DYNEX POWER INC.

ANNUAL REPORT 2012

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. 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 and die, 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 rail traction motor drives, electric power transmission and distribution, renewable and distributed energy, marine 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
- 328 employees (December 2012)
- 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 integrated circuits

Customers

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

- Railway propulsion and on-board systems
- 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
- Aircraft power electronic systems
- Space satellite applications
- Electric vehicles

Letter to Shareholders

2012 began well with a strong order book giving a good first half performance, but we had anticipated that the year would become challenging. Our business with China was being impacted by the well publicised delays in high speed rail projects and that, coupled with the poor economic situation in Europe, has eroded our order book and adversely impacted our revenue. However, we reported 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. Unfortunately such recovery has been slower than anticipated: the continuing economic troubles in Europe led to reduced demand, customers sought to mitigate rising stocks, and competition has been particularly aggressive.

Nevertheless, overall 2012 was the first year since 2009 that we have been able to report significant growth in revenue, largely driven by our IGBT business. This performance was against a forecast (IMS Research) 10% drop in 2012 serviceable global market for Dynex's high power sector: this is an excellent outcome albeit below our initial expectations. However a fall in our revenue in the second half year, the competitive market, and the cost of our production facilities, engineering support, operations and engineering support teams, which are scaled for higher revenues, resulted in a poor gross margin performance. Although short term cost reduction might have been achieved, the Company took the decision to protect the production, engineering and operational resources in anticipation of recovery and to give the best longer term financial gain.

A key milestone achieved during 2012 was the completion of a new energy efficient building at Doddington Road, Lincoln to house the R&D engineering teams, senior executive offices, finance department, and conference rooms. The new offices were formally opened in July by the President of CSR Corporation, symbolising the strong business linkage between Dynex and CSR. Since that event, the R&D team has gathered momentum in their new offices and is now well placed to generate a wide portfolio of new power semiconductor products. The first example has been the 1500A 3300V IGBT module which is targeted at two main application sectors: one is the high speed locomotive, which is the core business for CSR Corporation, whilst the other is HVDC power conversion. HVDC power conversion is a key market sector for Dynex and CSR that broadens our markets outside the railway sector, and it was particularly pleasing to report recently our success in winning a major $7.4 million HVDC contract with Alstom Grid.

Looking forward to 2013 we anticipate the full year will deliver a further increase in revenue. The current market forecast (IMS Research) indicates a modest increase over 2012 of 3.3% in the worldwide high power semiconductor sectors serviced by Dynex. However owing to a strong power electronic assemblies order book, and our strong linkage to the Chinese market, management is confident of revenue growth in excess of market. From a profitability viewpoint, the market remains challenging with excess capacity worldwide leading to further price pressures; however the increased revenue for Dynex will have a positive impact on our gross margin.

Although the full year forecast for 2013 currently indicates revenue growth, the profile of the order book in hand, and the competitive pricing used to secure several of the major contracts, indicate that the first quarter of 2013 will deliver a significantly lower revenue below breakeven. Nevertheless, we are more optimistic about the second quarter which should return to the levels of revenue seen in the fourth quarter of 2012.

Despite our short term financial performance issues, we remain confident about the robust long term demand for power electronics, and our ability to build on the recent investments in production capability, the expanded research and development activity, and the skilled workforce at Dynex Semiconductor and to gain leverage from our successful partnership with CSR Times Electric. As our revenues increase, greater profitability will follow.

Management is by no means happy with the weakening financial performance in recent quarters, but we have no doubt of our ability to return to growth and reach our full potential as one of the leading high power semiconductor businesses, and we thank you, our loyal shareholders, for your support at this time.

PDTaylor

Paul Taylor
President and Chief Executive Officer
April 24th, 2013

Review of Operations

Power Semiconductors

Dynex designs and manufactures a wide range of high power semiconductors including insulated gate bipolar transistor (IGBT) modules, bipolar thyristors and diodes at its base in Lincoln, England. The bipolar and power module product groups together form the power semiconductor manufacturing operation at Dynex. Sales of power semiconductors in 2012 totalled $33.5 million, an increase of 25% over 2011 and accounted for 85% of Dynex revenue.

Still the largest of the Dynex product groups, the bipolar division delivered sales of $18.4 million thus achieving a small growth over the previous year of 4.8%. The product portfolio includes fast diodes, fast thyristors, rectifier diodes, gate turn off thyristors, phase control thyristors and transistors that are used in worldwide applications such as railway equipment, industrial drives, transmission and distribution systems, power generation, aerospace and electric power quality management.

The power module group has benefitted from the significant investment over the previous three years in installing two new 6-inch wafer fabrication production lines for the manufacture of IGBT chips. This has enabled the group to grow significantly and become the second largest of Dynex product groups delivering sales of $15 million, an increase of 63% over 2011. During 2012, the power module group generated sales representing 38% of Dynex overall business revenue. Historically, the module business has manufactured IGBT and Diode modules for sales, however, the dramatic growth in revenue stems from the introduction of the new 6-inch wafer fabrication facility and the subsequent ability to supply IGBT chips direct to market. Typical applications for these modules are railway equipment, high power motor drives and power electronic management systems.

The recently installed and modernised 6-inch wafer fabrication production lines for both the IGBT and Bipolar groups have provided the newly formed Research and Development Centre with the on-site capability to develop new leading edge IGBT and bipolar products for manufacture in Lincoln and at the Power Electronics Business Unit of CSR Times Electric in Zhuzhou.

The IGBT emphasis is on the development of high voltage IGBT and FRD products at voltages of 3.3KV, 4.5KV and 6.5KV for use in traction and power transmission and distribution applications, while the lower voltage development activity concentrates on products to satisfy electric vehicle, wind power and solar generation markets. Custom module design and manufacture is a recent introduction to the Dynex product portfolio that provides us with the opportunity to operate in niche markets in which some of our competitors choose not to participate.

For bipolar products, the focus has been to extend the range of the already well established i^2 technology by developing larger thyristors at 125mm and 150mm over a wider range of voltages. The next phase of the thyristor product enhancement program is for the implementation of improved contacting technology and silicon edge profiling techniques that will lead us into a new generation of higher performance product. In addition, we continue to use our well proven GTO technology to develop new custom built products for unique customer applications. The flexibility and willingness to support our customers in this fashion is a unique selling point for Dynex and one that generates design wins for end user systems.

Dynex prides itself on providing a high level of technical support to its customers and responding positively to any technical opportunity for new product developments or unique custom designs. We continue to manufacture a variety of mature products and the strategy of supporting new and old designs by retaining a broad product base enabled sales of over five hundred different product variants to our worldwide customers during 2012

Over the last eighteen months, Dynex engineers have worked closely with their counterparts at CSR Times Electric to identify and procure the relevant equipment for a new, modern and high-tech 8-inch wafer fabrication plant in Zhuzhou, China. The facility will be capable of manufacturing 120,000 8-inch IGBT wafers a year. This venture will continue to be heavily supported by Dynex during 2013 and 2014, with significant resource being utilised for training purposes and the installation of process equipment including process initialisation. Once complete, the new wafer fabrication facility will be one of the largest in Asia.

As we enter 2013, efforts are being concentrated in a number of important areas, namely, development of new leading edge products with a reduction in the time taken to get them to market, leaner and improved efficiencies in the supply chain as well as in manufacturing processes. The market place remains very competitive so every action will be taken to reduce manufacturing costs, improve lead time without increasing stock levels and maintain on time delivery at a very high rate. We also expect to build upon the strong foundation we have with our colleagues in the Power Electronics Business Unit at CSR Times Electric and look forward to further strengthening that partnership to capitalise on business opportunities that are mutually beneficial to both companies.

Power Electronic Assemblies

Revenue from the Power Electronic Assemblies products group in 2012 was $4.0 million compared to $6.2 million in 2011. This constitutes 10% 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 early enough in 2012 to contribute to the revenue for the year. However, there have been two major project wins, in the HVDC sector, which will see the sales for these products in 2013 surpassing any previous annual sales figure.

Orders for new designs of power electronic assemblies' products exceeded $2.9 million in 2012 and this continues to show a year on year improvement reflecting good product selection strategy. Expectations are for continued success in the flexible alternating current transmission systems and hydro electric generation and the group continue to build competency in test equipment manufacture.

Upgraded manufacturing facilities are expected to continue to build customer confidence in the Power Electronics Assembly operation resulting in increased sales in 2013.

Integrated Circuits

As expected, 2012 saw a significant decrease in the Integrated Circuit product group revenue. Revenue for the year of $426,000, only 1% of the total business, showed a decrease of 85% compared to the previous year. This was a result of last year's strategic order placement depleting our now scarce resource even further, leaving very little product to offer. Delays in obtaining suitable export licensing also inhibited sales to a certain extent.

The Dynex wafer fabrication lines are now in full production of IGBT product and Dynex has ceased to manufacture, or to have the ability to manufacture, any new SOS product for well over 15 years. It was hoped that using an independent wafer foundry to try and manufacture replacement stock for new sales would encourage our customers to continue to show interest in a well proven product. However, even though working prototypes of two of our main portfolio products were successfully fabricated, it is felt that the time it would take to fully qualify these parts to space flight level, and the uncertainty attached to this qualification has forced our customers to turn to newer alternative solutions.

Despite the above statements, and with a book to bill ratio of 1.7 for 2012, it is forecast that 2013 will show a good increase in revenue, due mainly to new interest shown in older product that has been held in inventory for some time.

Research and Development

During 2012, Dynex expanded its research and development activities at the power semiconductor R&D Centre at Lincoln, developing new power products and undertaking research into new power semiconductor technologies to match the future demand of worldwide customers. The strategic focus of this Centre remains on the technology and semiconductor based products that are required by our customers for high power electronic equipment in low carbon application sectors.

The R&D team continued to grow in strength as the leading industrial high power semiconductor research group in the UK, supporting Dynex in its ambition to become one of the top companies in the global power semiconductors field. Developing new engineering skills for the future is a key objective for the R&D centre, and the R&D team has increased its attendance at key power electronics workshops, seminars and conferences in Europe to ensure continued professional development of its workforce as well as seeking and recruiting the best staff from both the UK and China.

Throughout 2012, the R&D Centre collaborated successfully with CSR Times Electric: key projects included the development of 1500A/3300V IGBT module, a 250mm x 89mm 1200V /1700V module, 6500V IGBT module, press pack IGBT modules, wide band gap semiconductor research, a new generation HVDC thyristor technology and technical support for the construction of 8-inch IGBT fabrication facility in Zhuzhou, China.

The R&D Centre, which started operating in October 2010, is developing greater effectiveness and leadership with improved technologies, facilities and staff. The development rate of new products has accelerated. New products, such as the 1500A/3300V and 1600A/1700V IGBT modules, have been completed and put into application successfully in railway systems.

Dynex's latest IGBT modules, at 3.3kV, have been redesigned to accommodate more optimized silicon structures and fabrication processes. As a result, their improved technical performance has demonstrated parity with many of our international competitors' products. Furthermore, through the use of advanced design concepts, we have further enhanced the power module reliability: the reliability and robustness of Dynex designs are being demonstrated through increasing accumulated operating hours in some of the harshest railway environments.

Outside the railway transportation application sector, for industrial, renewable energy, and electric grid applications, the R&D group has improved the technical capability of the 6500V chips, introduced prototypes of a 250 mm x 89 mm module, and made significant advances in the fundamental research for thyristors and IGBT technology for HVDC applications.

In developing the technology for supporting the 8-inch IGBT line construction in China, there have been some significant breakthroughs in terms of key technology and process research at Dynex for 1200V and 1700V IGBT and fast recovery diodes. A key objective for the R&D Centre is to transfer such advanced manufacturing technology knowhow under contract to CSR Times Electric. This transfer, which comprises mainly engineering training, is progressing well providing excellent support for CSR Times Electric.

Continuing its strong link with UK University research groups, the European supply chains, and customers Dynex has undertaken collaborative programmes within the UK and Europe.

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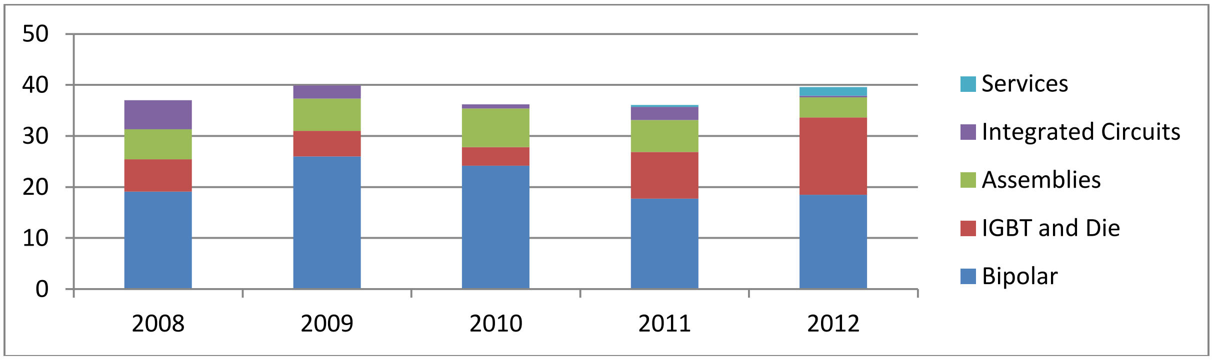
In July 2012, Dynex celebrated the opening of the new R&D building, and a special open day was held to strengthen the reputation of the R& D Centre and Dynex. This was well attended by customers, suppliers and research partners, and was considered a great success by all the attendees. This event symbolised the growing strength of Dynex and the R&D centre, operating in partnership with CSR Times Electric, as a driving force to support the development of the power device business going forward.

Outside the R&D Centre, Dynex has continued to support development of power electronic assemblies. With a total range of 6 different system designs now in the field, the Power Assemblies group has continued to expand the ratings of their thyristor controlled reactor power stacks. This will continue in 2013 and a total installed base of 1GVAR of compensation systems will be in place by the year end. Standard converters are being developed for diode and thyristor based rectifiers offering low cost short lead-time options to the market. The group is also working on a number of new design projects including HVDC breaker technology, hydro exciter power supplies, grid connect switches and high power lightning simulation switches.

Revenue by product



Sales and Distribution

Revenue increased from $36.1 million in 2011 to $39.6 million in 2012.

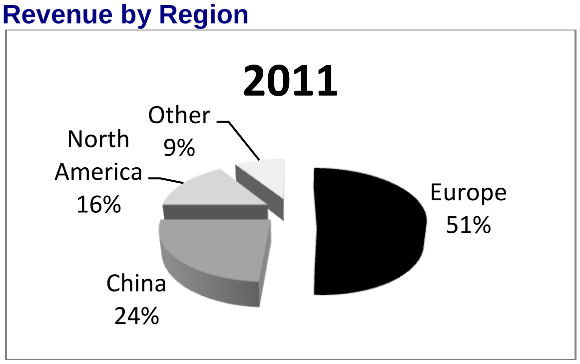
The Bipolar Discrete Group's revenue was at a similar level in 2012 to that reported in 2011. However, the order book for bipolar discrete products increased by around 10% as a result of stronger market demand in the second half of 2012. Revenue for power modules showed strong growth over 2011 but bookings fell away in the second half of the year which will impact revenues in the early part of 2013. There has been a recovery in such bookings in the early part of 2013. Power Electronic Assembly revenue declined in 2012 but there was strong order in-take which has left the order book in a much stronger state than it was at the end of 2011. Orders have continued to be taken in the early part of 2013 and significant growth in revenue is expected in this product group for 2013. The revenue for the Integrated Circuits business declined but is expected to pick up a little in 2013. This is no longer a core business and the inventory is now nearly exhausted.

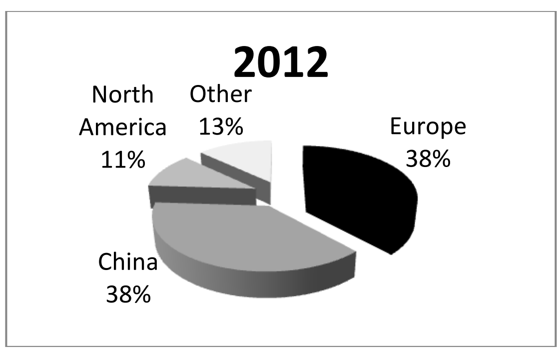
Revenue by region saw strong growth in China and Germany in 2012 compared with the preceding year with declines in the UK, USA and France. China is now the largest market for Dynex products.

Bookings (new sales orders) in 2012 decreased slightly to $38 million compared to $39 million in 2011. The booking to billings ratio was 1.1. The order book was 2% higher at the end of 2012 than it had been at the end of 2011.

Looking forward to 2013, we anticipate that revenue from power electronic assemblies will grow substantially with modest growth in bipolar discrete revenue but with a decline in revenue from power modules. Revenue from China should remain strong with good growth in European revenue.

Revenue by Region





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, 2012.

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.

The Group also provides advice and assistance, primarily to CSR Times Electric, on matters relating to semiconductor design and manufacture.

All the activities of the Group described above take 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, integrated circuits and the provision of advice 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 and the provision of advice are 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 2012	C$1.5992
Average rate October to December 2011	C$1.6072
Average rate January to December 2012	C$1.5906
Average rate January to December 2011	C$1.5816
Rate at December 31st, 2012	C$1.6085
Rate at December 31st, 2011	C$1.5825

As illustrated, the Canadian Dollar rate against Sterling for the fourth quarter of 2012 was similar to the rate in the corresponding quarter of 2011 and the rate for 2012 was similar to the rate for 2011. Consequently, exchange rate movements had little impact on reported revenue and expenditure in the quarter or the year.

The Canadian Dollar Sterling rates were similar at December 31st, 2012 and December 31st, 2011.

Construction of a New R&D Centre and Office Building

As reported last year, the Group began construction of a new R&D Centre and office building in October 2011. The building was completed on time and on budget in June 2012.

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 small increase in revenue over the figures for the corresponding quarter of the preceding year. The gross profit percentage was 10.7% in the fourth quarter of 2012 compared to 22.9% in the corresponding quarter of the previous year. However, the gross profit percentage in the corresponding quarter of last year had been impacted by a change in accounting estimate and a yield variance on the new fabrication lines. Without those items, the gross margin for the fourth quarter of 2011 would have been 15.7%. Net profit for the fourth quarter of 2012 was $55,000 compared to a net profit of $724,000 in the corresponding quarter of the preceding year. Without the two items referred to above, net profit would have been similar in the fourth quarter of 2011 to that reported in the fourth quarter of 2012.

Revenue for the year was $39.6 million, 10% higher than in the preceding year. The gross profit percentage for the year was 17.0% compared to 23.9% in the preceding year. Without the two items referred to above, the gross profit percentage in the 2011 would have been 21.9%. Net profit for the year of $1.1 million was 61% lower than in the preceding year.

Without the two items referred to above, net profit in 2012 would have been 50% lower than in the preceding year.

The Company's bookings to billings ratio for the year of 1.0 was slightly below the figure of 1.1 achieved in the preceding year.

Revenue

Revenue for the fourth quarter of 2012 was $9.9 million, $297,000 or 3% higher than in the corresponding quarter of last year. The change comprised a significant increase in sales of power modules and in service income 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 increase in integrated circuit revenue.

For the year, revenue of $39.6 million was $3.5 million or 10% higher than in the preceding year. Here again, there was a significant increase in sales of power modules and in service income and a smaller increase in bipolar discrete products partially offset by reduction in power electronic assemblies and integrated circuits. The decline in power electronic assembly revenues reflects the difficult economic situation being experienced across Europe where most of these products are sold. The decline in integrated circuit revenues reflects the end of life for many of these products.

Gross Margin

The gross margin was 10.7% of revenue in the fourth quarter of 2012 compared to 22.9% in the corresponding quarter of last year. The gross margin in the current quarter reflects a shift in revenue towards lower margin products together with increasing price pressure in the marketplace. A gross margin at this level is below what management would normally expect. The gross margin is expected to recover after the first quarter of 2013.

For the year, gross margin was 17.0% compared to 23.9% in the previous year. This is below the range of gross profit that management normally expects but is expected to improve after the first quarter of 2013.

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 8.0% of revenue in the fourth quarter of 2012 compared to 11.2% in the corresponding quarter of last year. The reduction reflected the very tight control of costs being undertaken whilst gross margins are under pressure.

For the year such expenses were 9.6% compared to 10.2% in the previous year. This reduction continues a long term trend which has seen such costs fall from over 25% of revenue in 2004 to less than 10% of revenue 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 2012 was $460,000. This was $238,000 or more than double the level in the corresponding quarter of last year.

For the year, net expenditure on research and development was $114,000 or 9.8% higher than in the preceding year. It represents 3.2% of revenue, the same as 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 10.6% of revenue in the year compared to 10.2% of revenue in the preceding year. The increase reflects management's determination to increase investment in product development

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 were $104,000 in the fourth quarter of 2012, $16,000 or 18% higher than in the corresponding quarter of last year. The increase reflects an increased level of borrowings during the quarter compared to borrowings in the corresponding quarter of the preceding year.

Finance costs were $358,000 for the year, $120,000 or 50.5% 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

The Company recorded a loss before tax in the fourth quarter of 2012. A profit before tax had been reported in the corresponding quarter of last year.

For the year, profit before tax was 3.1% of revenue compared to 9.6% in the preceding year. The figure for the preceding year had been boosted by two one-off items without which it would have been a profit before tax of 7.6% of revenue.

Tax Expense

The Company was able to release some of its tax provision in the fourth quarter of 2012 following a review of additional tax deductions available to it. In the corresponding quarter of the preceding year, there was a low rate of tax as a result of additional deductions that had been successfully claimed on research and development expenditure.

For the year, tax expense is 13.6% of profit before tax compared to 21.6% in the preceding year. The reduction reflects the reduction in UK statutory tax rate to 24.5%, compared to 26.5% last year. The effective tax rate in the current year has been reduced by additional deductions 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 $55,000 in the fourth quarter of 2012 compared to a profit of $724,000 in the corresponding quarter of last year. However, without the benefit of two one-off credits to profit in the corresponding quarter of last year, the figure for the fourth quarter of last year would have been similar to that being reported this year.

For the year, the Group reported a net profit of $1.1 million compared to a profit of $2.7 million in the preceding year. Without the two one–off items referred to above, net profit last year would have been $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

Net property, plant and equipment increased from £30.6 million at the end of 2011 to stand at $33.7 million at the end of 2012. Approximately $500,000 of this increase was a result of changes in exchange rates. The rest of the increase reflected the completion of the new R&D Centre and office building and the continued investment in manufacturing plant. The scale of investment can be seen when it is remembered that net property, plant and equipment stood at $1.1 million at the end of 2007.

Working Capital

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

At the end of 2012, working capital stood at $12.4 million compared to $10.8 million at the end of 2011. The increase reflected a $1.0 million increase in trade receivables and a $774,000 reduction in other payables and accruals

Net Debt

At the end of 2012, the Group had net debt (borrowings less cash) of $9.9 million. At the end of 2011, it had net debt of $6.7 million. The change reflects the completion of the R&D Centre and office building and continued investment in plant and equipment together totalling $5.5 million and the increase in working capital of $1.6 million referred to above offset by $1.1 million of net profit and $3.0 million of depreciation charge.

The Group had no off balance sheet financing

arrangements at the year end or at the previous year end.

Equity

Equity increased by $1.6 million since the end of the preceding year. The increase resulted from the net profit of $1.1 million and an exchange difference on translation of the UK subsidiary of $563,000.

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 2012, the Group had a gearing ratio of 27.2%. At the end of the preceding year, the Group had a gearing ratio of 19.4%. 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 2012, the Group's committed borrowing facilities totalling $12.1 million were fully drawn but the Group had $2.2 million of cash. 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 82% of the committed facilities available to the Group.

Cash Flow

There was an inflow of $2.8 million from operating activities in the year. The main constituents of the cash inflow were the profit before tax of $1.2 million and a depreciation charge of $3.0 million offset by an increase in trade receivables of $943,000 and a decrease in other payables and accruals of $831,000.

In the year, $5.4 million has been invested in property, plant and equipment. The investment in property, plant and equipment was funded by the $2.8 million of cash generated by operating activities, $2.2 million of new borrowing and a reduction in cash balances.

Commitments

The Group has capital commitments at the year end of $400,000 for 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

	2012 Q4	2012 Q3	2012 Q2	2012 Q1	2011 Q4	2011 Q3	2011 Q2	2011 Q1	2012 FY	2011 FY	2010 FY
Revenue	9,930	9,307	9,856	10,522	9,633	9,860	9,018	7,571	39,615	36,082	36,161
Gross Profit	1,067	1,462	1,569	2,633	2,209	2,976	1,938	1,492	6,732	8,616	6,893
Gross profit %	10.7%	15.7%	15.9%	25.0%	22.9%	30.2%	21.5%	19.7%	17.0%	23.9%	19.1%
Gross R&D %	10.9%	11.8%	10.7%	9.2%	9.9%	16.4%	6.4%	7.3%	10.6%	10.2%	4.3%
Profit before Tax	(192)	166	226	1,033	729	1,665	755	310	1,233	3,458	1,994
Net Profit	55	109	142	759	724	1,229	540	216	1,066	2,710	1,345
Earnings per Share											
Basic	0.00	0.00	0.00	0.01	0.01	0.02	0.01	0.00	0.01	0.03	0.02
Diluted	0.00	0.00	0.00	0.01	0.01	0.02	0.01	0.00	0.01	0.03	0.02
Property, plant, equipm't	33,709	33,476	32,465	30,931	30,624	31,215	23,441	23,184	33,706	30,624	22,493
Working capital	12,428	13,525	12,533	13,194	10,754	12,533	10,683	7,657	12,428	10,754	6,321
Net(debt)/cash	(9,854)	(11,101)	(9,004)	(8,557)	(6,724)	(8,977)	(2,057)	885	(9,854)	(6,724)	2,629
Equity	36,283	35,900	35,994	35,568	34,654	34,771	32,067	31,726	36,283	34,654	31,443
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 2011 and 2012 have been prepared in accordance with IFRS. These figures have not been audited except for the balance sheet figures for each of the fourth quarters. All figures for the financial year 2010, 2011 and 2012 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. Net (debt)/cash is defined as cash less borrowings. The amounts shown for equity are as disclosed in the financial statements prepared in accordance with IFRS.

Annual revenue declined by 0.2% between 2010 and 2011. However, this decline was as a result of the strengthening of the Canadian Dollar against Sterling. In Sterling terms, revenue had risen by approximately 1%. Annual revenue grew by approximately 10% between 2011 and 2012. Quarterly revenue grew between the first and third quarters of 2011 but have remained steady since then.

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 percentage in 2012 reflects the difficult economic conditions in several of the Group's markets and the extreme price pressures currently being experienced. The level in 2012 is below management expectations. The gross profit percentages for the first quarter of 2011 reflected 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. The gross profit percentage in 2012 has reduced quarter by quarter as a result of preparing for future growth and the extremely price competitive nature of the markets at present.

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 quarterly figures follow the same trend. The net profit reflects the strength of profit before tax in any particular period. The quarterly figures follow the same trend except for the fourth quarter in each year where significant releases of the tax provisions have been possible in both years.

The figures for property, plant and equipment show continued investment throughout the business. The large increase in the third quarter of 2011 reflects the purchase of the Doddington Road site.

Working capital levels were generally equivalent to between two and three month's revenue in 2010 but in 2011 and 2012 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.

Following a rights issue in December 2009 the Group had a strong net cash position. This cash was spent on the two new IGBT lines in 2010 and 2011. The Group still had net cash at the end of 2010 and at the end of the first quarter of 2011. Following completion of the expansion project in 2011, the Group returned to a net debt position. 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 75% 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 generally 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 US dollars and Euros. 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 has an obligation to repay a Hong Kong Dollar loan from CSR Times Electric (Hong Kong) Ltd in 2015. A forward contract has been entered into to fix the Sterling cost of repaying this loan.

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 2012 the carrying amount of property, plant and equipment was $33,706,294.

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, 2012 the provision against inventories was $4.0 million and the carrying amount of inventories was $11.0 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, 2012 the provision was $210,000 and the carrying amount of trade receivables was $5.3 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, 2012 the carrying value of provisions was $450,000.

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 International Financial Reporting Standards. During the year ended December 31st, 2012, 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 $111,000 in grants during the year from the European Union and the UK Government to assist in its research and development activities and grants of $5,000 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. The Company has no options to purchase shares outstanding.

Related Party Transactions

During the fourth quarter of 2012, the Group sold $3.6 million of goods and $424,000 of services to CSR Times Electric, received a contribution towards research and development of $581,000 and purchased materials and components from them for $635,000. The Group also sold $718,000 of goods to a fellow subsidiary of CSR Times Electric, paid $10,000 in interest on a loan from another fellow subsidiary of CSR Times Electric and provided $130,000 of services to a parent company of CSR Times Electric.

During the year, the Group sold $13.8 million of goods and $1.2 million of services to CSR Times Electric, received a contribution towards research and development of $2.8 million and purchased materials and components from them for $2.1 million. The Group also sold $3.0 million of goods to a fellow subsidiary of CSR Times Electric, paid $10,000 in interest on a loan from another fellow subsidiary of CSR Times Electric and provided $130,000 of services to a parent company of CSR Times Electric.

At December 31st, 2012 the Group was owed $2.8 million for goods and services sold to CSR Times Electric and owed them $267,000 for materials and components purchased from them. In addition, the Group had received an advance payment from CSR Times Electric of $1.5 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 $296,000 by a fellow subsidiary which is reported under trade receivables and $9,000 from a parent company of CSR Times Electric.

During the year, the Group borrowed $1.0 million from a fellow subsidiary of CSR Times Electric. At December 31st, 2012 $1.0 million was owed to the fellow subsidiary under the loan and accrued interest.

The Group paid $1.2 million in compensation during the year to its key management personnel. Of this amount, $129,000 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 $68,000. At December 31st, 2012, $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, 2012 through the date of this Management's discussion and analysis.

Outlook

Revenue from bipolar discrete products reduced slightly in the fourth quarter of 2012. It is forecast to recover partially in the first quarter of 2013 and to have recovered fully in the second, third and fourth quarter of 2013. Overall, revenue for bipolar discrete devices is forecast to be the same or slightly higher in 2013 than it was in 2012.

The project to expand the capacity and capability of the IGBT wafer fabrication facility was completed in 2011. 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. However, this work has taken longer than expected.

Revenue from the sale of IGBT modules and die had reached a record level in the fourth quarter of 2012. It is forecast to fall back in the first quarter of 2013 and to recover slowly thereafter. For the full year, revenue is forecast to be slightly below that reported in 2012.

The demand for Dynex power electronic assemblies remained tight throughout 2012 and is expected to remain the same in the first quarter of 2013. Thereafter it is expected to increase substantially so that revenue in 2013 should show significant growth over that reported in 2012.

Management expects earnings from supplying advice and assistance to CSR Times Electric to remain similar in each quarter of 2013 to that reported in the fourth quarter of 2012.

There is continuing demand for the dwindling inventory of the Group's integrated circuit products, although sales of such products reduced significantly in 2012. They are expected to increase slightly in 2013.

At the end of December 2012, the order book stood at $20.4 million, some $700,000 or 4% higher than at the end of 2011.

Revenue in the fourth quarter of 2012 was $9.9 million. Quarterly revenue is expected to be significantly lower than this in the first quarter of 2013. Revenue is expected to return to or exceed the revenue in the fourth quarter of 2012 during the following three quarters.

Quarterly profit after tax in the fourth quarter of 2012 was $55,000. A quarterly loss after tax is expected in the first quarter of 2013. A return to quarterly profits after tax is expected for the second, third and fourth quarters of 2013.

Management expects that revenue in 2013 will be above the levels reported in 2012. Profit after tax for 2013 is expected to be at or slightly above that reported in 2012.

Additional Information

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

Bob Lockwood

Bob Lockwood.
Vice President and Chief Financial Officer
April 24th, 2013

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 of directors 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 24th, 2013	April 24th, 2013

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, 2012.

Paul Taylor President & Chief Executive Officer	Bob Lockwood Vice President & Chief Financial Officer
PDTaylor	Bob Lockwood
April 24th, 2013	April 24th, 2013

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, 2012 and 2011, and the consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for the years then ended and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with 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, 2012 and 2011 its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Deloitte LLP

Chartered Accountants
Licensed Public Accountants

April 24th, 2013
Ottawa, Canada.

DYNEX POWER INC.
Consolidated Statement of Comprehensive Income in Canadian Dollars
Year Ended December 31st, 2012

	Note	2012	2011
		$	$
Revenue	6,7	**39,614,604**	36,081,802
Cost of sales		**(32,882,715)**	(27,465,405)
Gross profit		**6,731,889**	8,616,397
Other income	7	**78,918**	120,308
Sales and marketing expenses		**(850,212)**	(885,999)
Administration expenses		**(2,963,990)**	(2,798,010)
Research and development expenses	10	**(1,274,940)**	(1,161,371)
Finance costs	8	**(357,959)**	(237,873)
Other gains and (losses)	9	**(131,084)**	(195,272)
Profit before Tax	10	**1,232,622**	3,458,180
Income tax expense	11	**(167,086)**	(748,634)
Net Profit		**1,065,536**	2,709,546
Other Comprehensive Income			
Exchange differences on translation of foreign operations (net of tax of $nil)		**562,770**	502,008
Total Comprehensive Income for the year		**1,628,306**	3,211,554
Earnings per share			
Basic	12	**0.01**	0.03
Diluted	12	**0.01**	0.03

All results are derived from continuing operations

These financial statements should be read in conjunction with the notes set out on pages 27 to 58.

DYNEX POWER INC.
Consolidated Statement of Financial Position in Canadian Dollars
Year Ended December 31st, 2012

	Note	**2012**	2011
		$	$
NON-CURRENT ASSETS			
Property, plant & equipment	13	**33,706,294**	30,623,600
Derivative financial instruments	14	**2,228**	-
Total non-current assets		**33,708,522**	30,623,600
CURRENT ASSETS			
Inventories	15	**10,954,012**	10,890,917
Trade receivables	16	**5,297,728**	4,275,915
Amounts owing from parent company		**2,776,110**	2,369,749
Prepayments, deposits & other receivables	17	**255,847**	458,665
Tax recoverable		**124,292**	298,301
Cash		**2,206,430**	3,028,599
Total current assets		**21,614,419**	21,322,146
CURRENT LIABILITIES			
Trade payables		**1,151,054**	1,142,246
Amounts owing to parent company		**267,349**	312,284
Other payables and accruals	18	**3,171,809**	3,946,048
Borrowings	19	**6,547,631**	514,102
Provisions	21	**237,548**	186,077
Total current liabilities		**11,375,391**	6,100,757
NET CURRENT ASSETS		**10,239,028**	15,221,389

DYNEX POWER INC.
Consolidated Statement of Financial Position in Canadian Dollars (continued)
Year Ended December 31st, 2012

	Note	**2012**	2011
		$	$
NON-CURRENT LIABILITIES			
Borrowings	19	**5,512,391**	9,238,920
Provisions	21	**212,804**	212,704
Deferred tax liabilities	22	**1,939,851**	1,739,167
Total non-current liabilities		**7,665,046**	11,190,791
NET ASSETS		**36,282,504**	34,654,198

	Note	**2012**	2011
EQUITY			
Share capital	23	**37,096,192**	37,096,192
Retained profit/(accumulated deficit)		**540,921**	(524,615)
Exchange fluctuation reserve		**(1,354,609)**	(1,917,379)
		36,282,504	34,654,198

These financial statements should be read in conjunction with the notes set out on pages 27 to 58.

Paul Taylor
Director
April 24th, 2013

Bob Lockwood
Director
April 24th, 2013

DYNEX POWER INC.
Consolidated Statement of Changes in Equity in Canadian Dollars
Year Ended December 31st, 2012

	Share Capital	Retained Profit/ (Deficit)	Foreign Currency Translation Reserve	Total Equity
	$	$	$	$
At January 1st, 2011	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
Total comprehensive income for the period	**-**	**1,065,536**	**562,770**	**1,628,306**
At December 31st, 2012	**37,096,192**	**540,921**	**(1,354,609)**	**36,282,504**

These financial statements should be read in conjunction with the notes set out on pages 27 to 58.

DYNEX POWER INC.
Consolidated Statement of Cash Flows in Canadian Dollars
Year Ended December 31st, 2012

	Note	**2012**	2011
		$	$
CASH FLOW FROM OPERATING ACTIVITIES			
Profit before tax		**1,232,622**	3,458,180
Finance costs recognised in profit before tax		**357,959**	237,873
Investment income recognised in profit before tax		**(1,091)**	(796)
Non cash interest on derivative financial instrument		**(4,850)**	-
Depreciation of property, plant & equipment		**2,968,982**	2,382,343
Loss on disposal of property, plant & equipment		**24,070**	7,823
Provision for slow moving and obsolete inventory		**(272,587)**	(1,903,587)
Non cash movement in other payables and accruals		**(235,558)**	-
Non cash movement in provisions		**57,973**	(291,200)
Movements in working capital	26	**(1,447,594)**	(2,415,788)
Cash generated by operating activities before income taxes		**2,679,926**	1,474,848
Income taxes received/(paid)		**174,208**	(250,124)
Net cash generated by operating activities		**2,854,134**	1,224,724
CASH FLOW FROM INVESTING ACTIVITIES			
Payments for property, plant & equipment		**(5,440,790)**	(10,328,352)
Proceeds on disposal of property, plant & equipment		**-**	27,228
Interest received		**1,091**	796
Net cash used in investing activities		**(5,439,699)**	(10,300,328)
CASH FLOW FROM FINANCING ACTIVITIES			
Proceeds from borrowings		**2,244,134**	10,032,524
Repayments of borrowings		**(123,673)**	(771,019)
Interest paid		**(317,679)**	(143,097)
Payments for other finance costs		**(30,359)**	(71,744)
Net cash generated by financing activities		**1,772,423**	9,046,664
NET DECREASE IN CASH		**(813,142)**	(28,940)
Cash at beginning of period		**3,028,599**	3,094,626
Effect of foreign currency translation on cash		**(9,027)**	(37,087)
CASH AT END OF PERIOD		**2,206,430**	3,028,599

All operating cash flows derive from continuing operations

These financial statements should be read in conjunction with the notes set out on pages 27 to 58.

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 of the Group were prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). The accounting policies of the Company are based on the IFRS applicable as at December 31st, 2012 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.

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.

3. FUTURE CHANGES IN ACCOUNTING POLICIES (continued)

IFRS 7 Financial Instruments: Disclosures ("IFRS 7")

IFRS 7 was 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 Company is currently evaluating the impact of these amendments to IFRS 9 on its 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.

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.

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.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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. All other 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.

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.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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	2-25 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.

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.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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

The Group has a forward exchange contract that is designated as a hedging instrument in an effective hedge.

At the present time, the Group does not have any financial guarantee contracts or financial liabilities designated upon initial recognition as at fair value through profit or loss.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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 power electronic assembly equipment.

5. CRITICAL ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Key Judgements (continued)

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, 2012 the carrying amount of property, plant and equipment was $33,706,294 (2011 - $30,623,600).

The Company's management reviews property, plant and equipment for evidence of impairment. At December 31st, 2012 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, 2012 the carrying amount of inventories was $10,954,012 (2011 - $10,890,917) and the provision for slow-moving and obsolete items of inventory was $4,043,814 (2011 - $4,250,723).

In 2011 the Group revised its estimate for inventory obsolescence based on its 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 profit before tax in 2011 was approximately $1.5 million higher than it would have been had the changes not been made.

5. CRITICAL ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Estimation uncertainty (continued)

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, 2012 the carrying amount of trade receivables was $5,297,728 (2011 - $4,275,915) and the provision for impairment of trade receivables was $210,274 (2011 - $180,101).

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, 2012 the carrying value of provisions was $450,352 (2011 - $398,781). Details of the provisions are set out in Note 21.

6. 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.

	2012	2011
	$	$
Canada	**486,077**	116,172
China	**14,890,832**	8,524,280
United Kingdom	**4,449,879**	6,104,127
United States of America	**4,041,480**	5,579,875
France	**3,957,699**	5,566,239
Germany	**3,086,442**	2,201,804
Other (None > 10%)	**8,702,195**	7,989,305
	39,614,604	36,081,802

6. 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, 2012 the Group had one customer (CSR Times Electric) accounting for more than 10% of revenue, generating $17,735,687 (2011 – one customer (CSR Times Electric) accounting for more than 10% of revenue, generating $9,253,063).

7. 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:

	2012	2011
Revenue:	**$**	$
Sale of goods	**37,888,528**	35,671,144
Rendering of services	**1,726,076**	410,658
	39,614,604	36,081,802
Other Income:		
Sale of scrap materials	**70,739**	101,733
Bank interest income	**415**	797
Other interest income	**675**	-
Government grants	**5,045**	16,994
Other income	**2,044**	784
	78,918	120,308

8. FINANCE COSTS

An analysis of finance costs is as follows:

	2012	2011
	$	$
Interest on bank borrowings	**299,931**	114,419
Interest on other borrowings	**10,157**	-
Interest on finance leases	**35,488**	51,711
Interest on derivatives	**4,850**	-
Other finance costs	**30,360**	71,743
	380,786	237,873
Less amounts capitalised at a rate of 2.75%	**(22,827)**	-
	357,959	237,873

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

9. OTHER GAINS AND LOSSES

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

	2012	2011
	$	$
Foreign exchange loss	**(107,014)**	(187,449)
Loss on disposal of property, plant and equipment	**(24,070)**	(7,823)
	(131,084)	(195,272)

10. PROFIT BEFORE TAX

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

	2012	2011
	$	$
Cost of inventories sold	**31,156,639**	27,054,747
Staff costs (including director's remuneration):		
Wages and salaries	**13,332,886**	12,064,000
Other benefits	**552,131**	551,683
Minimum lease payments under operating leases:		
Land and buildings	**23,244**	280,547
Plant and equipment	**313,033**	261,120
Foreign Exchange differences (net)	**107,014**	187,449
Depreciation of items of property, plant and equipment		
Manufacturing	**2,734,541**	2,217,332
Other	**234,442**	165,011
Research and development expenses (before government grants and contribution from CSR Times Electric)	**4,202,570**	3,690,366
Contribution from CSR Times Electric	**(2,816,688)**	(2,442,209)
Government grants:		
Research and development	**(110,942)**	(86,786)
Property plant and equipment	**(5,045)**	(16,994)
Provision for obsolete inventories	**(272,588)**	(1,903,586)

11. INCOME TAX EXPENSE

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

	2012	2011
	$	$
Current tax expense	**305**	1,115
Deferred tax expense (income) relating to:		
Origination and reversal of temporary differences	**323,454**	870,489
Changes in tax rates	**(156,673)**	(122,970)
Total deferred tax expense	**166,781**	747,519
Total income tax expense	**167,086**	748,634

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:

	2012	2011
	$	$
Profit before tax	**1,232,622**	3,458,180
Expected tax charge at Canadian statutory rates	**315,699**	968,290
Factors affecting charge:		
Income not subject to tax	**(123,917)**	(63,743)
Expenses for which tax relief not available	**20,653**	21,248
Different tax rate for subsidiary operating in other jurisdiction	**(23,069)**	(56,566)
Unused tax losses and tax offsets not recognised as deferred tax assets	**93,371**	87,614
Impact of reduction in tax rates	**(156,673)**	(122,971)
(Over)/under provision at start of year	**24,939**	(72,161)
Other differences	**16,083**	(13,077)
	167,086	748,634

The Canadian statutory tax rate is 26.5% (2011 – 28%). The United Kingdom statutory tax rate is 24.5% (2011 – 26.5%).

12. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS

Earnings per share calculations are based on:

	2012	2011
	$	$
Earnings:		
Profit attributable to ordinary equity	**1,065,536**	2,709,546
Shares:		
Weighted average number of ordinary shares outstanding during the period used in the basic earnings per share calculation	**80,509,047**	80,509,047
Shares that could be issued on exercise of options	**143,989**	150,000
Shares that would be repurchased out of proceeds of option exercises	**(126,486)**	(84,853)
Weighted average number of ordinary shares outstanding during the period used in the diluted earnings per share calculation	**80,526,550**	80,574,194

For the year ended December 31st, 2012 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 (2011 – nil).

11. PROPERTY, PLANT AND EQUIPMENT

	Land	Buildings	Plant & Machinery	Leasehold Improvements	Assets under construction	Total
	$	$	$	$	$	$
Cost						
At January 1st, 2011	-	-	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
Additions	-	-	636,780	-	4,909,358	5,546,138
Reclassifications	-	1,606,498	4,171,643	-	(5,778,141)	-
Disposals	-	-	(69,282)	-	-	(69,282)
Net exchange difference	45,792	70,549	560,500	-	21,697	698,538
At December 31st, 2012	**2,832,823**	**4,690,056**	**36,208,977**	**-**	**1,386,360**	**45,118,216**
Depreciation						
At January 1st, 2011	-	-	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
Charge for the year	-	93,008	2,875,975	-	-	2,968,983
Eliminated on disposal	-	-	(45,212)	-	-	(45,212)
Net exchange difference	-	1,723	167,206	-	-	168,929
At December 31st, 2012	**-**	**136,520**	**11,275,402**	**-**	**-**	**11,411,922**
Carrying value						
At December 31st, 2012	**2,832,823**	**4,553,536**	**24,933,575**	**-**	**1,386,360**	**33,706,294**
At December 31st, 2011	2,787,031	2,971,220	22,631,903	-	2,233,446	30,623,600

13. PROPERTY, PLANT AND EQUIPMENT (continued)

The carrying value of property, plant and equipment pledged as security is $33,706,294 (2011 - $30,623,600) (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 $238,309 (2011 - $338,427) in respect of assets held under hire purchase agreements which are accounted for as finance leases. The depreciation charge for the year includes $80,378 (2011 - $84,261) in respect of these assets.

At December 31st, 2012 the Group has commitments for the purchase of property, plant and equipment of $0.4 million (2011 - $2.8 million).

14. DERIVATIVE FINANCIAL INSTRUMENTS

	2012	2011
	$	$
Forward Exchange Contracts	**2,228**	-
	2,228	-

The Group has a forward exchange contract to purchase HK$ 8million for £637,450 on 4 September 2015. This is designated as a hedge for the HK$ 8million loan from CSR Times Electric (Hong Kong) Co., Ltd (Note 19). The value of the derivative represents the difference between the exchange rate between the two currencies at the year-end and the exchange rate in the forward contract.

15. INVENTORIES

	2012	2011
	$	$
Raw materials	**3,376,097**	3,020,714
Work in progress	**6,784,230**	6,970,270
Finished goods	**793,685**	899,933
	10,954,012	10,890,917

At December 31st, 2012 the carrying value of inventory carried at fair value less costs to sell was $987,000 (2011 - $243,000).

At December 31st, 2012 the amount of inventory expected to be recovered after more than twelve months was $578,000 (2011 - $333,000).

16. TRADE RECEIVABLES

	2012	2011
	$	$
Trade receivables	**5,508,002**	4,456,016
Less bad debt provision	**(210,274)**	(180,101)
	5,297,728	4,275,915

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 Group has had a business relationship for many years. Over the last five years the Group has suffered bad debt losses of less than $180,000.

The ageing of the Group's trade receivables at December 31st, 2012, net of the provision for impairment is as follows:

	2012	2011
	$	$
Not yet overdue	**4,088,660**	2,668,373
Less than one month overdue	**770,741**	1,341,458
Between one and two months overdue	**255,281**	229,510
Greater than two months overdue	**183,046**	36,574
	5,297,728	4,275,915

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:

	2012	2011
	$	$
At January 1st	**180,101**	177,051
Impairment losses recognised	**32,276**	-
Net exchange difference	**(2,103)**	3,050
At December 31st	**210,274**	180,101

Included in the provision for impairment are individually impaired assets of $159,959 (2011 - $135,894) which have been provided in full and relate to amounts receivable in excess of eighteen months old. The Group does not hold any collateral or other credit enhancements as security over these balances.

16. TRADE RECEIVABLES (continued)

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

	Note	**2012**	2011
		$	$
Due from fellow group subsidiaries	29	**295,526**	512,026
		295,526	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

	2012	2011
	$	$
Prepayments	**184,427**	237,810
Deposits and other receivables	**71,420**	220,855
	255,847	458,665

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

18. OTHER PAYABLES AND ACCRUALS

	2012	2011
	$	$
Accruals	**1,122,724**	1,322,426
Payments in advance	**1,480,386**	2,140,458
Deferred income	**15,134**	19,909
Other	**553,565**	463,255
	3,171,809	3,946,048

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

18. OTHER PAYABLES AND ACCRUALS (continued)

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

	Note	**2012** $	2011 $
CSR Times Electric	29	**1,453,182**	2,140,458
Fellow group subsidiaries	29	**2,196**	-
		1,455,378	2,140,458

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

19. BORROWINGS

	Note	**2012** $	2011 $
Secured at amortised cost:			
Bank loans		**10,796,252**	9,393,720
Finance lease	20	**236,204**	359,302
		11,032,456	9,753,022
Unsecured at amortised cost:			
Other loans	29	**1,027,566**	-
		12,060,022	9,753,022
Current portion		**6,547,631**	514,102
Non-current portion		**5,512,391**	9,238,920
		12,060,022	9,753,022

(i) The Group has a bank loan for $4,825,500 (2011 - $4,747,500) 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, 2012 these assets have a carrying value of $46,642,975 (2011 - $45,002,429).

(ii) The Group has a bank loan for $5,970,752 (2011 - $4,646,220). The loan bears interest at LIBOR plus 2.30% and is repayable in quarterly instalments between February 2013 and August 2016. The loan is secured by a fixed charge on the freehold land and buildings which have a carrying value of $7,386,359 (2011- $5,800,040).

(iii) The finance leases are secured by the equipment leased which has a carrying value of $238,309 (2011 - $338,427) (Note 20).

(iv) The Group has an unsecured loan from a fellow subsidiary of CSR Times Electric for $1,027,566 (Dec 31st, 2011 - $nil). The loan bears interest at 3.25% and is repayable on September 7th, 2015 (Note 29).

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	
	2012	2011	**2012**	2011
	$	$	**$**	$
Not later than one year	**149,276**	162,238	**129,930**	126,917
Later than one year and not later than five years	**115,241**	260,240	**106,274**	232,385
	264,517	422,478	**236,204**	359,302
Less future finance charges	**(28,313)**	(63,176)	-	-
Present value of minimum lease payments	**236,204**	359,302	**236,204**	359,302

	2012	2,011
	$	$
Included in the financial statements as:		
Current borrowings	**129,930**	126,917
Non-current borrowings	**106,274**	232,385
	236,204	359,302

21. PROVISIONS

	2012	2011
	$	$
Warranties	**237,548**	87,533
Provision for royalties	**-**	98,544
Removal costs of equipment	**212,804**	212,704
	450,352	398,781
Current portion	**237,548**	186,077
Non-current portion	**212,804**	212,704
	450,352	398,781

The movements in provisions are as follows:

	Warranties	Provision for royalties	Removal of equipment	Total
	$	$	$	$
At January 1st, 2011	87,533	98,544	212,704	398,781
Additional provisions	219,127	-	-	219,127
Amounts utilised	(14,094)	-	-	(14,094)
Amounts reversed	(58,211)	(99,584)	-	(157,795)
Net exchange difference	3,193	1,040	100	4,333
At December 31st, 2012	**237,548**	**-**	**212,804**	**450,352**

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 used to provide for royalties that are payable to owners of intellectual property used by the Group but no longer considers it probable that an outflow of resources embodying economic benefit will be required to settle the obligation. The Group has, therefore, reversed the provision in full during 2012.

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.

22. DEFERRED TAX LIABLITIES

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

	Property, plant and equipment $	Inventories $	Unused tax losses $	Other temporary differences $	Total $
At January 1st, 2011	(1,192,490)	105,010	94,166	21,001	(972,313)
Recognised in profit or loss	(974,166)	(7,885)	236,108	(1,576)	(747,519)
Net exchange difference	(23,920)	1,781	2,447	357	(19,335)
At December 31st, 2011	(2,190,576)	98,906	332,721	19,782	(1,739,167)
Recognised in profit or loss	107,364	(7,794)	(272,149)	5,798	(166,781)
Net exchange difference	(32,560)	1,376	(3,229)	510	(33,903)
At December 31st, 2012	**(2,115,772)**	**92,488**	**57,343**	**26,090**	**(1,939,851)**

The Company has an aggregate temporary difference of $7.3 million (2011 - $5.3 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:

	2012
	$
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	**370,000**
2032	**300,000**
no expiry date	**43,000**
	4,522,000

23. SHARE CAPITAL

Authorised:

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

Issued:

There was no movement in the Company's issued and outstanding share capital.

	No of shares	**$**
At December 31st, 2011 and 2012	**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)

Independent directors' share plan

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

Stock option plan

A total of 2,657,316 (2011 – 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, 2012	150,000	0.30
Expired	(100,000)	0.30
At December 31st, 2012	**50,000**	**0.30**

At December 31st, 2012 the following stock options are outstanding:

	Grant Date	Expiry Date	Number of Options	Exercise Price
				$
Directors	Feb 14th, 2008	Feb 13th, 2013	50,000	0.30
Total outstanding			**50,000**	**0.30**

24. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

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

December 31st, 2012	**Carrying Value**	**Fair Value**
	$	**$**
Financial Assets:		
Trade receivables	**5,297,728**	**5,297,728**
Amounts owing from parent company	**2,776,110**	**2,776,110**
Deposits and other receivables included in prepayments, deposits and other receivables	**71,420**	**71,420**
Cash	**2,206,430**	**2,206,430**
	10,351,688	**10,351,688**
Financial Liabilities:		
Trade payables	**1,151,054**	**1,151,054**
Amounts owing to parent company	**267,349**	**267,349**
Other items included in other payables and accruals	**553,565**	**553,565**
Current borrowings	**6,547,631**	**6,554,353**
Non-current borrowings	**5,512,391**	**5,519,819**
	14,031,990	**14,046,139**

December 31st, 2011	Carrying Value	Fair Value
	$	$
Financial Assets:		
Trade receivables	4,275,915	4,275,915
Amounts owing from parent company	2,369,749	2,369,749
Deposits and other receivables included in prepayments, deposits and other receivables	220,855	220,855
Cash	3,028,599	3,028,599
	9,895,118	9,895,118
Financial Liabilities:		
Trade payables	1,142,246	1,142,246
Amounts owing to parent company	312,284	312,284
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
	11,670,807	11,699,591

24. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

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, amounts owing from parent company, other receivables, cash, trade payables, amounts owing to parent company, other payables and current borrowings excluding financial leases 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 between 4% and 5.5% (2011: 6%) being the Group's current estimated borrowing rate for finance leases with similar terms and conditions.

Market risk

The Group is exposed to foreign currency fluctuations. At December 31st, 2012 the split of financial instruments by currency is as follows:

	C$	GBP	Euro	US$	JPY	HKD	CHF	Total
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Trade receivables	-	3,432	1,192	674	-	-	-	5,298
Amounts owing from parent company	-	2,561	-	215	-	-	-	2,776
Other receivables	7	64	-	-	-	-	-	71
Tax recoverable	-	124	-	-	-	-	-	124
Cash	10	744	401	1,015	-	-	36	2,206
Trade payables	(6)	(1,028)	(63)	(26)	(28)	-	-	(1,151)
Amounts owing to parent company	-	-	(31)	(236)		-	-	(267)
Other payables	-	(524)	(30)	-	-	-	-	(554)
Current borrowings	-	(6,548)	-	-	-	-	-	(6,548)
Non-current borrowings	-	(4,484)	-	-	-	(1,028)	-	(5,512)
	11	(5,659)	1,469	1,642	(28)	(1,028)	36	(3,557)

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 $315,000. 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 $720,000. 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 $390,000.

The Group's exposure to the Hong Kong Dollar relates to a loan from CSR Times Electric (Hong Kong) Ltd. The cost of repaying this loan in Sterling has been hedged through a forward contract.

24. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

Market risk (continued)

Management monitors these exposures but to date has notgenerally 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 $3.6 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 $140,000. 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 $100,000 in the year.

Credit risk

The Group is exposed to credit risk in relation to the $5.3 million of trade receivables (2011 - $4.3 million) $2.8 million of amounts owing from parent company (2011 - $2.4 million), $0.1 million of deposits and other receivables (2011 - $0.2 million), $0.1 million of tax recoverable (2011 - $0.3million) and $2.2 million of cash (2011 - $3.0 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 $10.8 million (2011 - $10.2 million) , being the carrying value of trade receivables, amounts owing from parent company, deposits and other receivables, tax recoverable and cash.

Liquidity risk

The Group generally makes one major payment run each week. At December 31st, 2012 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.

24. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

Liquidity risk (continued)

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 expires in January 2014 which it uses to manage day to day requirements. The Group is currently negotiating a new facility to replace the revolving credit facility. 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 $400,000 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:

	2012	2011
	$	$
Current borrowings	**6,547,631**	514,102
Non-current borrowings	**5,512,391**	9,238,920
Less Cash	**(2,206,430)**	(3,028,599)
Net debt	**9,853,592**	6,724,423
Shareholders' equity	**36,282,504**	34,654,198
Net gearing ratio	**27.2%**	19.4%

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:

	2012	2011
	$	$
Decrease (increase) in inventories	**396,678**	(1,234,975)
(Increase) decrease in trade receivables	**(943,103)**	102,153
(Increase) in amounts owing from parent company	**(339,739)**	(2,286,672)
Decrease in prepayments, deposits & other receivables	**218,789**	888,176
(Decrease) increase in trade payables	**(121,823)**	155,438
(Decrease) increase in amounts owing to parent company	**(48,488)**	79,868
(Decrease) in other payables & accruals	**(595,814)**	(112,024)
Increase (decrease) in provisions	**(14,094)**	(7,752)
	(1,447,594)	(2,415,788)

27. PENSIONS

The Group incurred expenses of $335,519 (2011 - $314,704) with respect to the defined contribution pension plan.

At December 31st, 2012 $52,387 was outstanding to the pension plan (Dec 31st, 2011 - $46,242) and is included in other payables and accruals. This amount was paid in January 2013.

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, 2012 the Group had total future minimum lease payments under non-cancellable operating leases which fall due as follows:

	2012	2011
	$	$
Not later than one year	**325,219**	315,344
Later than one year and not later than five years	**87,729**	76,713
	412,948	392,057

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.

		2012	2011
		$	$
Transactions with CSR Times Electric:			
Sale of goods	(i) (ii)	**13,360,764**	7,878,812
Rendering of services	(iii) (iv)	**1,239,029**	374,349
Amounts in respect of jointly funded research and development activity which is accounted for as a reduction in research and development expenses	(v)	**2,816,689**	2,442,208
Reimbursed expenses	(vi)	**367,563**	215,752
Purchases of materials and components	(i) (vii)	**2,133,276**	1,649,286
Transactions with CSR Corporation Ltd:			
Rendering of services	(viii)	**130,079**	-
Transactions with fellow group subsidiaries:			
Sale of goods	(ix)	**3,005,815**	1,269,902
Interest expense	(x)	**10,157**	-
Transactions with key management personnel:			
Short term employment benefits		**1,166,879**	1,167,012
Post-employment benefits		**34,204**	34,424
Total compensation		**1,201,083**	1,201,436
Transactions with other parties:			
Legal fees and expenses	(xii)	**68,169**	64,296

29. RELATED PARTY TRANSACTIONS AND BALANCES (continued)

		2012	2011
		$	$
Balances with CSR Times Electric:			
Amounts owing from parent company	(i) - (vi)	**2,767,521**	2,369,749
Amounts owing to parent company	(i) (vii)	**267,349**	312,284
Other payables and accruals	(iv) (v)	**1,453,182**	2,140,458
Balances with CSR Corporation Ltd:			
Amounts owing from parent company	(viii)	**8,589**	-
Balances with fellow group subsidiaries:			
Trade receivables	(ix)	**295,526**	512,026
Borrowings	(x)	**1,027,566**	-
Other payables and accruals	(x)	**2,196**	-
Balances with key management			
Other payables and accruals	(xi)	129,145	155,148
Balances with other parties:			
Trade payables	(xii)	**5,650**	5,751
Other payables and accruals	(xii)	**5,200**	5,200

(i) CSR Times Electric is the Group's main distributor for high power semiconductors in The People's Republic of China and the Group is CSR Times Electric's 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.

(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) 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 C$ 2.8 million over a three year period commencing from January 2011. CSR Times Electric paid in advance 20% of their contribution.

(v) 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 C$12.5 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)

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

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

(viii) The Group provided a three month management training course to CSR Corporation Ltd, a subsidiary of the ultimate parent company of CSR Times Electric.

(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) On September 7th, 2012 the Group was provided with a loan for approximately C$1 million by CSR Times Electric (Hong Kong) Co., Ltd, a fellow subsidiary of CSR Times Electric to purchase equipment. The loan bears interest at 3.25% per annum and is due to be repaid on September 7th, 2015.

(xi) 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 2013.

(xii) 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 24th, 2013.

Corporate Information

Board of Directors

Li Donglin [1] [3]
Chairman

Paul Taylor [1]
Director, President & CEO

Bob Lockwood [1]
Director, VP Finance, CFO & Co. Secretary

Debbie Weinstein [1] [2]
Director

David Banks [1] [2] [3]
Director

Liu Ke'an [1] [3]
Director

Richard Wu [1] [2]
Director

George Guo [1]
Director

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

Senior Officers, VP's & Senior Managers

Paul Taylor
President & CEO

Bob Lockwood
VP Finance, CFO & Co. Secretary

Liu Guoyou
Research & Development Director

Mark Kempton
Operations Director

George Guo
Sales & Marketing Director

Bill McGhie
Power Electronic Assemblies Business Manager

Debra Clipson
Human Resources Manager

Stock Exchange Listing

Toronto Ventures Exchange
Symbol: DNX

Auditors

Canada – Deloitte LLP
UK – Deloitte LLP

Legal Counsel

LaBarge Weinstein Professional Corporation
Ottawa, Ontario

Transfer Agent

Computershare Trust Company of Canada

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