DYNEX POWER INC.

ANNUAL REPORT 2011

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

Company Profile

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

Company Facts

- Dynex Power Inc. was formed in June 1999
- Dynex Semiconductor Limited was formed to acquire the assets of the Lincoln Business Unit in January 2000
- The Lincoln Business Unit was founded in Lincoln England in 1956 and since that time has 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
- 304 employees (December 2011)
- ISO9001:2008 and ISO14001:2004 approved
- Further information: www.dynexsemi.com

Products

- High power bipolar discrete semiconductors
- High power IGBT modules and die
- 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

The year 2011 marked the third anniversary since the acquisition of 75% of Dynex by CSR Times Electric, and I would like to use this opportunity to reflect on the impact that change had on our business and our expectations for the future.

The following are the most outstanding achievements over the three year period that have been enabled by our cooperation with our new shareholder:

- Completed 6-inch bipolar thyristor wafer fabrication line, increasing capacity and extending power rating of our i^2 thyristor products: leading to the release of 125mm 8.5kV HVDC thyristors.
- Designed and built an advanced test facility for high voltage thyristors used in HVDC electric grid systems, in collaboration with a major customer.
- Completed, on time and on budget, a major transformational project to install two 6-inch IGBT wafer fabrication lines servicing the future demand from the China railway sector.
- Ramped up the newly installed IGBT lines at Dynex to achieve more than 2.5 times IGBT module revenue in 2011 compared to 2010.
- Assisted CSR Times Electric to design and commission in China an IGBT module assembly and test line, which has become a major customer for Dynex IGBT wafers.
- Successfully qualified and demonstrated through field trials, the suitability of Dynex high power IGBT modules for use on China national locomotives and urban metro systems.
- Integrated sales and distribution channels for power semiconductors with CSR Times Electric. Outside China, product from both locations will be branded with the Dynex name, and product sold outside China and America will be traded through the Dynex sales office.
- In partnership with CSR Times Electric, have set up their global R&D Centre for power semiconductors at Dynex Lincoln, securing an R&D investment in excess of £6m over 40 months.
- Started construction of a new office building to house the R&D Centre in a suitable high technology environment and accommodate more than 60 staff, mostly highly skilled engineers.
- Acquired the freehold of the land and buildings used by Dynex Semiconductor Ltd in Lincoln England, giving the business greater flexibility for future development of the operational facilities and reducing long term overhead costs.
- Won three UK awards that recognised the international technological strengths of the business: East Midland High Growth Business of the year 2009; UKTI established Exporter Worldwide Award 2010; and the prestigious Queen's Award for Enterprise 2010.

Building on these achievements, we have strong expectations for the future development and prosperity of our business. The relationship with CSR Times Electric has brought: greater investments in production facilities; greater investment in R&D; access to larger scale and lower cost production facilities in China; and greater economies of scale to address the growing world markets in power electronics.

In the short term, and as we have reported recently, our business with China is being impacted by the well publicised delays in high speed rail projects, and that coupled with the poor economic situation in Europe, has slowed our growth. Prospects for the second half of 2012 in particular look uncertain. However, there is reported to remain a robust and long term demand for expansion of the railway systems in China and also an accelerating demand for power electronic products for renewable energy and smart electric grids both in China and elsewhere. Our R&D centre is progressing well in developing new products to service these demands and the related products will become available over the coming year.

Paul Taylor
President and Chief Executive Officer
April 10th, 2012

Review of Operations

Power Semiconductors

Dynex designs and manufactures high power semiconductors for customers around the world including the European, US and the rapidly growing Far Eastern markets. The Power Semiconductor operation is located in Lincoln, England, manufacturing a range of high power module and bipolar discrete products that include insulated gate bipolar transistor (IGBT) and diode modules, IGBT/FRD die, fast diodes, fast thyristors, gate turn off thyristors, rectifier diodes, phase control thyristors and transistors. Representing 74% of the Company's business in 2011, the sales of power semiconductors generated revenue of $26.8 million, a 3.6% reduction on the previous year.

The Power Semiconductor operation comprises of two main product groups, Bipolar Discretes and Modules. Revenue from bipolar discrete products in 2011 was $17.6 million, a reduction of 27% on 2010. The primary focus for bipolar products is in high power applications such as power generation, transmission and distribution, power quality management, rail traction and industrial drives. While it remains the largest of the Dynex product groups accounting for 49% of revenue, this has dropped from 67% in 2010 as a result of more difficult market conditions for bipolar product at the same time as the Module product group was significantly increasing revenue and size within the Dynex organisation.

Module group revenue in 2011 was $9.2 million, a growth of 155% over 2010, resulting in their best ever performance. The share of total Dynex revenue increased from 10% in 2010 to 25%, a trend which is set to continue in future years. The module business consists of two main components, the sale of IGBT and diode modules, and the sale of silicon chips. The growth was mainly attributable to the completion of the new IGBT wafer fabrication facility enabling sale of chips to the market for the first time. Typical applications for module products are high power motor drives and power electronic management systems.

As previously discussed, the installation of a new bipolar 6-inch wafer fabrication production line was completed in 2010 thus providing Dynex with the facility to manufacture large diameter, high voltage thyristors utilising the now well established i2 technology. The sales of the first 125mm thyristors to be developed and manufactured on this new production line were achieved in the first quarter of 2011 while sales of the first smaller diameter devices to be processed from this line were realised in the fourth quarter of 2011. The extension of the i2 range of thyristors continued through 2011 with the development of a 150mm thyristor that will be the basic thyristor prior to implementing improved contacting technology and silicon edge profiling techniques that will lead us into a new generation of high performance product. Combined with the new wafer fabrication facility, the improved thyrisitor technology and new purpose built high voltage test centre, Dynex is well positioned to develop leading edge thyristor technology for many years to come.

2011 also saw the completion of phase 2 of the project to install two new 6-inch IGBT wafer fabrication production lines to provide increased capacity for manufacturing 150mm IGBT and fast recovery diode silicon chips. The completion of these production lines has enabled large volume chip manufacture, with first sales in quarter one, to support the growth of Dynex module sales and for the supply of die to our parent company, CSR Times Electric to support the rapidly expanding market in China. With the development of newer IGBT technologies at higher voltages, module group revenue are expected to grow further during 2012.

Significant work was undertaken in 2011 to cement the strong foundation of operational/engineering activity and working relationships between Dynex and the Power Electronics Business Unit, the power semiconductor manufacturing arm of CSR Times Electric. Particular emphasis was placed on the establishment of a product manufacturing and sales strategy for bipolar discrete devices that would also strengthen links in process technology and the control of both processing and quality systems. For the module business, the establishment of a new assembly and test facility in China has been heavily supported by Dynex engineering and will provide a conduit for the sale of IGBT/FRD chips from the new IGBT wafer fabrication area and subsequent sale of Dynex designed modules into the rapidly expanding Chinese market.

Dynex retains the capability to supply a broad range of high power semiconductors to the marketplace and this was demonstrated once again in 2011 with sales of five hundred different product types to more than one hundred and seventy customers in over thirty countries. The emphasis is on R&D investment to ensure future growth by developing new technologies that will provide leading edge high voltage, high performance products to meet and exceed customer requirements. Dynex takes pride in providing a high level of technical support to its customers and responding positively and efficiently to any new technical opportunity.

With a 2011 book to bill ratio of 1.2, the order book strengthened throughout the year providing a positive outlook for 2012 with renewed growth in the sales of high power semiconductors. We expect to see a modest growth in the revenue from bipolar discrete products and significant growth in module group revenue as output from the recently installed production line continues to increase and support market demand. We look forward to further developing and strengthening our flourishing relationship with our colleagues at CSR Times Electric and continuing to explore opportunities that provide mutual benefits throughout 2012 and beyond.

Power Electronic Assemblies

Revenue from the Power Electronic Assemblies products group in 2011 was $6.2 million compared to $7.5 million in 2010. This constitutes 17.5% of the Group's total revenue.

The Power Electronic Assemblies products group continues to be driven by large infrastructure projects in the power transmission and distribution sector and is very dependent on the success of our major customers who unfortunately did not win the expected level of business in 2011. However, the opportunities for 2012 and 2013 have increased and renewed growth is expected.

Orders for new designs of power electronic assemblies products exceeded $2.5 million in 2011 and this continues to show a year on year improvement reflecting good product selection strategy. Expectations are for continued success in the SVC and grid-connect products as well as sales from an increasing competency in test equipment manufacture.

Opportunities are being pursued in the VSC (Voltage Source Converter) market for sub assembly subcontract activities and a contribution from this area is expected in 2012.

Integrated Circuits

As expected, 2011 saw an increase in the Integrated Circuit product group revenue. Revenue for the year of $2.6 million, 7% of the total business, showed an increase of 236% over revenue in the previous year. This was a result of nearly all enquiries, for what is now a very scarce product, coming to fruition as firm orders and early placement orders were received from customers buying strategically as new projects gained funding.

The Dynex 6-inch IGBT wafer fabrication lines are now in full production and Dynex has ceased to manufacture, or to have the ability to manufacture, any new SOS product. However, the proven long term reliability of the Dynex SOS product, and the fact it has been incorporated into many fixed design aerospace systems, means it continues to attract enquiries from a long-standing, worldwide customer base. These customers have requested that we attempt to outsource our wafer fabrication so that a continued supply of SOS product can be provided. As reported last year, to try to meet this request, we have been, and continue to work with an independent SOS wafer foundry. Results obtained from this initiative during 2011 were promising and a small amount of functioning engineering prototypes were produced. During the latter part of 2012, it is expected that wafers of improved quality will be delivered, leading to the possibility of piloting a production run of one of the 'in demand' device types.

It is forecast that the level of revenue will decrease significantly during 2012, as there is now only a very small amount of remaining inventory available and the foundry product will not be fully qualified until the latter part of the year.

Research and Development

Throughout 2011, Dynex worked closely with CSR Times Electric to develop the activities of the Power Semiconductor R&D centre, to become the core of the Dynex R&D activity. The funding arrangement for the R&D Centre was announced in May and September 2010, and the centre started work in October 2010. This centre underpins the Dynex strategic focus on high power IGBT modules and high voltage and high power bipolar thyristors, and cements the relationship with CSR Times Electric as a major customer for Dynex high power semiconductor products.

A key milestone achieved in October 2011 was the commencement of construction of a new building at Lincoln, primarily to house the growing R&D activity in a suitably up-to-date environment. This construction is expected to be completed in the middle of 2012, with the R&D group taking occupancy in subsequent months.

The strategic focus of the R&D activity is to develop the technology and semiconductor based products that are required by our customers for high power electronic equipment in the following low carbon application sectors: railway transportation, electric grids, renewable energy, automotives, industrial equipment and aerospace. During 2011 the main activity was directed to building platform technologies for the next generation of Dynex IGBT and thyristor components.

Current Dynex IGBT modules were further improved and these improvements validated by practical application in metro and high power locomotive equipment. The improved module products were transferred into production both at Dynex and also at CSR Times Electric, and formed the basis for a ramp up in output from the Dynex 6-inch IGBT wafer fabrication facility at Lincoln.

Significant progress was achieved in the development of a more advanced high voltage IGBT and fast recovery diode chip, and it is anticipated that these chips will form the basis for new products expected to be released in 2012. These new products will offer lower operating energy losses and increased power capability, rendering them suitable for both railway and electric grid applications. Longer term work, supported by CSR Times Electric, is targeted to produce IGBT and diode processes and designs compatible with manufacture using 8-inch silicon. These will offer increased capacity and the ability to service higher volume markets such as electric vehicles, wind turbines and solar power systems.

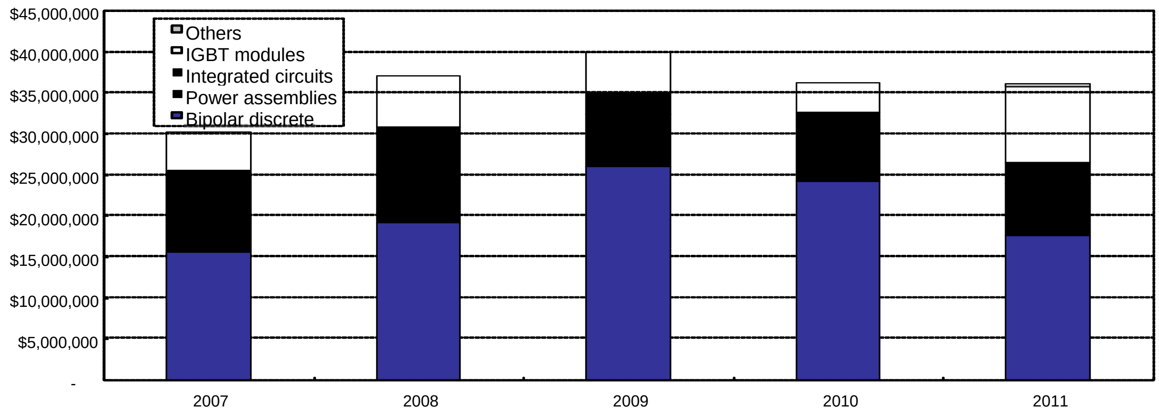
Advances in Dynex power module assembly and test techniques have led to improved reliability and robustness, improved manufacturability, and lay down the basis for new products planned for 2012 that will incorporate the next generation of Dynex IGBT and fast recovery diode chips.

Within the R&D Centre, and in addition to the IGBT projects, work has continued on advanced high power bipolar technology and products. This work targets a range of smart power grid applications, including HVDC electric power transmission, power quality management and renewable energy.

Building on experience in static VAR compensation “SVC” systems the Dynex power assemblies group has successfully designed a number of full 3 phase systems at 33kV up to 125MVAR (SVC systems are typically used at industrial sites in order to regulate voltages and improve the power supply quality). This work has facilitated the design of competent grid connection switches and gate firing systems. A full prototype “smart” grid connect switch is undergoing trials in California. Also during 2011 the group has continued to support key customers in the power industry to assist with custom design and prototype manufacturing for a number of leading edge technology solutions, including pulse power.

Dynex has continued to undertake collaborative programmes with UK university research groups and other companies and as a result benefits from the latest knowledge of new technologies. Some of these projects are government funded. Examples of these projects include the investigation of non-destructive test methods for IGBT modules, studies of power device reliability modelling, and the design and development of advanced power devices.

Revenue by product



Sales and Distribution

Revenue decreased slightly from $36.2 million in 2010 to $36.1 million in 2011 due to the strength of the Canadian Dollar against Sterling. In Sterling terms, revenue had grown by approximately 1%.

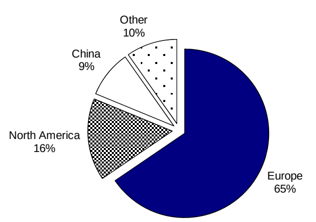
The Bipolar Discrete Group's order book increased slightly as a result of stronger market demand in 2011. This was mainly because major customers secured new projects and this stimulated their demand for products which were key components of their applications. The Power Modules Group saw strong market demand also but supply was constrained until the ramping up of IGBT wafer fabrication capacity was completed. Demand for power electronic assemblies slowed. This business is quite dependent on the market success of key customers. The Integrated Circuits business performed well but this is no longer a core business and the inventory is now nearly exhausted.

Revenue by region saw strong growth in China in 2011 compared with previous years. Following completion of the new IGBT wafer fabrication lines, sales of IGBT products to China gave the highest contribution of revenue growth in China. Europe remains the largest sector but the share has reduced to 51% of the total revenue. The proportion of revenue from North America remained the same. Revenue from the rest of world decreased slightly but didn't reflect material change of market situation.

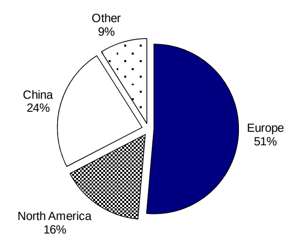
Bookings (new sales orders) in 2011 increased to $39 million compared to $23 million in 2010, a growth of 69%. The booking to billings ratio was 1.1. This was a result of strong demand for IGBT products by our parent company and stronger demand for bipolar products from the high power application market.

Looking forward to 2012, we anticipate that revenue from bipolar discrete products will increase and the growth in the power module business including the sale of IGBT and FRD die will be much stronger. Revenue from power electronic assemblies is expected to decline slightly. Europe should remain the strongest sector with the fastest growth coming from China. However, the volatile economic situation around the world has increased the uncertainty of the forecast.

Revenue by Region



2010



2011

Management's Discussion & Analysis

The following discussion and analysis should be read in conjunction with the Consolidated Financial Statements of the Company for the year ended December 31st, 2011.

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.

Introduction to the Dynex Group

Dynex Power Inc. (the "Company") was formed in Ottawa, Canada on June 15th, 1999 and is quoted on the TSX Venture Exchange under the symbol DNX. The Company has one subsidiary, Dynex Semiconductor Limited (the "Subsidiary"), which is wholly owned and based in Lincoln, England. The Company and its Subsidiary (collectively, the "Group") are engaged in the design, manufacture and sale of industrial power equipment.

Apart from a few administrative activities carried out by Dynex Power Inc., all the business of the Group is carried out by Dynex Semiconductor Limited.

In 2008, Zhuzhou CSR Times Electric Co., Ltd ("CSR Times Electric") acquired approximately 75% of the share capital of the Company and thus became the Company's immediate parent company. CSR Times Electric is itself majority owned by the CSR Group which is therefore the Company's ultimate parent company. Both CSR Times Electric and the CSR Group are established in the People's Republic of China and are themselves quoted companies.

Dynex's Business and Strategy

The Group is primarily engaged in the design, manufacture and sale of high power bipolar discrete semiconductors, high power modules (IGBTs) and die and high power electronic assemblies. The Group's aim, working in conjunction with the Power Electronic Business Unit of CSR Times Electric, is to be recognised as one of the world's leading manufacturers of high power semiconductors.

The Group is also engaged in the manufacture and sale of high reliability integrated circuits. This is no longer regarded by management as a core activity of the Group and so the Group is seeking to maximise the revenue from its remaining inventory of such devices and is evaluating the possibility of licensing the technology to another manufacturer in the future.

All the production of the Group takes place in a single factory in Lincoln, England often using common facilities and shared staff. Consequently, the Group regards bipolar discrete, power modules and die, power electronic assemblies and integrated circuits as separate product groups for revenue analysis but does not regard them as separate operating segments for reporting purposes. The Group does not analyse gross margins, expenses, taxation, net profit or assets by product group.

Due to the nature of silicon wafer fabrication, there is a relatively high level of fixed costs in the business. Consequently, the profitability of the business is particularly responsive to the volume of production and, therefore, the overall level of revenue.

Management does not regard the business as seasonal. In the case of Power Electronic Assemblies and Integrated Circuits, small numbers of large contracts drive revenues in both these segments. The delivery of a large contract in a particular quarter can cause revenue to fluctuate significantly, giving the appearance of seasonality.

Foreign Exchange Rates

Because all of the design, manufacture and sale of products is carried out by the Subsidiary, all of these transactions are initially recorded in Sterling and have to be translated into Canadian Dollars for inclusion in the Group's financial statements. Consequently, changes in the Sterling/Canadian Dollar exchange rate can have a significant influence on reported results. The following exchange rates have been used in preparing these Consolidated Financial Statements:

	£1 equals
Average rate October to December 2011	C$1.6072
Average rate October to December 2010	C$1.6007
Average rate January to December 2011	C$1.5816
Average rate January to December 2010	C$1.5974
Rate at December 31st, 2011	C$1.5825
Rate at December 31st, 2010	C$1.5557
Rate at January 1st, 2010	C$1.6930

As illustrated, the Canadian Dollar rate against Sterling for the fourth quarter of 2011 was similar to the rate in the corresponding quarter of 2010 and the rate for 2011 was similar to the rate for 2010.

Consequently, exchange rate movements had little impact on reported revenue and expenditure in the quarter or the year.

The Canadian Dollar strengthened against Sterling by approximately 9% between January 1st, 2010 and December 31st, 2010 but weakened by approximately 2% between December 31st, 2010 and December 31st, 2011.

Changes in Accounting Policies

In accordance with the requirements of the Canadian Accounting Standards Board, the Company transitioned to International Financial Reporting Standards ("IFRS") on January 1st, 2010 and has been presenting its financial statements using IFRS from January 1st, 2011. Accordingly, these Consolidated Financial Statements are the first annual financial statements to be presented using IFRS.

Purchase of Doddington Road Site

On August 22nd, 2011 the Group purchased the site it occupies in Doddington Road, Lincoln, England from its landlord for $5.8 million. The site had been owned by the Group prior to 2003 when it was the subject of a sale and leaseback transaction. The purchase was undertaken prior to the start of work to build a new R&D Centre and office block on the site. It was thought preferable for the Group to be constructing the new building on land which it owned. The purchase of the site should also enhance the value of the Group as the cost of ownership will be less than the cost of renting the site.

Construction of a New R&D Centre and Office Building

On September 23rd, 2011 the Group signed a letter of intent with a local construction company to build a new R&D centre and office building on its Doddington Road site for approximately $2.4 million. The new building is required following recent announcements that the Group would be increasing significantly its R&D activities under an arrangement that would be principally funded by its majority shareholder, CSR Times Electric. Work on the construction began in October 2011 and is expected to be completed in the summer of 2012.

Yield Variances on the New Fabrication Lines

Following completion of the rights issue in late 2009, the Group began construction of two new 6-inch fabrication lines for IGBT die in early 2010 with the construction of the first line being completed in late 2010 and the second line in early 2011. Reference was made in the 2010 Annual Report to the impact of the construction project on the performance of the business. Work has continued during 2011 on commissioning the lines and on transferring existing products from the old line to the new lines. Although the construction of the lines was completed on plan, production yields during the ramp-up phase were lower than usual due to unexpected technical difficulties in the fabrication process using the new production tools. This has adversely affected the Group's gross margin throughout 2011. Management believes that yields are now improving and expects them to return to at least the level normally achieved in the past and in due course they should be slightly higher than the Group used to achieve. The poorer yields have resulted in a one-off charge to gross profit in the fourth quarter of approximately $800,000.

Change in Accounting Estimate of Inventory Obsolescence

The sale of bipolar products has been at the core of the Group's business since the acquisition of Dynex Semiconductor Limited in 2000, accounting for between 60% and 75% of total revenue whilst the sale of power modules typically accounted for between 15% and 20% of total revenue. Following the completion and commissioning of the two new IGBT fabrication lines during the first half of 2011, the balance of sales has altered with the sale of bipolar products now accounting for slightly less than 50% of the Group's revenue in the second half of the year whilst the sale of power module and IGBT die now accounts for between 30% and 40% of total revenue. This trend is expected to continue with power module and IGBT die sales accounting for the majority of the Group's business in future.

During the second half of 2011, the Group transferred production of lower power (and therefore lower margin) bipolar products to CSR Times Electric so that it can concentrate its bipolar business on the production of higher power, higher margin parts in future. Historically the Group produced a very wide range of bipolar parts with little ability to forecast which parts would be wanted by customers. This meant that materials were ordered and parts were made in response to firm orders.

As the Group has a much smaller range of power modules and IGBT die parts and as it is now producing a smaller range of bipolar parts, it is now possible to buy raw materials and part manufacture products in advance of firm orders. As a result of these changes, the Group should be able to offer reduced lead times but will hold higher inventory levels. The change also means that raw materials, work in progress and even finished goods may be held for longer than would have been the case in the past.

Previously, the Group provided for raw materials that had not moved for 6 months and for work in progress and finished goods that had not moved for 3 months. Following the changes in the business referred to above, the Group's management now believes that it is only appropriate to provide for raw materials, work in progress and finished goods that have not moved for 12 months. However, it is still the case that individual items that have not moved for periods shorter than this can be provisioned if management determines that there is no realistic prospect of selling the parts and inventory that has not moved for longer than this can still be valued where management has reason to believe that there is a realistic prospect of selling the part in the foreseeable future. Such adjustments are particularly common in relation to inventory of integrated circuits.

This change in accounting estimate was introduced in the fourth quarter of 2011. As a result of this change, the inventory provision at the end of 2011 is approximately $1.5 million lower than it would have been had the change not been made and the Group's gross margin is correspondingly higher in the fourth quarter than it would have been had the change in estimate not been made.

Review of Operating Results

Objective

The Group's objective over the medium term is to achieve strong revenue growth whilst maintaining a gross profit percentage in the range of 20-25% so as to be able to invest strongly in research and development, cover other administrative expenses, finance charges and tax and provide shareholders with a good return on their investment in the business.

Overview

The current quarter showed a significant improvement over the figures for the corresponding quarter of the preceding year with revenue growing by 15%. The gross profit percentage was 22.9% in the fourth quarter of 2011 compared to 12.6% in the corresponding quarter of the previous year. Without the impact of the change in accounting estimate and the yield variance on the new fabrication lines referred to above, the gross margin for the fourth quarter of 2011 would have been 15.7%. Profit before tax for the fourth quarter of 2011 was $729,000 compared to a small loss in the corresponding quarter of the preceding year. Without the two items referred to above, a small profit before tax would have been recorded in the fourth quarter of 2011.

Revenue for the year was $79,000 or 0.2% lower than in the preceding year. The decline was a result of a small strengthening in the Canadian Dollar against Sterling. In Sterling terms, revenue had grown by just under 1%. The gross profit percentage for the year was 23.9% compared to 19.1% in the preceding year. Without the two items referred to above, the gross profit percentage in the 2011 would have been 21.9%. Profit before tax for the year of $3.5 million was $1.5 million or 73% higher than in the preceding year. Without the two items referred to above, profit before tax would have been $2.8 million and would have been $764,000 or 38% higher than in the preceding year.

The Company's bookings to billings ratio for the year of 1.1 was considerably better than the figure of 0.7 achieved in the preceding year. However, the market for high power semiconductors still remains tight.

Revenue

Revenue for the fourth quarter of 2011 was $9.6 million, $1.3 million or 15% higher than in the corresponding quarter of last year. The change comprised a significant increase in sales of power modules partially offset by reductions in bipolar discrete products and power electronic assemblies, which are mainly sold into European markets. The decline in bipolar discrete and power electronic assembly revenues reflects the difficult economic situation being experienced across Europe at this time. There was also a small reduction in integrated circuit revenue.

For the year, revenue of $36.1 million was $79,000 lower than in the preceding year, although in Sterling terms the UK operating business had recorded a small increase in sales. Here again, there was a significant increase in sales of power modules and also of integrated circuits offset by reduction in bipolar discrete products and power electronic assemblies. The decline in bipolar discrete products and power electronic assembly revenues reflects the difficult economic situation being experienced across Europe where most of these products are sold.

Gross Margin

The gross margin was 22.9% of revenue in the fourth quarter of 2011 compared to 12.6% in the corresponding quarter of last year. The gross margin in the current quarter was affected by the change in accounting estimate and yield variances referred to above. Without these items the gross margin in the fourth quarter would have been around 15.7%. A gross margin at this level is below what management would normally expect but should improve as the yield losses reduce as the Group gets better experience of the new fabrication lines.

For the year, gross margin was 23.9% compared to 19.1% in the previous year. Without the two items referred to above, the gross margin for the year would have been around 21.9%. This is at the bottom of the range of gross profit that management normally expects but is expected to improve as yields on the new lines improve.

Other Income

Other income for the quarter and year consists primarily of the sale of scrap materials. The figures for the current quarter and year and for the corresponding quarter and previous year are not considered material.

Sales and Marketing and Admin Expenses

Management's aim is to reduce the combined sales and marketing and administration expenses as a percentage of revenue through improved efficiency. Such expenses were 11.2% of revenue in the fourth quarter of 2011 compared to 7.8% in the corresponding quarter of last year. The increase arose from one-off costs in the last quarter.

For the year such expenses were 10.2% compared to 10.1% in the previous year. The difference is not considered material. Management's aim is reflected by the long term trend which has seen such costs fall from over 25% of revenue in 2004 to significantly less than half of that level today.

Research and Development Expenses

Management believes that it is important to increase expenditure on research and development so as to maintain the intellectual property of the Group and to be able to offer the best products to the market in order to protect long term profitability. As far as possible, management seeks to fund such expenditure from contributions from its parent company, customers and governmental agencies so that the full burden of such expenditure does not fall to shareholders.

The net expenditure on research and development for the fourth quarter of 2011 was $222,000. This was $44,000 or 17% lower than in the corresponding quarter of last year.

For the year, net expenditure on research and development was $74,000 or 7% higher than in the preceding year. It represents 3.2% of revenue compared to 3.0% in the preceding year.

However, management believes that the gross expenditure on research and development is a more important indicator of the Group's commitment to product development. Gross research and development expenditure increased to 10.2% of revenue in the year compared to 4.3% of revenue in the preceding year. The increase results from a deliberate decision by management to invest in product development and from the decision by CSR Times Electric to establish the jointly funded R&D Centre in Lincoln.

Finance Costs

Finance costs for the quarter and year consist of interest on borrowing and leases and fees relating to establishing new borrowing facilities or extending existing facilities. Finance costs are $29,000 or 14% higher than in the preceding year. The increase reflects an increased level of borrowings during the year compared to borrowings in the preceding year.

Other Gains and Losses

Other gains and losses relate to foreign exchange gains and losses and profits or losses on the disposal of property, plant and equipment. Consequently, the figure reported can fluctuate significantly.

Profit before Tax

Profit before tax was 7.6% of revenue in the fourth quarter of 2011. Without the change in accounting estimate and yield variances referred to above, there would have been a small profit before tax in the quarter. There had been a small loss before tax in the corresponding quarter of the preceding year.

For the year, profit before tax was 9.6% of revenue compared to 5.5% in the preceding year. Without the two items referred to above, there would have been a profit before tax of 7.6% of revenue.

Tax Expense

Tax expense was less than 1% of profit before tax in the fourth quarter of 2011. The low rate was a result of additional deductions that had been successfully claimed on research and development expenditure. In the corresponding quarter of the preceding year there had been a small tax charge even though a loss had been reported.

For the year, tax expense is 21.6% of profit before tax compared to 32.6% in the preceding year. These rates primarily reflect the UK statutory tax rate of 26.5%, compared to 28% last year. The effective tax rate in the current year has been reduced by additional reductions in relation to research and development costs and to the benefit of falling tax rates on deferred tax balances. The effective tax rate in both years also reflects the impact of Canadian costs that do not attract usable tax deductions.

Net Profit

The Group reported a net profit of $724,000 in the fourth quarter of 2011 compared to a loss of $18,000 in the corresponding quarter of last year. Without the change in accounting estimate and yield variances referred to above, there would have been a small profit in the quarter.

For the year, the Group reported a net profit of $2.7 million compared to a profit of $1.3 million in the preceding year. Without the two items referred to above, there would have been a net profit of $2.2 million.

Liquidity & Capital Resources

Objective

The Group's objective is to maintain a strong balance sheet so as to be able to carry out its business efficiently, to be able to grow revenue substantially over the medium term and be in a position to take advantage of market opportunities.

Property, Plant and Equipment

As already mentioned, the Group purchased the Doddington Road site during the year for $5.8 million and is currently undertaking the construction of a new R&D Centre and office building for approximately $2.4 million. The Group has also been investing heavily in plant and equipment over the last four years, primarily in the areas of module wafer fabrication and bipolar discrete wafer fabrication equipment in order to increase capacity, efficiency and capability. The net value of property, plant and equipment, which had stood at only $1.1 million at the end of 2007, increased to $22.5 million at the end of 2010 and now stands at $30.6 million.

Working Capital

The Group aims to optimise the ratio of assets invested in working capital (current assets less cash less trade payables, other payables and accruals, provisions, amounts owing to parent company and deferred tax liabilities) compared to the revenue of the business.

At the end of 2011, working capital stood at $10.8 million compared to $6.3 million at the end of December 2010. The increase reflected a $3.3 million increase in inventories primarily as a result of the new lines being fully operational and preparing for future growth and a $2.3 million increase in amounts due from the parent company following an increase in business with them. There has also been utilisation of $800,000 of an advanced payment for R&D costs from CSR Times Electric during the year and a £800,000 million increase in deferred tax.

Net Debt

At the end of 2011, the Group had net debt (borrowings less cash) of $6.7 million. At the end of December 2010, it had net cash of $2.6 million. The change reflects the purchase of the Doddington Road site, for $5.8 million, investment of $3.8 million in plant and equipment and the increase in working capital of $4.5 million referred to above.

The Group had no off balance sheet financing arrangements at the year end or at the previous year end.

Equity

Equity increased by $3.2 million since the end of the preceding year. The increase resulted from the net profit of $2.7 million and an exchange difference on translation of the UK subsidiary of $0.5 million.

Gearing

Management monitors closely the Group's gearing ratio (the ratio of net debt, being borrowings less cash balances, to equity). At the end of 2011, the Group had a gearing ratio of 19.4%. At the end of the preceding year, the Group had no net debt. The net debt is primarily a result of borrowing funds to purchase the Doddington Road site. However, Management still regards this as a low level of gearing and it provides flexibility for further borrowings if required.

Borrowing Facilities

The Group seeks to have committed facilities sufficient to meet its expected financing needs for the next two years. At the end of 2011, the Group's $4.7 million committed borrowing facility was fully drawn but the Group had $3.0 million of cash. The Group also has a $7.6 million mortgage backed facility to help fund the purchase of its Doddington Road site and the construction of the new R&D Centre and office building. At the year end, $4.6 million had been drawn under this facility. The remainder of the facility is not available until the new building has been completed but there is more than sufficient undrawn loan to complete the new building. The Group also maintains a $1.6 million uncommitted overdraft facility to help with its day-to-day cash management. This facility was unutilised at the year end. At the year end, net debt was equivalent to approximately 72% of the committed facilities available to the Group and 55% of the committed facilities that will be available to the Group when the new building has been completed.

Cash Flow

There was an inflow of $1.2 million from operating activities in the year. The main constituents of the cash inflow were the profit before tax of $3.5 million and a depreciation charge of $2.4 million offset by an increase in amounts owing from the parent company of $2.3 million, an increase in inventory of $1.2 million and a $1.9 million reduction in the inventory provision.

In the year, $10.3 million has been invested in property, plant and equipment of which $6.7 million related to the purchase of the Doddington Road site. The investment in property, plant and equipment was matched by $10.0 million of new borrowings.

Commitments

The Group has capital commitments at the year end of $2.8 million for the new R&D Centre and office building and manufacturing and research and development equipment.

Contingencies

A number of the Group's products are covered by product warranties of varying duration. The Group provides for claims under such warranties on the basis of past experience. However, actual claims could exceed the amount of this provision. Other than such potential warranty claims, Management is not aware of any contingent liabilities of the Group.

The Group has not issued any guarantees of any third party debts or performance

Selected Financial Information

	2011 Q4	2011 Q3	2011 Q2	2011 Q1	2010 Q4	2010 Q3	2010 Q2	2010 Q1	2011 FY	2010 FY	2009 FY
Revenue	9,633	9,860	9,018	7,751	8,379	8,116	9,233	10,433	36,082	36,161	39,884
Gross Profit	2,209	2,976	1,938	1,492	1,059	1,392	1,891	2,551	8616	6,893	9,534
Gross profit %	22.9%	30.2%	21.5%	19.3%	12.6%	17.2%	20.5%	24.4%	23.9%	19.1%	23.9%
Gross R&D %	9.9%	16.4%	6.4%	7.3%	6.6%	3.9%	3.2%	3.8%	10.2%	4.3%	3.9%
Profit before Tax	729	1,665	755	310	(5)	363	520	1,116	3,458	1,994	3,827
Net Profit	724	1,229	540	216	(18)	250	359	754	2,710	1,345	3,414
Earnings per Share											
Basic	0.01	0.02	0.01	0.00	0.00	0.00	0.01	0.01	0.03	0.02	0.08
Diluted	0.01	0.02	0.01	0.00	0.00	0.00	0.00	0.01	0.03	0.02	0.08
Property, plant, equipm't	30,624	31,215	23,441	23,184	22,493	21,233	19,772	17,461	30,624	22,493	17,420
Working capital	10,754	12,533	10,683	7,657	6,321	10,669	10,921	9,973	10,754	6,321	9,026
Net(debt)/cash	(6,724)	(8,977)	(2,057)	885	2,629	662	1,122	3,065	(6,724)	2,629	6,016
Equity	34,654	34,771	32,067	31,726	31,443	32,564	31,815	30,499	34,654	31,443	32,462
Dividends	0	0	0	0	0	0	0	0	0	0	0

Selected quarterly and annual financial information is presented above. All figures for each of the four quarters in 2010 and 2011 have been prepared in accordance with IFRS. These figures have not been audited. All figures for 2009, except for the figures for property, plant and equipment, working capital, net cash/(debt) and equity, have been prepared in accordance with Canadian generally accepted accounting principles and have been audited. The figures for property, plant and equipment, working capital, net cash/(debt) and equity for 2009 and all figures for the financial year 2010 and 2011 have been prepared in accordance with IFRS and have been audited. All amounts are stated in thousands of Canadian Dollars except for the gross profit percentage and the gross R&D percentage and for earnings per share figures which are stated in Canadian Dollars per share.

The amounts shown for property, plant and equipment are as disclosed in the appropriate financial statements. Working capital is defined as current assets excluding cash less current liabilities excluding borrowings less non-current liabilities excluding borrowings for figures prepared under IFRS and current assets excluding cash less accounts payable and accrued liabilities for figures prepared under Canadian generally accepted accounting principles. Net cash/(debt) is defined as cash less borrowings for figures prepared in accordance with IFRS and cash less short-term loans, long-term debt and obligations under capital leases for figures prepared in accordance with Canadian generally accepted accounting principles. The amounts shown for equity are as disclosed in the financial statements prepared in accordance with IFRS and are the amounts shown as equity plus deferred revenue in the case of financial statements prepared in accordance with Canadian generally accepted accounting principles.

Annual revenue declined by 9.3% between 2009 and 2010 and by 0.2% between 2010 and 2011. However, both these declines were as a result of the strengthening of the Canadian Dollar against Sterling. In Sterling terms, revenue had risen by approximately 1% in both years. Quarterly revenue peaked in the first quarter of 2010. During the following twelve months they declined as a result of the strengthening of the Canadian Dollar, the softer market for bipolar products, particularly in Europe, and capacity constraints for modules whilst the expansion project has been taking place. The last three quarters have generally seen a strengthening in revenue principally as a result of increased sales of power modules.

The gross profit percentage in 2009 was in line with management expectations. The gross profit percentage was impacted in 2010 by the disruption caused by the expansion project. The gross profit percentage in 2011 was again in line with management expectations. The gross profit percentages for the first two quarters of 2010 were in line with management expectations for the business. The gross profit percentages during the second half of 2010 and the first quarter of 2011 again reflect the disruption caused by the expansion project. The gross profit percentage in the second quarter of 2011 shows a return towards the more normal level that management expects. A number of one-off reductions in cost of sales in the third quarter resulted in a gross profit percentage higher than normal. In the fourth quarter of 2011, gross profit has been impacted by the change in inventory provisioning and also by the increased yield losses referred to above.

Management regards research and development expenditure as key to the future of the business and seeks to grow the ratio of gross expenditure on research and development to revenue. A steady growth in gross research and development expenditure as a percentage of revenue can be seen in the figures. The ratio of 16.4% for the third quarter of 2011 has been affected by two one-off charges totalling approximately $750,000 recorded in the quarter. Without these one-off adjustments, the ratio would have been approximately 8.8%.

The profit before tax reflects the strength of the gross profit in any particular period. The net profit for the period in 2009 reflected the fact that although the tax losses were exhausted in 2009, there was still sufficient available to provide a partial shelter, whilst in 2010 and 2011 full provision was made for tax. The quarterly figures follow the same trend although there was a smaller tax charge in the fourth quarter of 2011 due to reassessments of the tax losses available in that year.

The figures for property, plant and equipment show significant investment throughout the business primarily the installation of two new 6-inch IGBT wafer fabrication lines between late 2009 and early 2011 and the purchase of the Doddington Road site in the third quarter of 2011.

Working capital levels were generally equivalent to between two and three month's revenue during 2009 but in 2010 and 2011 have tended to be equivalent to between three and four months revenue. The increase reflects the fact that more of the Group's revenue is now coming from customers in areas where credit terms are generally longer and payment of receivables is not as prompt and from the increase in inventories associated with the two new IGBT wafer fabrication lines.

The completion of the rights issue in December 2009 eliminated the net debt of the Group and provided a strong net cash position in anticipation of the costs of completing the expansion project. The net cash reduced during 2010 and the first half of 2011 as the expansion project was completed. The purchase of the Doddington Road site resulted in a substantial increase in net debt in the third quarter of 2011.

The change in the equity reflects the comprehensive income in each period.

Risk Management

The Group 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 October 2008 made the Group part of a larger group. The Group 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 Group's product markets could have a material adverse effect on its competitive position within the industry. Dynex is increasing the gross expenditure on R&D as a percentage of revenue 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 Group. Global plans to reduce carbon emissions in response to concerns about climate change, including 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 Group's products will remain strong in the longer-term despite the current economic problems that affect many developed economies. The purchase of a 75% stake in the Company by CSR Times Electric in October 2008 gives the Group 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 Group has based its future business development plans on the assumption that CSR Times Electric will purchase a substantial portion of its IGBT product requirements from Dynex. This is not certain as there are many factors that could 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 Group 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 and the needs of other power electronic equipment manufacturers both within China and the rest of the world.

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

The Group's manufacturing yields vary significantly among products, depending on the complexity of a particular product's design and the Group'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 Group seeks to manage these risks by constantly monitoring and seeking to improve its yields through improvements in design, materials and manufacturing processes.

The Group's business is quite concentrated, with over 60% of turnover typically coming from ten or fewer 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 October 2008 has given the Group a much closer relationship with this entity which has become the Group's major customer. The Group 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 Group constantly seeks to acquire new customers to broaden its customer base.

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 Group 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 Group's highest power products, has become less secure recently following a reduction in the number of suppliers. The Group continues to strengthen its relationship with existing suppliers to increase its security of supply.

In the case of electricity, the Group is a major user of electricity and the cost of electricity in the UK is subject to significant short term variation. The Group has developed and operates a formal Energy Management Plan in order to minimise the use of power. The Group 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 Group's expenses, particularly those relating to capital equipment and manufacturing overheads, are relatively fixed, making the Group's results extremely sensitive to volume reductions. The Group seeks to manage this risk by maintaining close relationships with its main customers and by seeking new customers. The Group's capability in power electronic assemblies is an important aspect of developing and maintaining such close relationships.

The Group's operating business is in Lincoln, England and the majority of its assets, liabilities, revenue, expenses and cash flows take place in and are recorded in Sterling. These values have to be translated to Canadian Dollars for inclusion in the consolidated financial statements of the Company. Movements in the Canadian 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 Group 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 Group'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 Group'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 Group 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 Group uses many hazardous chemicals and gases. The Group operates a formal Health and Safety Plan compliant with UK Health and Safety Executive guidance note HSG65 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 minimised.

Financial Instruments & Other Instruments

The Group does not use financial instruments or other instruments as part of its risk management strategy.

Critical Accounting Judgements and Estimates

The following are the key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Anticipated useful lives of property, plant and equipment

Management determines the estimated useful lives of its property, plant and equipment based on historical experience of the actual lives of property, plant and equipment of similar nature and functions and reviews these estimates at the end of each reporting period. At December 31st 2011 the carrying amount of property, plant and equipment was $30,623,600.

Provisions against inventories

Management reviews the condition of inventories at the end of each reporting period and recognises a provision for slow-moving and obsolete items of inventory when they are no longer suitable for use or sale.

Management's estimate of the net realisable value of inventories is based primarily on sales prices in the forward order book and current market conditions.

At December 31st, 2011 the provision against inventories was $4.3 million and the carrying amount of inventories was $10.9 million.

Impairment of trade receivables

Management determines the estimated recoverability of trade receivables based on the evaluation and ageing of trade receivables, including the current creditworthiness and the past collection history of each customer and reviews these estimates at the end of each reporting period. At December 31st, 2011 the provision was $180,000 and the carrying amount of trade receivables was $4.3 million.

Provisions

Management determines the best estimate of provisions based on experience of similar transactions and, in some cases, reports from independent experts and reviews them at the end of each reporting period. At December 31st, 2011 the carrying value of provisions was $399,000.

Changes in Accounting Policies

The Company has adopted International Financial Reporting Standards in place of Canadian generally accepted accounting policies, as at January1st, 2010. These consolidated financial statements are the first such annual financial statements of the Company presented using IFRS.

Disclosure Controls

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

Internal Controls

Internal control over financial reporting has been designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian generally accepted accounting principles. During the year ended December 31st, 2011, there have been no changes in the design of the Group's internal controls over financial reporting that has materially affected, or is reasonably likely to affect materially the Group's internal control over financial reporting.

Government Assistance

The Group received $87,000 in grants during the year from the European Union and the UK Government to assist in its research and development activities and grants of $17,000 from the UK Government to purchase equipment.

Outstanding Share Data

As of the date of this Management's Discussion and Analysis, the Company has 80,509,047 common shares outstanding and options to purchase 150,000 common shares outstanding.

Related Party Transactions

During the fourth quarter of 2011, the Group sold $2.8 million of goods and $299,000 of services to CSR Times Electric, received a contribution towards research and development of $648,000 and purchased materials and components from them for $636,000. The Group also sold $332,000 of goods to a fellow subsidiary of CSR Times Electric.

During the year, the Group sold $7.9 million of goods and $374,000 of services to CSR Times Electric, received a contribution towards research and development of $2.4 million and purchased materials and components from them for $1.6 million. The Group also sold $1.3 million of goods to a fellow subsidiary of CSR Times Electric.

At December 31st, 2011 the Group was owed $2.4 million for goods sold to CSR Times Electric and owed them $312,000 for materials and components purchased from them. In addition, the Group had received an advance payment from CSR Times Electric of $2.1 million towards future research and development expenditure and for technical support for the construction of an 8-inch wafer fabrication facility in China which is reported as part of other payables and accruals. The Group was also owed $512,000 by a fellow subsidiary which is reported under trade receivables.

The Group paid $1.2 million in compensation during the year to its key management personnel. Of this amount, $155,000 was outstanding at the year end. This had all been paid prior to the financial statements being approved.

The Group purchased services from a law firm in Canada during the quarter for $15,000 and during the year for $64,000. At December 31st, 2011, $11,000 was outstanding to this law firm. One of the Company's directors is a partner in this firm.

Subsequent Events

There were no material events occurring after December 31, 2011 through the date of this Management's discussion and analysis.

Outlook

The project to expand the capacity and capability of the IGBT wafer fabrication facility has now been completed. Work continues on qualifying parts made on the new lines for use, particularly in CSR Times Electric applications and on improving yields from the new lines. Revenue from the sale of products from the two new lines increased significantly in the second half of the year and are expected to rise further in the first half of 2012. In the difficult market currently being experienced, it is difficult to forecast revenue levels in the second half of 2012.

The small increase in revenue of bipolar discrete products reported in the third quarter of 2011 was maintained in the fourth quarter. Revenue is forecast to increase by a modest amount in the first half of 2012 but again it is difficult to forecast revenue levels for the second half of 2012 with any confidence.

The demand for Dynex power electronic assemblies remained tight in the second half of 2011 and is expected to remain the same in the first quarter of 2012. It is difficult to forecast for periods beyond the first quarter at present.

There is continuing demand for the dwindling inventory of the Group's integrated circuit products, although sales of such products in 2012 are expected to be below those reported in 2011.

At the end of December 2011, the order book stood at $19.7 million, some $2.9 million or 17% higher than at the end of 2010.

Revenue in the fourth quarter of 2011 was $9.6 million. Quarterly revenue is expected to be slightly higher than this in the first two quarters of 2012, subject to the value of the Canadian Dollar against Sterling. Revenue in the second half of the year is more difficult to predict in the current uncertain markets.

Quarterly profit after tax in the fourth quarter of 2011 was $724,000. Quarterly profit after tax is expected to be above this in the first two quarters of 2012. Quarterly profit in the second half of the year is more difficult to predict in the current uncertain markets.

Management remains hopeful that revenue and net profit in 2012 will be above the levels reported in 2011. However, performance in the second half of 2012 is uncertain at this time.

Additional Information

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

Bob Lockwood

Bob Lockwood.
Director and Chief Financial Officer
April 10th, 2012

Management's Responsibility for the Consolidated Financial Statements

The management of Dynex Power Inc. (the "Company") is responsible for the accompanying consolidated financial statements and other information included in this annual report. The financial statements have been prepared in conformity with International Financial Reporting Standards, as issued by the International Accounting Standards Board, using the best estimates and judgments of management, where appropriate. Information presented elsewhere in this annual report is consistent with that in the financial statements.

The Company's board of directors is responsible for ensuring that management fulfils its responsibilities in respect of financial reporting and internal control.

The Audit Committee of the board of directors meets periodically with management and the Company's independent auditors to discuss auditing matters and financial reporting issues. In addition, the Audit Committee approves the interim consolidated financial statements and recommends to the board ofdirectors the approval of the annual consolidated financial statements and the annual appointment of the independent auditors. The board of directors has approved the information contained in the accompanying consolidated financial statements.

Paul Taylor President & Chief Executive Officer	Bob Lockwood Vice President & Chief Financial Officer
PDTaylor	Bob Lockwood
April 10th, 2012	April 10th, 2012

Management's Report on Internal Control over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting.

Internal control over financial reporting is a process that was designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB"). Internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of Dynex Power Inc. (the "Company"); (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with IFRS, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management of the Company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorised acquisition, use, or disposition of the Company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies and procedures may deteriorate.

Management conducted an evaluation of the effectiveness of its system of internal control over financial reporting and concluded that the Company's internal control over financial reporting was effective as of December 31st, 2011.

Paul Taylor President & Chief Executive Officer	Bob Lockwood Vice President & Chief Financial Officer
PDTaylor	Bob Lockwood
April 10th, 2012	April 10th, 2012

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 statements of financial position as at December 31, 2011, December 31, 2010 and January 1, 2010, and the consolidated statements of comprehensive income (loss), consolidated statements of changes in equity and consolidated statements of cash flows for the years ended December 31, 2011 and December 31, 2010 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 International Financial Reporting Standards, 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, 2011, December 31, 2010 and January 1, 2010 and its financial performance and its cash flows for the years ended December 31, 2011 and December 31, 2010 in accordance with International Financial Reporting Standards.

Deloitte & Touche LLP

Chartered Accountants
Licensed Public Accountants

April 10th, 2012
Ottawa, Canada
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DYNEX POWER INC.
Consolidated Statement of Comprehensive Income (Loss) in Canadian Dollars
Year Ended December 31st, 2011

	Note	**2011**	2010
		$	$
Revenue	7,8	**36,081,802**	36,160,626
Cost of sales		**(27,465,405)**	(29,267,818)
Gross profit		**8,616,397**	6,892,808
Other income	8	**120,308**	152,852
Sales and marketing expenses		**(885,999)**	(872,747)
Administration expenses		**(2,798,010)**	(2,764,065)
Research and development expenses	11	**(1,161,371)**	(1,087,305)
Finance costs	9	**(237,873)**	(208,468)
Other gains and (losses)	10	**(195,272)**	(118,478)
Profit before tax	11	**3,458,180**	1,994,597
Income tax expense	12	**(748,634)**	(649,532)
Net profit		**2,709,546**	1,345,065
Other comprehensive income/(loss)			
Exchange differences on translation of foreign operations		**502,008**	(2,419,387)
Other comprehensive income/(loss) for the year		**502,008**	(2,419,387)
Total comprehensive income/(loss) for the year		**3,211,554**	(1,074,322)
Earnings per share			
Basic	13	**0.03**	0.02
Diluted	13	**0.03**	0.02

All results are derived from continuing operations
These financial statements should be read in conjunction with the notes set out on pages 28 to 64.

DYNEX POWER INC.
Consolidated Statement of Financial Position in Canadian Dollars
Year Ended December 31st, 2011

	Note	**Dec 31st 2011**	Dec 31st 2010	Jan 1st 2010
		$	$	$
NON-CURRENT ASSETS				
Property, plant & equipment	14	**30,623,600**	22,492,575	17,420,677
CURRENT ASSETS				
Inventories	15	**10,890,917**	7,619,442	8,872,155
Trade receivables	16	**4,275,915**	4,294,432	5,908,226
Amounts owing from parent company		**2,369,749**	79,938	218,568
Prepayments, deposits & other receivables	17	**458,665**	1,301,630	1,325,144
Tax recoverable		**298,301**	51,598	96,413
Cash		**3,028,599**	3,094,626	22,942,550
Total current assets		**21,322,146**	16,441,666	39,363,056
CURRENT LIABILITIES				
Trade payables		**1,142,246**	1,134,690	2,101,178
Amounts owing to parent company		**312,284**	224,629	955,026
Other payables and accruals	18	**3,946,048**	4,010,324	3,338,090
Borrowings	19	**514,102**	111,857	16,412,255
Provisions	21	**186,077**	471,276	531,861
Total current liabilities		**6,100,757**	5,952,776	23,338,410
NET CURRENT ASSETS		**15,221,389**	10,488,890	16,024,646
TOTAL ASSETS LESS CURRENT LIABILITIES		**45,844,989**	32,981,465	33,445,323

DYNEX POWER INC.
Consolidated Statement of Financial Position in Canadian Dollars (continued)
Year Ended December 31st, 2011

	Note	**Dec 31st 2011** $	Dec 31st 2010 $	Jan 1st 2010 $
NON-CURRENT LIABILITIES				
Borrowings	19	**9,238,920**	353,217	513,877
Provisions	21	**212,704**	213,291	88,392
Deferred tax liabilities	22	**1,739,167**	972,313	380,756
Total non-current liabilities		**11,190,791**	1,538,821	983,025
NET ASSETS		**34,654,198**	31,442,644	32,462,298
EQUITY				
Share capital	23	**37,096,192**	37,096,192	37,041,524
Accumulated deficit		**(524,615)**	(3,234,161)	(4,579,226)
Exchange fluctuation reserve		**(1,917,379)**	(2,419,387)	-
		34,654,198	31,442,644	32,462,298

These financial statements should be read in conjunction with the notes set out on pages 28 to 64.

PDTaylor

Bob Lockwood

Paul Taylor
Director
April 10th, 2012

Bob Lockwood
Director
April 10th, 2012

DYNEX POWER INC.
Consolidated Statement of Changes in Equity in Canadian Dollars
Year Ended December 31st, 2011

	Share Capital	Retained Deficit	Exchange Fluctuation Reserve	Total Equity
	$	$	$	$
At January 1st, 2010	**37,041,524**	**(4,579,226)**	**-**	**32,462,298**
Shares issued for cash	9,410	-	-	9,410
Release overprovision of costs relating to rights issue	45,258	-	-	45,258
Total comprehensive income for the period	-	1,345,065	(2,419,387)	(1,074,322)
At December 31st, 2010	**37,096,192**	**(3,234,161)**	**(2,419,387)**	**31,442,644**
Total comprehensive income for the period	-	2,709,546	502,008	3,211,554
At December 31st, 2011	**37,096,192**	**(524,615)**	**(1,917,379)**	**34,654,198**

These financial statements should be read in conjunction with the notes set out on pages 28 to 64.

DYNEX POWER INC.
Consolidated Statement of Cash Flows in Canadian Dollars
Year Ended December 31st, 2011

	Note	**2011**	2010
		$	$
CASH FLOW FROM OPERATING ACTIVITIES			
Profit before tax		**3,458,180**	1,994,597
Finance costs recognised in profit or loss		**237,873**	208,468
Investment income recognised in profit or loss		**(796)**	(3,154)
Depreciation of property, plant & equipment		**2,382,343**	1,554,003
Loss/(gain) on disposal of property, plant & equipment		**7,823**	(2,682)
Provision for slow moving and obsolete inventory		**(1,903,587)**	105,087
Movements in working capital	26	**(2,706,988)**	2,209,656
Cash generated by operating activities before income taxes		**1,474,848**	6,065,975
Income taxes (paid)/received		**(250,124)**	31,067
Net cash generated by operating activities		**1,224,724**	6,097,042
Payments for property, plant and equipment		**(10,328,352)**	(8,729,367)
Proceeds on disposal of property, plant and equipment		**27,228**	17,970
Interest received		**796**	3,154
Net cash used in investing activities		**(10,300,328)**	(8,708,243)
CASH FLOW FROM FINANCING ACTIVITIES			
Proceeds from issue of equity shares		**-**	9,410
Payment for share issue costs		**-**	(438,069)
Proceeds from borrowings		**10,032,524**	1,541,100
Repayments of borrowings		**(771,019)**	(17,524,952)
Interest paid		**(143,097)**	(150,902)
Payment for other finance costs		**(71,744)**	(80,689)
Net cash generated by/(used in) financing activities		**9,046,664**	(16,644,102)
NET DECREASE IN CASH		**(28,940)**	(19,255,303)
Cash at beginning of period		**3,094,626**	22,942,550
Effect of foreign currency translation on cash flow		**(37,087)**	(592,621)
CASH AT END OF PERIOD		**3,028,599**	3,094,626

All operating cash flows derive from continuing operations
These financial statements should be read in conjunction with the notes set out on pages 28 to 64.

1. CORPORATE INFORMATION

Dynex Power Inc. (the "Company") was formed on June 15th, 1999 under the laws of Canada by the amalgamation of GLG Dynex Power Inc. and Dynex Power Inc. GLG Dynex Power Inc. had been incorporated under the laws of Canada on February 19th, 1996. The former Dynex Power Inc. had been incorporated under the laws of Canada in the name of DPI Technologies Inc. on February 11th, 1998 and changed its name to Dynex Power Inc. on June 4th, 1999.

The registered office of the Company is 515 Legget Drive, Suite 800, Kanata, Ontario, K2K 3G4.

The Company and its subsidiary (collectively the "Group") are engaged in the design and manufacture of industrial power equipment.

The immediate parent company of the Group is Zhuzhou CSR Times Electric Co. Ltd ("CSR Times Electric") and the ultimate parent company of the Group is CSR Group, which are both established in The People's Republic of China. The ultimate controlling party is the Chinese State-owned Asset Supervision and Administration Commission based in Beijing in The People's Republic of China.

2. BASIS OF PREPARATION

Statement of compliance

These consolidated financial statements represent the first annual financial statements of the Group prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). The Company adopted IFRS in accordance with IFRS 1, "First-time Adoption of International Financial Reporting Standards" (IFRS 1) as discussed in Note 6. The accounting policies of the Company are based on the IFRS applicable as at December 31st, 2011 and encompass individual IFRS, International Accounting Standards ("IAS") and interpretations made by the International Financial Reporting Interpretations Committee ("IFRIC") and the Standing Interpretations Committee ("SIC"). The policies set out below were consistently applied to all the periods presented.

These consolidated financial statements have been prepared on a going concern basis under the historical cost convention, unless otherwise noted. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

All figures are in Canadian Dollars ("$") which is the Company's functional currency except as otherwise stated. The functional currency of the Company's subsidiary, Dynex Semiconductor Limited, is British Pounds.

3. FUTURE CHANGES IN ACCOUNTING POLICIES

The Company has not implemented the following new and revised accounting pronouncements that have been issued but are not yet effective.

3. FUTURE CHANGES IN ACCOUNTING POLICIES (continued)

IAS 1 Presentation of Financial Statements (“IAS 1”)

In June 2011 the IASB issued amendments to IAS 1. These amendments include a requirement for entities to group items presented in other comprehensive income (OCI) on the basis of whether they are potentially reclassifiable to profit or loss subsequently (reclassification adjustments), and emphasise the importance of presenting profit or loss and OCI together and with equal prominence. The amendment is effective for annual periods beginning on or after July 1st, 2011. Management is currently evaluating the impact of these amendments on the financial statements.

IAS 28 Investments in Associates and Joint Ventures (“IAS 28”)

IAS 28 was amended in 2011 which prescribes the accounting for investments in associates and sets out the requirements for the application of the equity method when accounting for investments in associates and joint ventures. IAS 28 is effective for annual periods beginning on or after January 1st, 2013. Earlier application is permitted. The adoption of this standard is not expected to have a material impact on the Company's Financial Statements.

IFRS 7 Financial Instruments: Disclosures (“IFRS 7”)

IFRS 7 was amended in October 2010 to provide additional disclosure on the transfer of financial assets including the possible effects of any residual risks that the transferring entity retains. These amendments are effective for annual periods beginning on or after July 1, 2011. IFRS 7 was further amended in December 2011 to enhance disclosures about offsetting of financial assets and financial liabilities. These amendments are effective for annual periods beginning on or after January 1st, 2013. The Company is currently evaluating the impact of these amendments to IFRS 7 on its financial statements.

IFRS 9 Financial Instruments (“IFRS 9”)

As of January 1st, 2015, the Company will be required to adopt IFRS 9, which is the result of the first phase of the IASB’s project to replace IAS 39, “Financial Instruments: Recognition and Measurement”. The new standard replaces the current multiple classification and measurement models for financial assets and liabilities with a single model that has only two classification categories: amortised cost and fair value. IFRS 9 is effective for annual periods beginning on or after January 1st, 2015. The adoption of this standard is not expected to have a material impact on the Company's Financial Statements.

IFRS 10 Consolidated Financial Statements (“IFRS 10”)

IFRS 10 establishes principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities. IFRS 10 supersedes IAS 27 “Consolidated and Separate Financial Statements” and SIC-12 “Consolidation—Special Purpose Entities” and is effective for annual periods beginning on or after January 1st, 2013. Earlier application is permitted. The adoption of this standard is not expected to have a material impact on the Company's Financial Statements.

IFRS 11 Joint Arrangements (“IFRS 11”)

IFRS 11 establishes principles for financial reporting by parties to a joint arrangement. IFRS 11 supersedes current IAS 31 “Interests in Joint Ventures and SIC-13 Jointly Controlled Entities—Non-Monetary Contributions by Venturers” and is effective for annual periods beginning on or after January 1st, 2013. Earlier application is permitted. The adoption of this standard is not expected to have a material impact on the Company's Financial Statements.

FUTURE CHANGES IN ACCOUNTING POLICIES (continued)

IFRS 12 Disclosure of Interests in Other Entities ("IFRS 12")

IFRS 12 applies to entities that have an interest in a subsidiary, a joint arrangement, an associate or an unconsolidated structured entity. IFRS 12 is effective for annual periods beginning on or after January 1st, 2013. Earlier application is permitted. The adoption of this standard is not expected to have a material impact on the Company's Financial Statements.

IFRS 13 Fair Value Measurement ("IFRS 13")

IFRS 13 defines fair value, sets out a single IFRS framework for measuring fair value and requires disclosures about fair value measurements. IFRS 13 applies to IFRSs that require or permit fair value measurements or disclosures about fair value measurements (and measurements, such as fair value less costs to sell, based on fair value or disclosures about those measurements), except in specified circumstances. IFRS 13 is to be applied for annual periods beginning on or after January 1st, 2013. Earlier application is permitted. The adoption of this standard is not expected to have a material impact on the Company's Financial Statements.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of consolidation

These consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary, Dynex Semiconductor Limited, a limited liability company registered in England & Wales and located in Lincoln, England. Intra-group balances, transactions, income and expenses have been eliminated in full.

Foreign currency translation

These consolidated financial statements are presented in Canadian Dollars, which is the Company's functional and presentation currency. The functional currency for the subsidiary, being the currency of the primary economic environment in which the entity operates, is British Pounds (£).

Items included in the financial statements of each entity are measured using their respective functional currencies and foreign currency transactions are initially recorded in the functional currency of each entity by applying the exchange rate ruling at the date of the transaction. At the end of each reporting period monetary items are re-translated using the closing rate. All exchange gains and losses are included in other gains and losses in comprehensive income. Non-monetary items measured in terms of historical cost are translated at the exchange rate at the date of the transaction and non-monetary items measured in terms of fair value are translated at the exchange rate at the date when the fair value was determined.

At the end of each reporting period the results and financial position of the subsidiary are translated into the Group's presentation currency. Assets and liabilities are translated at the closing rate. Income and expenses are translated using the average rate for the reporting period, as an approximation to the exchange rate at the date of each transaction. All exchange gains and losses on translation are included in other comprehensive income and accumulated in the exchange fluctuation reserve.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition (continued)

Revenue from the sale of goods is recognised when the risks and rewards of ownership, including managerial involvement, have transferred to the buyer, the amount of revenue can be measured reliably, it is probable that the economic benefits will flow to the Group and the costs incurred or to be incurred can be measured reliably.

Revenue from the rendering of services is recognised based on the percentage of completion of the transaction, when it is probable that the economic benefit will flow to the Group and the stage of completion and the costs incurred or to be incurred can be measured reliably at the end of the reporting period. Revenue from time and material contracts is recognised at the contractual rates as labour hours are delivered and direct expenses are incurred.

Research and development costs

Expenditures on research are recognised as expenses when incurred. Expenditures on development are recognised as an expense when incurred unless the criteria for recognition as an intangible asset under IAS 38 “Intangible Assets” are met. To date, no such costs have been capitalised. Expenditures for research and development equipment are recognised in property, plant and equipment and amortised over the useful life of the asset.

Government grants

Government grants are recognised at fair value when there is reasonable assurance that the grant will be received and all the conditions attached to it will be complied with.

When the grant relates to an asset it is recognised in deferred income and credited to other income on a systematic basis over the useful life of the asset.

When the grant relates to income it is deducted in reporting the related expense on a systematic basis over the periods in which the related costs for which the grant is intended to compensate are incurred.

Retirement benefits

The Company’s subsidiary operates a defined contribution plan in the UK. The Group’s obligations under the plan are limited to the amount it agrees to contribute to the scheme. The Group recognises these contributions when incurred as employee benefits.

Borrowing costs

Borrowing costs relating to qualifying assets are capitalised as part of the cost of the asset. To date, no such costs have arisen.

All borrowing costs are recognised in comprehensive income in finance costs in the period in which they are incurred.

Income taxes

Income taxes are accounted for using the liability method. Income tax expense comprises current and deferred taxes and is included in profit for the period unless it relates to items recognised outside of profit or loss, in which case it is recognised in other comprehensive income or directly in equity.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income taxes (continued)

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, using the tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and liabilities are recognised for temporary differences between the carrying value of an asset or liability in the financial statements and its tax base and measured using the tax rates for the periods in which the differences are expected to reverse that have been enacted or substantively enacted by the end of the reporting period. Deferred tax assets for the benefits of tax losses, tax credits and other deductible temporary differences available to be carried forward to future years are recognised when management believes it is probable that they will be realised.

Property, plant and equipment

Property, plant and equipment is recorded at cost less accumulated depreciation and accumulated impairment losses.

Depreciation begins when the asset becomes available for use and ceases when the asset is disposed of or when no future benefits are expected from its use or disposal.

Depreciation is calculated using the straight-line method over the anticipated useful lives of the assets. The estimated useful lives are as follows:

Equipment	3-12 years
Equipment under capital leases	3-8 years
Clean-rooms	20 years
Buildings	40 years

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Impairment of non-current assets

The carrying amounts of property, plant and equipment are reviewed at the end of each reporting period to determine whether there is any indication those assets may be impaired. Where an indication of impairment exists, the asset's recoverable amount is estimated.

The asset's recoverable amount is the higher of the asset's or cash generating unit's fair value less costs to sell and its value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted. Recoverable amount is determined for an individual asset unless the asset does not generate cash flows that are largely independent of those from other assets or groups of assets, in which case it is determined for the cash generating unit to which the asset belongs.

An impairment loss is only recognised if the recoverable amount of an asset is less than its carrying value and is charged to profit and loss in the period in which it arises. To date, no such impairment losses have been recognised.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Inventories

Inventories are valued at the lower of cost and net realisable value using the first-in first-out cost formula. Raw materials are valued using standard costs that accurately reflect their purchase cost. Work in progress and finished goods are valued using the standard cost of direct materials and labour plus allocated overheads. Standard costs take into account normal levels of materials, labour, efficiency and capacity utilisation and are reviewed regularly.

The Group's management reviews the condition of inventories at the end of each reporting period and recognises a provision for slow-moving and obsolete items of inventory when they are no longer suitable for use or sale. Net realisable value is estimated based on the selling price less any costs to completion and disposal costs.

Cash

Cash comprises cash on hand and demand deposits.

Financial instruments

Trade receivables, amounts owing from parent company and cash are all classified as loans and receivables; that is non-derivative financial assets with fixed or determinable payments that are not quoted on any active market.

When initially recognised, trade receivables, amounts owing from parent company and cash are measured at fair value. As these assets are all short-term with no stated interest rate they continue to be valued at the original invoice amounts or the original amount deposited at the bank rather than being discounted. Fair value approximates amortised cost.

Financial assets are assessed at the end of each reporting period to determine whether there is any objective evidence of impairment. Where such evidence exists, a provision is made for the loss in value and charged in comprehensive income to finance costs.

Financial assets are recognised on the trade date. Financial assets are derecognised when the rights to receive cash flows from the asset have expired.

At the present time, the Group does not have any financial assets classified as held for trading, available for sale or held to maturity. The Group has not designated any financial assets upon initial recognition at fair value through profit or loss.

Trade payables, amounts owing to parent company, certain other payables and accruals (amounts due to pension schemes and to trade unions) and borrowings are all classified as other liabilities; that is non-derivative financial liabilities with fixed or determinable payments that are not quoted on any active market.

When initially recognised, trade payables, amounts owing to parent company and certain other payables and accruals (amounts due to pension schemes and to trade unions) are measured at fair value. As these liabilities are all short-term liabilities with no stated interest rate they continue to be to be valued at the original invoice amounts. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost, using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost. Any gains or losses are credited in comprehensive income to finance costs.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial liabilities are recognised on the trade date. Financial liabilities are derecognised when the obligation under the liability is discharged or cancelled or expires.

At the present time, the Group does not have any financial guarantee contracts, financial liabilities designated upon initial recognition as at fair value through profit or loss or as derivatives designated as hedging instruments in an effective hedge.

Leases

Leases are classified as finance leases when the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Assets held under finance leases are initially recorded at the fair value of the leased property or, if lower, the present value of the minimum lease payments, both determined at the inception of the lease and are included in property, plant and equipment in the statement of financial position. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset. The corresponding liability is included in borrowings.

The minimum lease payments are apportioned between the finance charge and the reduction of the liability and allocated to each period using the effective interest method so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Operating lease payments are recognised as an expense on a straight-line basis over the lease term.

Provisions

Provisions are recognised when the Group has a present obligation, legal or constructive, as a result of a previous event, if it is probable that the Group will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

The amount recognised is the best estimate of the expenditure required to settle the present obligation at the end of the reporting period taking into account the risks and uncertainties surrounding the obligation.

Provisions are reviewed at the end of each reporting period and adjusted to reflect the current best estimate of the expected future cash flows.

5. CRITICAL ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of financial statements requires the Group's management to make judgements and 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 revenue and expenses during the reporting period presented. However actual results could differ from the estimates made by management requiring a material adjustment to the carrying values of assets and liabilities in the future.

Key Judgements

Going Concern

The Group's management has judged that the accounts should be prepared on a going concern basis.

5. CRITICAL ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Key Judgements (continued)

Functional currency

The Group's management has judged that the functional currency of the Company is the Canadian Dollar.

Cash-generating units

For the purposes of impairment reviews, the Group's management has judged that the business has three cash-generating units; bipolar discrete; power module and SOS; and power electronic assembly equipment.

Depreciation methods

The Group's management believes that the lives of production equipment are not limited by units of production and that the performance of the equipment does not deteriorate significantly over time. Consequently, Group management has therefore judged that a straight line depreciation policy is the most appropriate.

Capitalisation of development costs

The Group carries out significant research and development work. Research activities generally relate to background work that seeks to give the Group a better understanding of how semiconductor performance applications and robustness can be improved. Under IFRS, research costs cannot be capitalised and so costs relating to research activities are always expensed. Development activities relate to the design and development or improvement of the Group's products and so can be considered for capitalisation. To date, the Group's design and development work has enabled the Group to remain competitive but has not generated an intangible asset with a definable economic benefit and so, to date, no such costs have been capitalised.

Estimation uncertainty

The following are the key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Anticipated useful lives of property, plant and equipment

The Group's management determines the estimated useful lives of its property, plant and equipment based on historical experience of the actual lives of property, plant and equipment of similar nature and functions and reviews these estimates at the end of each reporting period. Details of the estimated useful lives are provided in Note 4. At December 31st, 2011 the carrying amount of property, plant and equipment was $30,623,600 (Dec 31st, 2010 - $22,492,575) (Jan 1st, 2010 - $17,420,677).

The Company's management reviews property, plant and equipment for evidence of impairment. At December 31st, 2011 management determined that no property, plant and equipment was impaired.

Provisions against inventories

Management estimates the net realisable value of inventories based primarily on sales prices in the forward order book and current market conditions. Inventory obsolescence is provided for if raw materials, work in progress or finished goods have not moved in twelve months unless the Group has orders or a realistic expectation of orders for those parts. At December 31st, 2011 the carrying amount of inventories was $10,890,917 (Dec 31st, 2010 - $7,619,442) (Jan 1st, 2010 - $8,872,155) and the provision for slow-moving

5. CRITICAL ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Estimation uncertainty (continued)

Provisions against inventories (continued)

and obsolete items of inventory was $4,250,723 (Dec 31st, 2010 - $6,772,091) (Jan 1st, 2010 - $7,275,806). During the fourth quarter of 2011 the Group revised its estimate for inventory obsolescence based on its recent experience of inventory movements. Prior to this inventory obsolescence was provided for if raw materials had not moved in six months and if work in progress or finished goods had not moved in three months unless the Group has orders or a realistic expectation of orders for those parts. As a result of this change in estimate inventory provisions are approximately $1.5 million lower and profit before tax is approximately $1.5 million higher than they would have been had the changes not been made.

Impairment of trade receivables

The Group's management determines the estimated recoverability of trade receivables based on the evaluation and ageing of trade receivables, including the current creditworthiness and the past collection history of the customers and reviews these estimates at the end of each reporting period. At December 31st, 2011 the carrying amount of trade receivables was $4,275,915 (Dec 31st, 2010 - $4,294,432) (Jan 1st, 2010 - $5,908,226) and the provision for impairment of trade receivables was $180,101 (Dec 31st, 2010 - $177,051) (Jan 1st, 2010 - $252,714).

Provisions

The Group's management determines the best estimate of provisions based on experience of similar transactions and, in some cases, reports from independent experts and reviews them at the end of each reporting period. At December 31st, 2011 the carrying value of provisions was $398,781 (Dec 31st, 2010 - $684,567) (Jan 1st, 2010 - $620,253). Details of the provisions are set out in Note 21.

6. TRANSITION TO IFRS

These consolidated financial statements for the year ended December 31st, 2011 are the first annual financial statements prepared in accordance with IFRS. Previously the Company prepared financial statements in accordance with Canadian generally accepted accounting principles (GAAP). The Company adopted IFRS in accordance with IFRS 1. IFRS 1 requires comparative information be provided as at the Company's transition date. The first date for which the Company has applied IFRS is January 1st, 2010 (the "transition date") and the Company has therefore prepared its opening IFRS statement of financial position at that date.

IFRS 1 requires the use of the same accounting policies in the opening IFRS statement of financial position and throughout all periods presented in the first IFRS financial statements and that those accounting policies shall comply with each IFRS effective at the end of its first IFRS reporting period, except for the following optional exemptions:

IFRS Optional Exemptions

Business Combinations

An entity may elect not to apply IFRS 3 "Business combinations" retrospectively to past business combinations that took place before the transition date.

The Company has elected to take this exemption and has not restated business combinations that took place prior to January 1st, 2010.

6. TRANSITION TO IFRS (continued)

IFRS Optional Exemptions (continued)

Exchange Fluctuation Reserve

An entity may elect not to calculate the translation difference related to foreign operations retrospectively as required under IAS 21 “The effects of changes in foreign transactions”. Instead an entity may reset translation differences, determined under previous GAAP, to zero at the transition date.

The Company has elected to take this exemption and has reset the exchange fluctuation reserve, previously included in accumulated other comprehensive loss, to zero in opening accumulated deficit at January 1st, 2010.

Share-Based Payment Transactions

An entity is encouraged but not required to apply IFRS 2 “Share-based Payment” to equity instruments granted on or before November 7th, 2002 and equity instruments granted after November 7th, 2002 that vested before the transition date.

The Company has elected not to restate equity instruments that vested before January 1st, 2010. All awards outstanding were vested prior to January 1st, 2010. The Group does not intend to issue any further options for the time being.

An entity is encouraged but not required to apply IFRS 2 “Share-based Payments” to liabilities arising from share-based payment transactions that were settled prior to the transition date.

The Company has elected not to restate liabilities arising from share-based transactions that were settled prior to January 1st, 2010.

Borrowing Costs

An entity may elect to apply the transitional provisions of IAS 23 “Borrowing Costs” under which an entity can either apply IAS23 to borrowing costs relating to qualifying assets for which the commencement date for capitalisation is on or after the effective date, which is the transition date under IFRS 1, or the entity may designate any date before the effective date and apply IAS 23 to borrowing costs relating to qualifying assets for which the commencement date for capitalisation is on or after that date.

The Company elected to take this exemption and has not capitalised borrowing costs relating to qualifying assets for which the commencement date for capitalisation is prior to January 1st, 2010.

Leases

Where an entity made the same determination of whether an arrangement contained a lease in accordance with previous GAAP as that required by International Financial Reporting Interpretations Committee (“IFRIC”) Interpretation 4 “Determining whether an arrangement contains a lease” but at a date other than that required by IFRIC 4 the entity may elect not to reassess that determination on adoption of IFRS.

The Company has elected to take this exemption and has not reassessed the determination of whether an arrangement contains a lease under IFRIC 4, since the same determination was made in accordance with previous GAAP as that required by IFRIC 4 with the same outcome as a result of applying IAS 17 Leases and IFRIC 4.

6. TRANSITION TO IFRS (continued)

IFRS Optional Exemptions (continued)

Compound financial instruments

An entity may elect not to separate compound financial instruments into the separate equity and liability components as required under IAS 32 “Financial Instruments: Presentation” provided the liability portion is no longer outstanding at the date of transition to IFRS.

The Company has elected to take this exemption and has not restated compound financial instruments that existed prior to the date of transition when the liability component was no longer outstanding at January 1st, 2010.

Reconciliations of Canadian GAAP to IFRS

IFRS 1 requires an entity to reconcile equity, comprehensive income and cash flows for prior periods. The following represents the reconciliations for the relevant periods of equity, comprehensive income and cash flows.

Reconciliation of Equity

	Note	Dec 31st 2010 $	Jan 1st 2010 $
Share capital under Canadian GAAP as previously reported and under IFRS		37,096,192	37,041,524
Deficit under Canadian GAAP as previously reported		(2,286,862)	(3,755,471)
Deferred revenue	(i)	872,305	1,080,227
Provision for removal costs of rented equipment	(ii)	(46,671)	(50,791)
Cumulative translation adjustment reset	(iii)	(1,853,191)	(1,853,191)
Foreign exchange on items (i) and (ii)	(iv)	80,258	-
Deficit under IFRS		(3,234,161)	(4,579,226)
Exchange fluctuation under Canadian GAAP as previously reported		(4,192,320)	(1,853,191)
Cumulative translation adjustment reset	(iii)	1,853,191	1,853,191
Cumulative translation adjustment under IFRS	(iv)	(80,258)	-
Exchange fluctuation reserve under IFRS		(2,419,387)	-

(i) Deferred Revenue

On March 25th, 2003 the Company’s subsidiary entered into a sale and leaseback of its Lincoln, England land and buildings that resulted in an operating lease. The Group recorded a profit on the sale. Under Canadian GAAP the gain realised on the sale had been deferred and was being amortised into income over the length of the lease. Under IAS 17 “Leases” any profit is recognised immediately. Accordingly the Group has transferred the unamortised amount of the gain, previously included in deferred revenue, to accumulated deficit at the transition date.

6. TRANSITION TO IFRS (continued)

Reconciliations of Canadian GAAP to IFRS (continued)

Reconciliation of equity (continued)

(ii) Provision for Removal Costs of Rented Equipment

The Company's subsidiary has an operating lease for the rental of plant and equipment. Under certain circumstances the Group is required to pay a fee to the lessor for the removal of the plant and equipment on termination of the lease. Under Canadian GAAP no provision was recognised for these removal costs as it was uncertain as to when the timing of the obligation would occur. Under IAS 37 "Provisions, Contingent Liabilities and Contingent Assets" a provision is recognised when there is a present obligation as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Accordingly the Group has recognised this provision at the transition date and reported it as an adjustment to the opening balance of accumulated deficit.

(iii) Cumulative translation adjustment reset

As previously noted, the Company has elected to reset its exchange fluctuation reserve to zero at transition through its opening deficit.

(iv) Cumulative translation adjustment under IFRS

This reflects the impact of foreign currency on IFRS adjustments (i) and (ii).

Reconciliation of Comprehensive Income

	Note	12 months Dec 31st 2010 $
Comprehensive Income (Loss) under Canadian GAAP as previously reported		(870,520)
Differences increasing (decreasing) reported amounts:		
Deferred revenue	(i)	(123,544)
Foreign currency translation adjustments	(ii)	(80,258)
Comprehensive Income (Loss) under IFRS		(1,074,322)

(i) Deferred revenue

On March 25th, 2003 the Company's subsidiary entered into a sale and leaseback of its Lincoln, England land and buildings that resulted in an operating lease. The Group recorded a profit on the sale. Under Canadian GAAP amortization of this gain is included in comprehensive income. Under IFRS the Company transferred the unamortised amount of the gain to accumulated deficit at the transition date and no amounts are included in comprehensive income.

(ii) Foreign currency translation adjustments

This reflects the impact of foreign currency on the IFRS adjustments described above.

6. TRANSITION TO IFRS (continued)

Reconciliations of Canadian GAAP to IFRS (continued)

Reconciliation of Cash Flows

There are two material items affecting cash flows during the year ended December 31st, 2010 under IFRS compared to those previously reported under GAAP.

(i) Re-analysis of cash flows to parent company

The decrease in amounts owing to the parent company of $525,021 for the year ended December 31st, 2010 reported in the December 31st, 2010 Canadian GAAP financial statements as cash flows from financing activities, have been re-analysed as a cash flow from operating activities and included in the movements in working capital as these relate to amounts due in respect of the sale and purchase of goods and services between the two parties.

(ii) Re-analysis of finance costs

Interest payments of $150,902 for the year ended December 31st, 2010 and payments for other finance costs of $80,689 for the year ended December 31st, 2010 previously included in cash flows from operating activities in the December 31st, 2010 Canadian GAAP financial statements have been re-analysed as cash flows from financing activities and shown separately on the cash flow statement in the December 31st, 2010 IFRS financial statements.

7. OPERATING SEGMENT INFORMATION

IFRS 8 “Operating Segments” defines an operating segment as (a) a component of an entity that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same entity), (b) whose operating results are regularly reviewed by the entity’s chief operating decision maker to make decisions about resources to be allocated to the segment and to assess its performance and (c) for which discrete financial information is available.

For management purposes the Group’s activities are attributable to a single operating segment, engaged in the design and manufacture of industrial power equipment. Consequently, the Group does not present any operating segment information.

Revenue by Geographic area

The location of the customer determines the geographic areas for revenue.

	2011	2010
	$	$
Canada	**116,172**	63,228
China	**8,524,280**	3,266,211
United Kingdom	**6,104,127**	7,922,577
United States of America	**5,579,875**	5,099,384
France	**5,566,239**	4,731,471
Germany	**2,201,804**	4,195,663
Other (None > 10%)	**7,989,305**	10,882,092
	36,081,802	36,160,626

7. OPERATING SEGMENT INFORMATION (continued)

Property, plant and equipment by geographic area

The location of property, plant and equipment determines the geographic areas.

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

Major customers

For the year ended December 31st, 2011 the Group had one customer accounting for more than 10% of revenue, generating $9,523,063 (CSR Times Electric) (2010 – one customer accounting for more than 10% of revenue, generating $5,244,062).

8. REVENUE AND OTHER INCOME

Revenue on sale of goods and services

Revenue on the sale of goods represents the net invoiced value of goods sold less trade discounts and allowance for returns and excludes sales tax.

Revenue for services is recognised at the contractual rates as labour hours are delivered and direct expenses are incurred.

An analysis of the Group's revenue and other income is as follows:

	2011	2010
Revenue:	**$**	$
Sale of goods	**35,671,144**	35,690,884
Rendering of Services	**410,658**	469,742
	36,081,802	36,160,626
Other Income:		
Sale of scrap materials	**101,733**	135,371
Bank interest income	**797**	3,154
Rental income	**-**	8,620
Government grants	**16,994**	5,067
Other income	**784**	640
	120,308	152,852

9. FINANCE COSTS

An analysis of finance costs is as follows:

	2011	2010
	$	$
Interest on bank borrowings	**114,419**	60,554
Interest on finance leases	**51,711**	71,119
Other finance costs	**71,743**	76,795
	237,873	208,468

Other finance costs consist of arrangement and other fees relating to bank borrowings and facilities.

10. OTHER GAINS AND LOSSES

An analysis of the Group's other gains and losses is as follows:

	2011	2010
	$	$
Foreign exchange gain (loss)	**(187,449)**	(121,160)
Profit/(loss) on disposal of property, plant and equipment	**(7,823)**	2,682
	(195,272)	(118,478)

11. PROFIT BEFORE TAX

Profit before tax from continuing operations is stated after charging/(crediting):

	2011	2010
	$	$
Cost of inventories sold	**27,465,405**	29,267,818
Staff costs (including director's remuneration):		
Wages and salaries	**12,064,000**	11,055,284
Other benefits	**551,683**	464,362
Minimum lease payments under operating leases:		
Land and buildings	**280,547**	435,926
Plant and equipment	**261,120**	271,603
Foreign Exchange differences (net)	**187,449**	121,160
Depreciation of items of property, plant and equipment		
Manufacturing	**2,217,332**	1,427,579
Other	**165,011**	126,424
Research and development expenses (before government grants and contribution from CSR Times Electric)	**3,690,367**	1,559,848
Contribution from CSR Times Electric	**(2,442,209)**	(337,709)
Government grants:		
Research and development	**(86,786)**	(134,834)
Property plant and equipment	**(16,994)**	(5,067)
Provision for obsolete inventories	**(1,903,586)**	105,087

12. INCOME TAX EXPENSE

The major components of the income tax expense are as follows:

	2011	2010
	$	$
Current tax expense	**1,115**	5,707
Deferred tax expense (income) relating to:		
Origination and reversal of temporary differences	**870,490**	688,880
Changes in tax rates	**(122,971)**	(45,055)
Total deferred tax expense	**747,519**	643,825
Total income tax expense	**748,634**	649,532

12. INCOME TAX EXPENSE (continued)

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

	2011	2010
	$	$
Profit before tax	**3,458,180**	1,994,597
Expected tax charge at Canadian statutory rates	**968,290**	618,325
Factors affecting charge:		
Income not subject to tax	**(63,743)**	(67,240)
Expenses for which tax relief not available	**21,248**	80,749
Different tax rate for subsidiary operating in other jurisdiction	**(56,566)**	(71,919)
Unused tax losses and tax offsets not recognised as deferred tax assets	**87,614**	93,310
Impact of reduction in tax rates	**(122,971)**	(45,055)
(Over)/under provision at start of year	**(72,161)**	37,010
Other differences	**(13,077)**	4,352
	748,634	649,532

The Canadian statutory tax rate is 28% (2010 – 31%). The United Kingdom statutory tax rate is 26.5% (2010 – 28%).

13. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS

Earnings per share calculations are based on:

	2011	2010
	$	$
Earnings:		
Profit attributable to ordinary equity	**2,709,546**	1,345,065
Shares:		
Weighted average number of ordinary shares outstanding during the period used in the basic earnings per share calculation	**80,509,047**	80,457,488
Shares that could be issued on exercise of options	**150,000**	150,000
Shares that would be repurchased out of proceeds of option exercises	**(84,853)**	(76,370)
Weighted average number of ordinary shares outstanding during the period used in the diluted earnings per share calculation	**80,574,194**	80,531,118

For the year ended December 31st, 2011 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 (2010 – nil).

14. PROPERTY, PLANT AND EQUIPMENT

	Land	Buildings	Plant & Machinery	Leasehold Improvements	Assets under construction	Total
	$	$	$	$	$	$
Cost						
At January 1st, 2010	-	-	12,709,126	681,596	9,306,020	22,696,742
Additions	-	-	504,156	32,593	7,687,238	8,223,987
Reclassifications	-	-	8,271,534	1,545,120	(9,816,654)	-
Disposals	-	-	(21,272)	-	-	(21,272)
Net exchange difference	-	-	(1,113,584)	(96,079)	(838,838)	(2,048,501)
At December 31st, 2010	-	-	20,349,960	2,163,230	6,337,766	28,850,956
Additions	2,784,919	3,010,724	1,268,048	4,209	3,081,400	10,149,300
Reclassifications	-	-	9,525,677	(2,258,581)	(7,267,096)	-
Disposals	-	-	(573,610)	-	-	(573,610)
Net exchange difference	2,112	2,285	339,261	91,142	81,376	516,176
At December 31st, 2011	**2,787,031**	**3,013,009**	**30,909,336**	**-**	**2,233,446**	**38,942,822**
Depreciation						
At January 1st, 2010	-	-	5,216,990	59,075	-	5,276,065
Charge for the year	-	-	1,471,304	82,699	-	1,554,003
Eliminated on disposal	-	-	(5,984)	-	-	(5,984)
Net exchange difference	-	-	(458,754)	(6,949)	-	(465,703)
At December 31st, 2010	-	-	6,223,556	134,825	-	6,358,381
Charge for the year	-	42,441	2,189,458	150,443	-	2,382,342
Reclassifications	-	-	292,491	(292,491)	-	-
Eliminated on disposal	-	-	(538,559)	-	-	(538,559)
Net exchange difference	-	(652)	110,487	7,223	-	117,058
At December 31st, 2011	**-**	**41,789**	**8,277,433**	**-**	**-**	**8,319,222**
Carrying value						
At December 31st, 2011	**2,787,031**	**2,971,220**	**22,631,903**	**-**	**2,233,446**	**30,623,600**
At December 31st, 2010	-	-	14,126,404	2,028,405	6,337,766	22,492,575
At January 1st, 2010	-	-	7,492,136	622,521	9,306,020	17,420,677

14. PROPERTY, PLANT AND EQUIPMENT (continued)

The carrying value of property, plant and equipment pledged as security is $30,623,600 (Dec 31st, 2010 - $22,492,575) (Jan1st, 2010 - $17,420,677) (Note19).

On August 22nd, 2011 the Group completed the purchase of the freehold land and buildings of its site in Lincoln, England for $6,641,639 which is included in the additions figure quoted above. In 2003 the Group had entered into a sale and leaseback of these premises that had resulted in an operating lease. The lease, transferred to the Group on the purchase of the site, ceased to exist when the Company's subsidiary became both the lessor and the lessee. The leasehold improvements were reclassified as plant and machinery at that date.

The net book value of plant and machinery includes $338,427 (Dec 31st, 2010 - $415,675) (Jan 1st, 2010 - $580,210) in respect of assets held under hire purchase agreements which are accounted for as finance leases. Of the total depreciation charge for the year of $2,382,343, an amount of $84,261 (2010 - $107,258) was charged in respect of these assets.

At December 31st, 2011 the Group has commitments for the purchase of property, plant and equipment of $2.8 million (Dec 31st, 2010 - $2.9 million) (Jan 1st, 2010 - $3.8m).

15. INVENTORIES

	Dec 31st 2011	Dec 31st 2010	Jan 1st 2010
	$	$	$
Raw materials	**3,020,714**	2,779,048	2,850,069
Work in progress	**6,970,270**	4,463,235	5,009,084
Finished goods	**899,933**	377,159	1,013,002
	10,890,917	7,619,442	8,872,155

At December 31st, 2011 the carrying value of inventory carried at fair value less costs to sell was $243,000 (Dec 31st, 2010 - $818,000) (Jan 1st, 2010 - $795,000).

At December 31st, 2011 the amount of inventory expected to be recovered after more than twelve months was $333,000 (Dec 31st, 2010 - $484,000) (Jan 1st, 2010 - $468,000).

16. TRADE RECEIVABLES

	Dec 31st 2011	Dec 31st 2010	Jan 1st 2010
	$	$	$
Trade receivables	**4,456,016**	4,471,483	6,160,940
Less bad debt provision	**(180,101)**	(177,051)	(252,714)
	4,275,915	4,294,432	5,908,226

The Group's maximum exposure to credit risk in relation to trade receivables is equal to the carrying value of trade receivables. The Group does not hold any collateral or other credit enhancements as security over these balances. The majority of the Group's trade receivables are due from customers with whom the

16. TRADE RECEIVABLES (continued)

Group has had a business relationship for many years. Over the last five years the Group has suffered bad debt losses of less than $150,000.

The ageing of the Group's trade receivables at December 31st, 2011, net of the provision for impairment is as follows:

	Dec 31st 2011	Dec 31st 2010	Jan 1st 2010
	$	$	$
Not yet overdue	**2,668,373**	3,105,173	3,942,064
Less than one month overdue	**1,341,458**	828,363	1,576,987
Between one and two months overdue	**229,510**	357,315	351,440
Greater than two months overdue	**36,574**	3,581	37,735
	4,275,915	4,294,432	5,908,226

The Group has no amounts whose terms have been renegotiated that would otherwise have been past due or impaired.

The movements in the provision for impairment are as follows:

	2011	2010
	$	$
At January 1st	**177,051**	252,714
Amounts recovered	**-**	(62,969)
Net exchange difference	**3,050**	(12,694)
At December 31st	**180,101**	177,051

Included in the provision for impairment are individually impaired assets of $135,894 (Dec 31st, 2010 - $132,603) (Jan 1st, 2010 - $187,085) which have been provided in full and relate to amounts receivable in excess of three years old. The Group does not hold any collateral or other credit enhancements as security over these balances.

The amounts due from related parties of the Group included in trade receivables are as follows:

	Note	**Dec 31st 2011**	Dec 31st 2010	Jan 1st 2010
		$	$	$
Due from fellow group subsidiaries	29	**512,026**	-	-
		512,026	-	-

The balances above from related parties are unsecured, interest-free and repayable on similar credit terms to those offered to third parties.

17. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Dec 31st 2011	Dec 31st 2010	Jan 1st 2010
	$	$	$
Prepayments	**237,810**	272,738	285,193
Deposits and other receivables	**220,855**	1,028,892	1,039,951
	458,665	1,301,630	1,325,144

Deposits and other receivables mainly comprises of receivables for value added tax and government grants.

18. OTHER PAYABLES AND ACCRUALS

	Dec 31st 2011	Dec 31st 2010	Jan 1st 2010
	$	$	$
Accruals	**1,322,426**	1,307,013	1,882,828
Payments in advance	**2,140,458**	2,214,232	83,394
Deferred income	**19,909**	36,102	1,005,131
Other	**463,255**	452,977	366,737
	3,946,048	4,010,324	3,338,090

Other consists mainly of payroll taxes and pension contributions (Note 27).

The amounts due to related parties of the Group included in other payables and accruals are as follows:

		Dec 31st 2011	Dec 31st 2010	Jan 1st 2010
	Note	$	$	$
CSR Times Electric	29	**2,140,458**	2,214,232	83,394
		2,140,458	2,214,232	83,394

The balances above due to related parties are unsecured and interest-free. They relate to payments received in advance against future expenditure of the Group and any amounts unutilised become repayable at the end of the projects (Note 29).

19. BORROWINGS

	Note	**Dec 31st 2011** $	Dec 31st 2010 $	Jan 1st 2010 $
Secured at amortised cost:				
Bank loans		**9,393,720**	-	16,273,732
Finance lease	20	**359,302**	464,208	626,537
		9,753,022	464,208	16,900,269
Unsecured at amortised cost:				
Other loans		**-**	866	25,863
		9,753,022	465,074	16,926,132
Current portion		**514,102**	111,857	16,412,255
Non-current portion		**9,238,920**	353,217	513,877
		9,753,022	465,074	16,926,132

(i) The Group has a bank loan for $4,747,500 (Dec 31st, 2010 - $nil) (Jan 1st, 2010 - $nil) under a three year revolving credit facility. The facility bears interest at UK base rate plus 2.25% and has an effective interest rate of 2.75%. The loan becomes repayable when the facility expires on June 25th, 2013. The loan is secured by a first charge on property, plant and equipment (excluding the freehold land & buildings and equipment under leases) and current assets. At December 31st, 2011 these assets have a carrying value of $45,002,429 (Dec 31st, 2010 - $nil) (Jan 1st, 2010 - $nil)

(ii) The Group has a bank loan for $4,646,220 (Dec 31st, 2010 - $nil) (Jan 1st, 2010 - $nil). The loan bears interest at LIBOR plus 2.30% and is repayable in instalments between September 2012 and August 2016. The loan is secured by a fixed charge on the freehold land and buildings which have a carrying value of $5,800,040 (Dec 31st, 2010 - $nil) (Jan 1st, 2010 - $nil).

(iii) The Group had a bank loan for $nil (Dec 31st, 2010 - $nil) (Jan 1st, 2010 - $12,384,295) under a revolving credit facility which expired in June 2010. The loan bore interest at 1.9% and was guaranteed by CSR Times Electric. The loan was fully repaid in January 2010.

(iv) The Group had a bank loan for $nil (Dec 31st, 2010 - $nil) (Jan 1st, 2010 - $3,889,437 under an invoice discounting facility which expired in March 2010. The loan bore interest on a floating rate basis. The Group borrowed Sterling at an average interest rate of 0% (2010 – 2.02%), US Dollars at an average rate of 0% (2010 – 1.73%) and Euros at an average rate of 0% (2010 – 1.95%). The loan was secured by a first charge on property, plant and equipment (excluding equipment under leases), inventories, trade receivables and cash with a carrying value of $nil (Dec 31st, 2010 $nil) (Jan 1st, 2010 - $54,563,398). The loan was fully repaid in March 2010.

(iii) The finance leases are secured by the equipment leased which has a carrying value of $338,427 (2010 - $415,675) (Jan 1st, 2010 - $580,210). See Note 20.

(iv) The other loans comprise interest free loans from the UK Government repayable over a three year period. The loans were fully repaid in 2011.

20. OBLIGATIONS UNDER FINANCE LEASES

Finance leases relate to manufacturing equipment with lease terms of between five and seven years. The Group's obligations under finance leases are secured by the lessor's title to the leased assets.

	Minimum lease payments			Present value of minimum lease payments		
	Dec 31st 2011	Dec 31st 2010	Jan 1st 2010	**Dec 31st 2011**	Dec 31st 2010	Jan 1st 2010
	$	$	$	**$**	$	$
Not later than one year	**162,238**	161,901	188,349	**126,917**	110,991	113,602
Later than one year and not later than five years	**260,240**	415,323	600,610	**232,385**	353,217	478,233
Later than than five years	**-**	-	35,904	**-**	-	34,702
	422,478	577,224	824,863	**359,302**	464,208	626,537
Less future finance charges	**(63,176)**	(113,016)	(198,326)	-	-	-
Present value of minimum lease payments	**359,302**	464,208	626,537	**359,302**	464,208	626,537

	Dec 31st 2011	Dec 31st 2010	Jan 1st 2010
	$	$	$
Included in the financial statements as:			
Current borrowings	**126,917**	110,991	113,602
Non-current borrowings	**232,385**	353,217	512,935
	359,302	464,208	626,537

21. PROVISIONS

	Dec 31st 2011	Dec 31st 2010	Jan 1st 2010
	$	$	$
Warranties	**87,533**	21,826	52,282
Provision for royalties	**98,544**	238,808	280,059
Employment claims	**-**	18,669	20,316
Repairs to leasehold premises	**-**	191,973	179,204
Removal costs of equipment	**212,704**	213,291	88,392
	398,781	684,567	620,253
Current portion	**186,077**	471,276	531,861
Non-current portion	**212,704**	213,291	88,392
	398,781	684,567	620,253

The movements in provisions are as follows:

	Warranties	Provision for royalties	Removal of equipment	Repairs to leasehold premises	Employee liability claims	Total
	$	**$**	**$**	**$**	**$**	**$**
At January 1st, 2010	52,282	280,059	88,392	179,204	20,316	620,253
Additional provisions	9,652	-	135,888	28,829	-	174,369
Amounts utilised	(34,647)	-	-	-	-	(34,647)
Amounts reversed	-	(19,076)	-	-	-	(19,076)
Net exchange difference	(5,461)	(22,175)	(10,989)	(16,060)	(1,647)	(56,332)
At December 31st, 2010	21,826	238,808	213,291	191,973	18,669	684,567
Additional provisions	66,350	-	-	-	-	66,350
Amounts utilised	-	-	-	-	(7,752)	(7,752)
Amounts reversed	-	(146,631)	-	(195,132)	(11,368)	(353,131)
Net exchange difference	(643)	6,367	(587)	3,159	451	8,747
At December 31st, 2011	**87,533**	**98,544**	**212,704**	**-**	**-**	**398,781**

The Group generally provides a one year warranty to customers on products under which faulty goods are repaired or replaced. The amount of the provision is based on past levels of repairs and returns.

The Group provides for royalties that are payable to owners of intellectual property used by the Group.

The Group has legislative and contractual obligations for the removal of certain items of equipment from the Group's site in Lincoln, England. The provision is based on the contractual obligations and quotes for removal costs from independent third parties. The timing of these outflows is uncertain as the Group has no current plans to remove these items of equipment. The Group provides a bank guarantee of $165,229 to the UK Government for the costs of removal required by legislation.

21. PROVISIONS (continued)

The Group leased its premises in Lincoln, England, under a fully repairing operating lease and provided for the costs of repairs. On August 22nd, 2011 the Group completed the purchase of the freehold land and buildings of these premises. The lease, transferred to the Group on the purchase of the site, ceased to exist when the Company's subsidiary became both the lessor and the lessee. The provision for repairs was reversed in full and credited back to cost of sales in comprehensive income.

The Group provided for the uninsured part of an employee liability claim. This claim was settled in full on 17th June 2011 and the amount of the provision in excess of the settlement was reversed and credited back to administration expenses in comprehensive income.

22. DEFERRED TAX LIABLITIES

An analysis of the movement in deferred tax assets/(liabilities) is as follows:

	Property, plant and equipment $	Inventories $	Other temporary differences $	Unused tax losses $	Total $
At January 1st, 2010	(924,852)	114,936	22,535	406,625	(380,756)
Recognised in profit or loss	(354,617)	618	(778)	(289,048)	(643,825)
Net exchange difference	86,979	(10,544)	(756)	(23,411)	52,268
At December 31st, 2010	(1,192,490)	105,010	21,001	94,166	(972,313)
Recognised in profit or loss	(974,166)	(7,885)	(1,576)	236,108	(747,519)
Net exchange difference	(23,920)	1,781	357	2,447	(19,335)
At December 31st, 2011	**(2,190,576)**	**98,906**	**19,782**	**332,721**	**(1,739,167)**

The Company has an aggregate temporary difference of $1.5 million (Dec 31st, 2010 - $0.5 million) (Jan 1st, 2010 - $0.8 million) relating to the investment in its subsidiary for which a deferred tax liability has not been recognised because the Company controls the reversal of the liability and it is expected that it will not reverse in the foreseeable future.

22. DEFERRED TAX LIABLITIES (continued)

The Group has unused tax losses and tax credits in Canada for which no deferred tax asset has been recognised which expire as follows:

	Dec 31st 2011
	$
2013	**109,000**
2014	**498,000**
2025	**260,000**
2026	**514,000**
2027	**938,000**
2028	**522,000**
2029	**534,000**
2030	**434,000**
2031	**314,000**
no expiry date	**43,000**
	4,166,000

23. SHARE CAPITAL

Authorised:

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 summarised below:

	No of shares	$
At January 1st, 2010	80,391,428	37,041,524
Shares issued for cash on the exercise of options	117,619	9,410
Release overprovision of costs relating to the 2009 rights issue	-	45,258
At December 31st, 2010 and 2011	**80,509,047**	**37,096,192**

The Company has no issued and outstanding preferred shares.

The common shares have no par value.

23. SHARE CAPITAL (continued)

Common share transactions

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. The market price of the shares was $0.60 at the time of the exercise.

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. The Plan does not meet the current requirements of the Exchange and so will require amendment before any further shares can be issued. In November 2008 the Board indicated that for the time being it did not intend to issue any further shares under the Plan and is therefore not intending to amend the Plan to meet the current requirements of the Exchange. 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.

Stock option plan

A total of 2,657,316 (2010 – 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. All outstanding options vested in full in October 2008 when CSR Times Electric purchased the majority of the shares of the Company. Options are not assignable and cannot be settled in cash. The movements in stock options are summarised below:

	Number of Options	**Weighted Average Exercise Price**
		$
At January 1st, 2010	267,619	0.20
Exercised	(117,619)	0.08
At December 31st, 2010 and 2011	**150,000**	**0.30**

The weighted average share price at the date the options were exercised was $0.50.

At December 31st, 2011 the following stock options are outstanding:

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

24. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The carrying amounts and fair values of financial assets and liabilities are as follows:

December 31st, 2011	**Carrying Value**	**Fair Value**
	$	**$**
Financial Assets:		
Trade receivables	**4,275,915**	**4,275,915**
Deposits and other receivables included in prepayments, deposits and other	**220,855**	**220,855**
Amounts owing from parent company	**2,369,749**	**2,369,749**
Cash	**3,028,599**	**3,028,599**
	9,895,118	**9,895,118**
Financial Liabilities:		
Trade payables	**1,142,246**	**1,142,246**
Other items included in other payables and accruals	**463,255**	**463,255**
Current borrowings	**514,102**	**523,353**
Non-current borrowings	**9,238,920**	**9,258,453**
Amounts owing to parent company	**312,284**	**312,284**
	11,670,807	**11,699,591**

December 31st, 2010	Carrying Value	Fair Value
	$	$
Financial Assets:		
Trade receivables	4,294,432	4,294,432
Financial assets included in prepayments, deposits and other receivables	1,028,892	1,028,892
Amounts owing from parent company	79,938	79,938
Cash	3,094,626	3,094,626
	8,497,888	8,497,888
Financial Liabilities:		
Trade payables	1,134,690	1,134,690
Financial liabilities included in other payables and accruals	452,977	452,977
Current borrowings	111,857	123,803
Non-current borrowings	353,217	393,905
Amounts owing to parent company	224,629	224,629
	2,277,370	2,330,003

24. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

January 1st, 2010	Carrying Value	Fair Value
	$	$
Financial Assets:		
Trade receivables	5,908,226	5,908,226
Financial assets included in prepayments, deposits and other receivables	1,039,951	1,039,951
Amounts owing from parent company	218,568	218,568
Cash	22,942,550	22,942,550
	30,109,295	30,109,295
Financial Liabilities:		
Trade payables	2,101,178	2,101,178
Financial liabilities included in other payables and accruals	366,737	366,737
Current borrowings	16,412,255	16,428,953
Non-current borrowings	513,877	591,306
Amounts owing to parent company	955,026	955,026
	20,349,073	20,443,200

All financial assets are classified as loans and receivables.

All financial liabilities are classified as financial liabilities at amortised cost.

The fair value of trade receivables, other receivables, amounts owing from parent company, cash, trade payables, other payables, current borrowings excluding financial leases and amounts owing to parent company approximates their carrying value because of the short maturity of these instruments.

The fair value of non-current borrowings excluding financial leases is equal to their carrying value because the interest rates on these borrowings are at current market rates.

The fair value of finance leases included in current borrowings and non-current borrowings is determined using the present value of future cash flows under current financing agreements, based on a current interest rate of 6% being the Group's current estimated borrowing rate for finance leases with similar terms and conditions.

24. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

Market Risk

The Group is exposed to foreign currency fluctuations. At December 31st, 2011 the split of financial instruments by currency is as follows:

	C$	GBP	Euro	US$	CHF	Total
	$'000	$'000	$'000	$'000	$'000	$'000
Trade receivables	-	1,328	1,818	1,130	-	4,276
Other receivables	9	212	-	-	-	221
Amounts owing from parent company	-	1,737	-	633	-	2,370
Tax recoverable	-	298	-	-	-	298
Cash	12	1,670	381	929	36	3,028
Trade payables	(6)	(985)	(86)	(65)	-	(1,142)
Other payables	-	(435)	(28)	-	-	(463)
Current borrowings	-	(514)	-	-	-	(514)
Non-current borrowings	-	(9,239)	-	-	-	(9,239)
Amounts owing to parent company	-	(11)	(20)	(281)		(312)
	15	(5,939)	2,065	2,346	36	(1,477)

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 profit for the year by approximately $450,000. The Group 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 profit for the year by $660,000. A 10% increase (decrease) in the average value of Sterling against the US Dollar during the year would have decreased (increased) net profit for the year by $565,000.

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 $3.5 million. The Group 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 profit for the year by $280,000. The Group 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 Group is exposed to interest rate risk on its debt which was borrowed on variable rate terms. A one percentage point increase (decrease) in Sterling interest rates would decrease (increase) profits by approximately $45,000 in the year.

24. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

Credit risk

The Group is exposed to credit risk in relation to the $4.3 million of trade receivables (Dec 31st, 2010 - $4.3 million) (Jan 1st, 2010 - $5.9 million), $0.2 million of deposits and other receivables (Dec 31st, 2010 - $1.0 million) (Jan 1st, 2010 - $1.0 million), $2.4 million of amounts owing from parent company (Dec 31st, 2010 - $0.1 million) (Jan 1st, 2010 - $0.2 million), $0.3 million of tax recoverable (Dec 31st, 2010 - $0.1million) (Jan 1st, 2010 - $0.1 million) and $3.0 million of cash (Dec 31st, 2010 - $3.1 million) (Jan 1st, 2010 - $22.9 million). The Group does not hold any collateral or other credit enhancements as security over these assets.

Credit risk in relation to trade receivables is discussed in Note 16.

The majority of deposits and other receivables relates to amounts owed by the British Government.

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

The Group's maximum exposure to credit risk is $10.2 million (Dec 31st, 2010 - $8.6 million) (Jan 1st, 2010 - $30.2 million), being the carrying value of trade receivables, deposits and other receivables, amounts owing from parent company, tax recoverable and cash.

Liquidity risk

The Group generally makes one major payment run each week. At December 31st, 2011 none of the Group's trade payables was overdue by more than one week. The vast majority of trade payables fall due for payment within one month. Accrued liabilities are generally due after more than one month and in many cases it may not be possible to determine the contractual date for payment.

The Group seeks to ensure that it has adequate access to liquidity to meet all its obligations as they fall due. The Group has a three year £3 million committed, revolving credit facility with its main banker which expires in June 2013 and a £1 million uncommitted overdraft facility which it uses to manage day to day requirements. 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 Group is committed to approximately $2.8m of capital expenditure which will be paid for out of cash flow and the facilities referred to above.

25. CAPITAL MANAGEMENT

The Group considers that its capital consists of shareholders' equity. The Group's primary objectives when managing capital are to safeguard its ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholder value. The Group monitors its net gearing ratio, which is net debt expressed as a percentage of shareholders' equity. Net debt includes interest bearing bank and other borrowings less cash. The Group's net gearing ratio is calculated as follows:

	Dec 31st 2011	Dec 31st 2010	Jan 1st 2010
	$	$	$
Current borrowings	**514,102**	111,857	16,412,255
Non-current borrowings	**9,238,920**	353,217	513,877
Less Cash	**(3,028,599)**	(3,094,626)	(22,942,550)
Net debt	**6,724,423**	(2,629,552)	(6,016,418)
Shareholders' equity	**34,654,198**	31,442,644	32,462,298
Net gearing ratio	**19.4%**	0.0%	0.0%

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

26. MOVEMENTS IN WORKING CAPITAL

An analysis of the Group's movements in working capital is as follows:

	2011	2010
	$	$
(Increase) decrease in inventories	**(1,234,975)**	435,966
Decrease in trade receivables	**102,153**	1,141,485
(Decrease) increase in prepayments, deposits & other receivables	**888,176**	(103,210)
(Increase) decrease in amounts owing from parent company	**(2,286,672)**	144,131
Increase in trade payables	**155,438**	219,737
(Decrease) increase in other payables & accruals	**(112,024)**	922,007
(Decrease) increase in provisions	**(298,952)**	118,690
Increase (decrease) in amounts owing to parent company	**79,868**	(669,150)
	(2,706,988)	2,209,656

27. PENSIONS

The Group incurred expenses of $314,704 (2010 - $299,561) with respect to the defined contribution pension plan.

At December 31st, 2011 $46,242 was outstanding to the pension plan (Dec 31st, 2010 - $46,691) (Jan 1st, 2010 - $1,556) and is included in other payables and accruals. This amount was paid in January 2012.

28. OPERATING LEASE COMMITMENTS

The Group leases certain of its property, plant and equipment under operating lease arrangements, with lease terms that range from approximately one to five years.

At December 31st, 2011 the Group had total future minimum lease payments under non-cancellable operating leases which fall due as follows:

	2011	2010
	$	$
Not later than one year	**315,344**	703,004
Later than one year and not later than five years	**76,713**	1,979,105
Later than five years	**-**	1,087,180
	392,057	3,769,289

29. RELATED PARTY TRANSACTIONS AND BALANCES

The Group's management regards the members of the board of directors of Dynex Power Inc. and their immediate families, the senior managers of Dynex Semiconductor Limited and their immediate families, its immediate parent company, Zhuzhou CSR Times Electric Co., Ltd, its directors and their immediate families and all of its affiliates as related parties.

The Group had the following material transactions and balances with related parties.

		2011	2010
		$	$
Transactions with CSR Times Electric:			
Sale of goods	(i) (ii)	**7,878,812**	2,963,394
Rendering of services	(iii) (iv) (v)	**374,349**	48,062
Amounts in respect of jointly funded research and development activity which is accounted for as a reduction in research and development expenses	(vi)	**2,442,209**	337,709
Reimbursed expenses	(vii)	**214,752**	106,522
Purchases of materials and components	(i) (viii)	**1,649,286**	2,797,605
Interest expense	(i)	**-**	12,438
Transactions with fellow group subsidiaries:			
Sale of goods	(ix)	**1,269,902**	-
Transactions with key management personnel:			
Short term employment benefits		**1,167,011**	1,058,328
Post-employment benefits		**34,424**	33,065
Total compensation		**1,201,435**	1,091,393
Transactions with other parties:			
Legal fees and expenses	(xi)	**64,296**	65,018

29. RELATED PARTY TRANSACTIONS AND BALANCES (continued)

		Dec 31st 2011	Dec 31st 2010	Jan 1st 2010
		$	$	$
Balances with CSR Times Electric:				
Amounts due from parent company	(i) (ii) (iii) (vii)	**2,369,749**	79,938	218,568
Amounts due to parent company	(i) (viii)	**312,284**	224,629	955,026
Other payables and accruals	(v) (vi)	**2,140,458**	2,214,232	83,394
Balances with fellow group subsidiaries:				
Trade receivables	(ix)	**512,026**	-	-
Balances with key management personnel:				
Other payables and accruals	(x)	**155,148**	158,643	179,317
Balances with other parties:				
Trade payables	(xi)	**5,751**	16,970	-
Other payables and accruals	(xi)	**5,200**	5,200	187,056

(i) In 2009 the Group 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 appointed the Group to be its main distributor for high power semiconductors in Europe. The parts are 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 Group 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 Group agreed to credit CSR Times Electric with interest on the outstanding balance each quarter at US prime rate plus 2%. This advance was fully utilised during the first quarter of 2010.

(ii) CSR Times Electric uses the Group to buy certain raw materials and to provide IGBT die and module products for its own use and to construct certain pieces of equipment for use in its IGBT assembly and test facility in Zhuzhou, China.

(iii) CSR Times Electric subcontracts certain manufacturing processes to the Group. The amounts involved are not material.

(iv) The Group provided training and support to CSR Times Electric in setting up an IGBT assembly and test facility in Zhuzhou, China.

(v) On September 27th, 2011 the Group signed an agreement with CSR Times Electric for the research and development centre to provide technical support to CSR Times Electric for its 8 inch wafer fabrication facility in China. Under the new agreement it is estimated that the costs for the project will be £1.756 million over a three year period commencing from January 2011. CSR Times Electric paid in advance 20% of their contribution.

(vi) On September 9th, 2010 the Group signed an agreement with CSR Times Electric to share the costs of carrying out research and development projects for high power semiconductor devices at the Group's premises in Lincoln, England. Under the new agreement it is estimated that the costs of the joint research and development will be £7.8 million over a 40 month period, and it is agreed that CSR Times Electric will provide funding of 80% of the costs and the Group will contribute 20%. CSR Times Electric paid in advance 25% of their contribution.

29. RELATED PARTY TRANSACTIONS AND BALANCES (continued)

(vii) From time to time the Group pays incidental expenses in the UK on behalf of CSR Times Electric. These costs are reimbursed in full.

(viii) The Group uses CSR Times Electric to make purchases of materials and components for it in China.

(ix) In 2011, the Group appointed Times Electric USA LLC, a fellow subsidiary of CSR Times Electric, to act as the Group's main distributor for high power semiconductors in North, Central and South America.

(x) Balances with key management personnel comprise directors fees payable to two non-executive directors and annual bonuses payable to senior managers of the Group. The directors' fees are paid half yearly in arrears. The balances were paid in full during the first quarter of 2012.

(xi) The Company retains a business law firm in Canada to provide legal services and advice. One of the Company's directors is a partner of this firm.

Advances to and from the parent company are recorded at fair value. The directors' fees and other related party amounts are recorded at the negotiated amounts. All amounts due to and from related parties are recorded as current liabilities and current assets since they are due upon demand or on the basis of normal creditor terms.

30. APPROVAL OF THE FINANCIAL STATEMENTS

These consolidated financial statements were approved by the board of directors of Dynex Power Inc. and authorised for issue on April 10th, 2012

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

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