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

Market risk (continued)

A 10% increase (decrease) in the value of Sterling against the Euro, US Dollar and Japanese Yen at the end of the year would have (decreased) increased net earnings for the year by approximately $330,000. The Company does not hedge these exposures, as the net exposure is quite small, but it keeps the need to monitor them under review.

A 10% increase (decrease) in the average value of Sterling against the Euro during the year would have decreased (increased) net earnings for the year by $1,000,000. A 10% increase (decrease) in the average value of Sterling against the US Dollar during the year would have decreased (increased) net earnings for the year by $285,000.

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 $3.0 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 $160,000. 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 was exposed to interest rate risk on its short-term debt prior to its repayment, which was borrowed on variable rate terms. A one percentage point increase (decrease) in Sterling interest rates would decrease (increase) earnings by approximately $8,000 in the year.

Credit risk

The Company is exposed to credit risk in relation to the $5.3 million of accounts receivable (2009 - $6.4 million), $3.1 million of cash balances (2009 - $22.9 million), $0.1 million of amounts owing from parent company (2009 - $0.2 million) and $0.1 million of income tax recoverable (2009 - $0.1million).

The majority of the Company's accounts receivable is due from customers with whom the Company has had a business relationship for many years. Over the last five years the Company has suffered bad debt losses of less than $150,000.

The ageing of the Company's accounts receivable at December 31st, 2010 was as follows:

Ageing of account receivable	**2010 $'000**	2009 $'000
Not yet overdue	**$ 4,164**	$ 4,530
Less than one month overdue	**846**	1,655
Between one and two months overdue	**361**	359
Greater than two months overdue	**129**	148
Less provision for doubtful debts	**(177)**	(253)
Net total	**$ 5,323**	$ 6,439

17. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

Credit risk (continued)

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 does not anticipate any problems in collecting the amount owing from the parent company.

The income tax recoverable is due from the British Government.

The Company's maximum exposure to credit risk is equal to the carrying value of cash, accounts receivable, amounts due from the parent company and income tax recoverable as set out on the balance sheet.

Liquidity risk

The Company generally makes one major payment run each week. At December 31st, 2010 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 Company has a three year £3 million committed, revolving credit facility with its main banker which expires in March 2013. In relation to long term debt, management believes it can repay all these facilities as they fall due out of its cash flow. At the present time the Company is committed to approximately $2.9m of capital expenditure which will be paid for out of cash flow and the committed revolving credit facility referred to above.

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 approximates their carrying value because of the short maturity of these instruments.

The fair value of the obligations under capital leases 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 these obligations at December 31st, 2011 was $515,164.

The fair value of the interest free loans at December 31st, 2010 approximates their carrying value because these loans are due for repayment within two months of the year end (2009 - $26,641).

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 Company currently has no net debt. The Company is not subject to any externally imposed capital requirements.

20. PRODUCT GROUP 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, 2010 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) determines the geographic areas for revenue.

	2010	2009
Revenue:		
Business segment		
Bipolar Discrete Group	**$ 24,211,245**	$ 25,968,526
Power Modules Group	**3,627,409**	4,964,407
Power Electronic Assemblies	**7,548,533**	6,330,866
Integrated Circuits Group	**773,437**	2,620,002
	$ 36,160,624	$ 39,883,801
Geographic area		
Canada	**$ 63,228**	$ 466,305
United Kingdom	**7,922,577**	8,079,222
France	**5,099,384**	5,655,691
United States of America	**4,731,471**	6,067,108
Germany	**4,195,663**	6,536,114
China	**3,266,211**	2,996,998
Other	**10,882,090**	10,082,363
	$ 36,160,624	$ 39,883,801

Assets:

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, 2010 the advance was fully utilised (2009 - $519,387 was outstanding to CSR Times Electric and was included in amounts owing to parent company).

The Company incurred interest expense in the year ended December 31st, 2010 of $12,438 (2009 - $71,345) relating to the advance from CSR Times Electric. At December 31st, 2010 accrued interest on the advanced payment amounting to $68,460 was included in amounts owing to parent company (2009 - $67,544).

The Company purchased inventory in the year ended December 31st, 2010 of $43,158 (2009 - $41,880) from CSR Times Electric under the distributor agreement. At December 31st, 2010 $5,989 was outstanding to CSR Times Electric and was included in amounts owing to parent company (2009 - $nil)

The Company recorded revenue during the year ended December 31st, 2010 of $2,388,443 (2009 - $1,798,196) relating to product sales to CSR Times Electric under the distributor agreement. At December 31st, 2010 $79,938 was outstanding from CSR Times Electric and was included in amounts owing from parent company (2009 - $nil) and advance payments of $37,337 have been received from CSR Times Electric and was included in amounts owing to parent company (2009 - $nil).

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 was guaranteed by CSR Times Electric and expired on May 27th, 2010. At December 31st, 2010 $nil was outstanding on this facility (2009 - $12,384,295 was included in short term loans) (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 received a fee equal to 3% of the amounts raised under the rights issue excluding any amount subscribed by CSR Times Electric. Costs of $130,000 relating to this fee have 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, 2010 $nil was included in accounts payable and accrued liabilities (2009 - $168,822).

The Company had a loan from CSR Times Electric of $nil (Dec 31st, 2009 - $nil). The loan carried interest at 8% and was repaid in full on December 22nd, 2009. The Company incurred interest expense in the year ended December 31st, 2010 of $nil (2009 - $129,482) relating to this loan.

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.

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, 2010, this firm was paid $65,018 (2009 - $247,708) in fees and expenses. At December 31st, 2010, $22,170 was payable to this firm (2009 - $187,056). One of the Company's directors is a partner of this firm.

The Company incurred expenses in the year of $20,000 (2009 - $67,000) with respect to fees payable to directors. At December 31st, 2010 $10,000 was payable to directors (2009 - $35,000).

The Company uses CSR Times Electric to make purchases of raw materials for it in China. In the year ended December 31st, 2010 the Company purchased inventory of $2,751,123 (2009 - $1,751,073) and purchased materials that were charged to research and development expenses of $3,324 (2009 - $nil) under this arrangement. At December 31st, 2010 $112,843 was outstanding to CSR Times Electric and was included in amounts owing to parent company (2009 - $368,095) and advance payments of $nil have been made to CSR Times Electric and were included in amounts owing from parent company (2009 - $55,178).

CSR Times Electric uses the Company to buy certain raw materials for it. The Company recorded revenue in the year ended December 31st, 2010 of $133,023 (2009 - $171,285) relating to this arrangement. At December 31st, 2010 an amount of $nil was outstanding from CSR Times Electric and was included in amounts owing from parent company (2009 - $163,390).

The Company recorded revenue in the year ended December 31st, 2010 of $305,682 (2009 - $nil) relating to the construction of a piece of equipment for CSR Times Electric for use in its IGBT assembly & test facility in Zhuzhou, China.

The Company recorded revenue in the year ended December 31st, 2010 of $48,062 (2009 - $310,629) relating to training and support provided to CSR Times Electric in setting up an IGBT assembly & test facility in Zhuzhou, China. At December 31st, 2010 $nil of invoiced amounts has been carried forward and included in the current portion of deferred revenue (2009 - $49,534).

The Company recorded revenue in the year ended December 31st, 2010 of $136,246 (2009 - $nil) relating to sales of IGBT die products to CSR Times Electric for its own use.

The Company recorded a contribution towards research & development costs in the year ended December 31st, 2010 of $337,708 (2009 - $70,610) from CSR Times Electric. At December 31st, 2010 $2,212,677 of invoiced amounts related to the research and development agreement has been carried forward and included in the current portion of deferred revenue (2009 - $33,860).

The Company recorded a contribution towards staff costs in the year ended December 31st, 2010 of $106,522 (2009 - $nil) from CSR Times Electric.

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 $299,561 (2009 - $345,457) with respect to a defined contribution pension plan in place at Dynex Semiconductor Limited.

At December 31st, 2010 $46,691 was outstanding to pension plan (2009 - $1,556).

Corporate Information

Board of Directors

Li Donglin [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

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

Peter Tan [1]
Director

Liu Ke'an [1] [2]
Director

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

Senior Officers, VP's & Senior Managers

Paul Taylor
President & CEO

Bob Lockwood
VP Finance & CFO

Mark Kempton
Operations Director

Peter Tan
Sales & Marketing Director

Liu Guoyou
Research & Development Director

Bill McGhie
Power Electronic Assemblies Business Manager

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

Dynex Locations

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

Telephone +44 1522 500500
Fax +44 1522 500660

Dynex Semiconductor Limited
Doddington Road
Lincoln, LN6 3LF
England

Telephone +44 1522 500500
Fax +44 1522 500660

Registered Office

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