DYNEX POWER INC.

ANNUAL REPORT 2016

Our Vision

Dynex, in partnership with CRRC Times Electric, will be a leading international, top three high power semiconductor business.

Our Core values

Continuous Improvement

Our company will strive to ensure that our employees have the skills that will enable them to seek to challenge and improve our working practices in order to exceed our customers' expectations, without compromising on safety or quality.

Engineering Excellence

Our products are world leading and highly engineered and in order to maintain our high standards we ensure that our employees are qualified and operating at the forefront of technology in our sector.

Performance Driven

In maintaining and growing our business we recognise that it is only by doing things well and meeting targets and expectations, that we will increase the financial performance of the business.

Accountability and responsibility

We accept our responsibility to our customers and those that we do business with, to find solutions and achieve results, no matter how challenging the tasks. Our employees will always take personal accountability for our commitments and performance.

Integrity and honesty

In our dealings with customers, suppliers and all outside agencies, we pride ourselves in our honest approach to business. We keep our promises and deal with people and issues promptly and our consultative culture will find the best solutions for all parties.

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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 and high power electronic assemblies. 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.

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. In 2016 this company changed its name to Zhuzhou CRRC Times Electric Co., Ltd.
- 351 employees (December 2016)
- ISO9001:2008, ISO14001:2004 and ISO 50001:2011 approved
- Further information: www.dynexpower.com

Products

- High power bipolar discrete semiconductors
- High power IGBT modules and die
- High power electronic assemblies and components

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
- Electric vehicles

Letter to Shareholders

I would like to take this opportunity to introduce myself to Dynex shareholders and to set out some of my initial plans for returning the company to financial health. When the Board offered me the opportunity to become the new President and CEO, I was delighted. The company is well placed for success in a growing and dynamic marketplace.

As you will know, the recent performance of the company has not been good enough to satisfy shareholders or management. In the three months since I joined, I have been involved with the Management Team assessing the strengths and weaknesses of the organisation. With the Management Team, we have developed a plan to build on those strengths and to eliminate the weaknesses. It is clear to me that the company has some outstanding engineering capabilities, committed management and workforce and some excellent products, both in the marketplace today and under development.

The plan that we have developed will initiate major changes in five main areas.

The first relates to market focus. We are in the process of strengthening our marketing, sales and business development activities, to get closer to our customers. We will understand the marketplace better from the perspective of our customers, and build stronger partnerships with them to our mutual benefit. The future market needs of our customers will be the primary driver for our new technology development decisions.

Secondly, we will accelerate the time to market for new products. Dynex has a number of exciting innovations in the pipeline, but we have, so far, been slow in getting them into our customers' hands. The market can expect new products from Dynex, with industry-leading performance, features and quality, before the end of 2017. In doing so, we will also build up a core competence in programme and project management within the company.

Thirdly, we have recognised that our operational performance needs to be improved. We are implementing changes to become world class in lead times, on-time delivery, manufacturing yields and customer service.

The fourth area of change is the increased focus on product and process quality. Specific workstreams will target best-in-industry product reliability, design for manufacturing, right-first-time manufacturing quality, change control, and stronger partnerships with our supply chain. Continuous improvement will be embedded in all we do, and we will ensure that the products we sell will consistently meet and exceed our customers' expectations.

Finally, we are committed to strengthening our leadership teams and workforce. The whole organisation will be working together towards a common vision and shared, focused goals. There will be clear performance expectations at all levels of the company, and unambiguous accountability for executing the elements of the turnaround plan. In addition, we will be placing increased emphasis on leadership and talent development. We will combine the best experience from existing employees with new perspectives brought in by talent from outside the company. We have already carried out a small redundancy programme to realign our structure with the needs of the business.

I look forward to meeting you and being able to update you on our progress in the months ahead.

The necessity for these changes will be only too clear from the results we are reporting for 2016. The figures presented are greatly affected by a 9% strengthening of the Canadian Dollar against Sterling. But the simple truth is that Dynex's sales have not grown in Sterling terms for several years. The failure to increase revenue, the delay in completing orders at the end of 2016, together with continuing quality problems and inventory write offs, resulted in the company reporting a net loss of $4.9 million for the year.

I am determined to return the company to profitability in 2017. We plan to build a platform for growth and improved financial performance.

I am very grateful for your patience and support.

Clive Vacher
President and Chief Executive Officer
May 1st, 2017

Review of Operations

Power Semiconductors

Dynex designs and manufactures high power semiconductors for customers around the world including the European, US and the rapidly growing Far Eastern markets. The Power Semiconductor operation is located in Lincoln, England, manufacturing a range of high power Module and Bipolar discrete products that include insulated gate bipolar transistor (IGBT) and diode modules, IGBT/FRD die, fast diodes, fast thyristors, gate turn off thyristors, rectifier diodes, phase control thyristors and transistors. Representing 65% of the company's business in 2016, the sales of Power semiconductors generated revenues of $26.4 million, a 15% reduction on the previous year.

The power semiconductor operation comprises of two main product groups, IGBT and Bipolar. As the second largest of the Dynex product groups, IGBT sales in 2016 were $12 million, a growth of 4.3% over 2015. The share of total Dynex revenue increased from 25% in 2015 to 30%, a trend which is set to continue in future years. The Module business constitutes three main product types, the sale of IGBT and diode modules, direct sales of silicon chips manufactured in the wafer fabrication area and the supply of customer specific IGBT modules. Dynex R&D and manufacturing groups have worked closely with customers to design and manufacture customer specific modules that provide us with the opportunity to operate in niche markets in which some of our competitors choose not to participate. This custom module capability and the continued focus from R&D on the development of high voltage IGBT and FRD products at voltages of 3.3KV, 4.5KV and 6.5KV provide the group with a strong platform for future growth, Typical applications for Module products are high power motor drives and power electronic management systems, while the current growth market is in traction applications in the Far East and China in particular.

The Bipolar discrete product group is the largest of Dynex manufacturing areas accounting for $14.4 million sales in 2016, a reduction of 26% on 2015. The primary focus for Bipolar products is in high power applications such as power generation, transmission and distribution, power quality management, rail traction and industrial drives. While it remains the largest of the Dynex product groups accounting for 36% of sales, the overall contribution to company sales dropped from 42% in 2015 as a result of more difficult market conditions at the same time as the IGBT product group was increasing sales revenue and size within the Dynex organisation.

The Bipolar group 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 such as GTOs alongside our newer i^2 thyristor technology and the strategy of supporting new and old designs by retaining a broad product base enabled sales of a wide variety of products variants to our worldwide customers during 2016.

As we enter 2017, efforts are being concentrated in a number of important areas, namely, development of new leading edge high voltage, high performance 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 and maintain on time delivery at a high rate. We also expect to build upon the strong foundation we have with our colleagues in the Semiconductor Business Unit at CRRC in Zhuzhou and look forward to further strengthening that partnership to capitalise on business opportunities that are mutually beneficial to both companies.

Power Assemblies

The Power Assemblies business continues to show a strong performance, and although sales were increased in 2016, there were significant arrears at the end of the year which was caused by capacity constraints and a customer requesting a delay in shipment

The order book going into 2017 remains at $6M and with a strong first half the opportunity is presented to achieve a significantly improved performance in 2017.

The group have continue to broaden the product portfolio and can now offer a range of Semiconductor Test systems to the market, and have seen some success in selling these systems. The sales of High current impulse power supplies have increased with deliveries into some major projects. (The most notable being with Tokomak Energy in the UK, for some fusion reactor power supplies).

The railways Innovation Unit have provided an invaluable service to create solutions which alleviate the obsolescence issues that are being experienced by the aging Electric locomotive fleets. The refurbishment of the older traction drive electronics continues to utilise the GTO technology which is still available from the Bipolar business, but solutions have been developed which allow complete replacements in IGBT technology, including the new Press Pack IGBTs. The Remote Condition Monitoring electronics have now been fitted to a number of systems providing invaluable information for assessment of reliability and intervention before failure.

The traditional SVC, VSC and excitation assemblies have continued to generate interest and the Dynex systems are designed in with a number of OEM suppliers, however it has been our customisation capability which continues to attract new business in the more complex , high power sector of the business.

Research and Development

During 2016, Dynex further continued its research and development activities at its power semiconductor R&D Centre in Lincoln, developing new power products and undertaking research of new power semiconductor technologies to match the future demands of our business and our 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, with particular focus on railway, electric vehicles, and energy. The Electric Vehicle Group had particular focus on expansion bringing in the skills needed to develop Converters for the EV market. During 2016, our parent company CRRC was the main funding body for this activity, in addition we had several UK funded projects and one EU funded project

The Centre's R&D team for power semiconductor and automotive assembly has continued to grow in strength as the leading UK industrial high power semiconductor research group, supporting Dynex and our parent company in our shared ambition to become one of the top companies in the global high power semiconductor field. Developing new technology and products for the future is the key objective for the R&D centre, and the R&D team has increased its attendance in key power electronics workshops, seminars and conferences in Europe and China to ensure continued professional development of its workforce as well as seeking and recruiting the best staff from the UK, Europe and China. We have continued to progress several collaborative programmes within the UK and Europe (Innovate UK and Horizon 2020) related to low carbon power electronics, and a number of new collaborative projects have been started. These activities help to keep Dynex at the forefront of high power semiconductor technology.

In the past year, the R&D Centre continued to collaborate successfully with CRRC Times Electric: key projects included the development of 750V, 3300V trench gate IGBT and diode chips, 4500V and 6500V high voltage IGBT and diode chips and modules, new generation 1500A/3300V modules, 750V and 1200V modules for electric and hybrid electric vehicles, technical support for the operation and improvement of 8-inch IGBT and diode chip fabrication line in Zhuzhou, China, and design and development of automotive electric vehicle motor controller integrated power units.

We have expanded our knowhow for the precise design and simulation of trench gate IGBT manufacturing processes and products, and successfully applied this to 650V – 1700V devices, developing samples at 750V and 3.3kV. We have now extended our design and development capability to higher voltages, starting with 3300V. 4500V and 6500V planar DMOS IGBT chips have been developed with higher voltage blocking capability by optimizing the resistivity of silicon wafer, edge termination and by other design enhancements, and module samples have been delivered to customers.

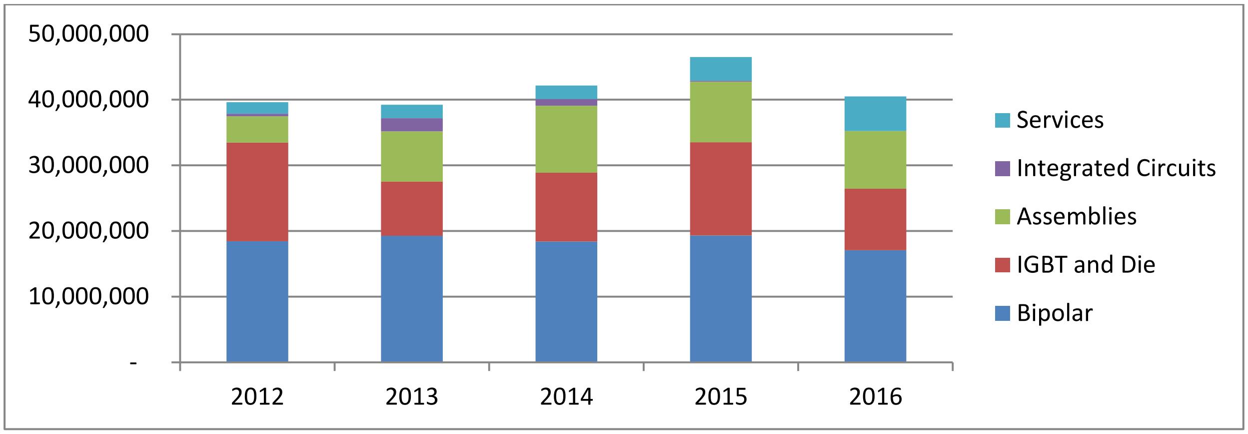
Based on utilising the Dynex IGBT and FRD chip packaging capability and the strong competence and intellectual property in converter technology of CRRC Times Electric, we successfully developed an electric vehicle motor controller integrated power unit, which demonstrates a number of benefits for the automotive industry. The design and process for electric vehicle IGBT modules has been developed: module samples have been made, applying an innovative double side cooling, and they have been integrated into automotive power assemblies, demonstrating significant benefits: small, lightweight, flexible to install with high integration and extreme high power density. The dedicated test laboratory is now in full use.

In 2017, the R&D Centre will focus on releasing products to market. The key products being 4.5/6.5kV IGBT modules; new generation 3.3kV modules with updated design and manufacturing processes and 4.5kV Presspack. Our next generation technology for Presspack will make Dynex a market leader rather than follower. We will continue to work with UK University research groups, European supply chains, and customers.

The Electric Vehicle Group will continue to expand in line with its targets.

The R&D centre will be driven by Sales & Marketing on which products we should develop to manufacture at Dynex and by CRRC for the designs they require and future technologies we should focus on.

Revenue by product



Sales and Distribution

Revenue decreased from $46.5 million in 2015 to $40.5 million in 2016.

Demand for bipolar products in key geographic markets for traction declined compared to 2015, Indian railways, as a key example of this trend has continued its transition to IGBT from bipolar technology in traction. The expected growth in IGBT module was not achieved in 2016, which in part was due to a lower number of customer programme qualifications than expected transitioning into significant sales revenue. Power assemblies revenues declined but new customer orders were secured that are expected to contribute revenue in 2017.

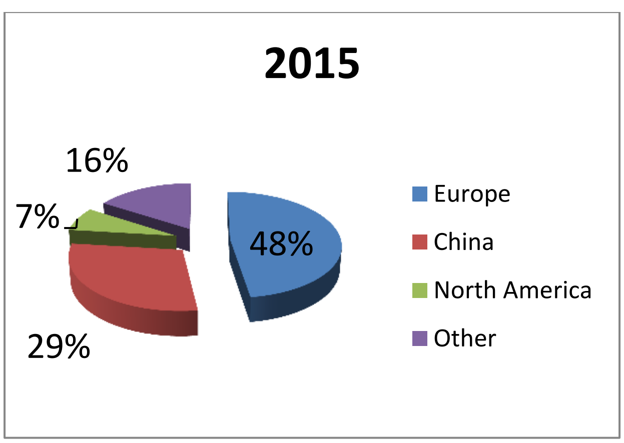
Our immediate parent company, Zhuzhou CRRC Times Electric, continued to be our major customer and accounted for 30% of total revenues.

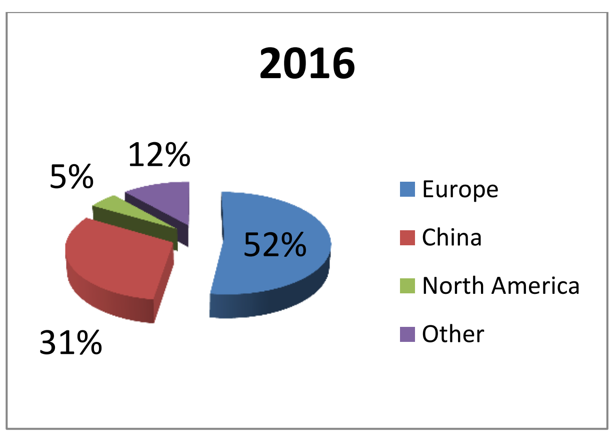
Looking forward to 2017 revenue is expected to grow in bipolar, power assembly, and IGBT module, service revenue is expected to return back to 2015 levels.

Both the structure and operational practices of the sales and marketing centre will change from the start of 2017, these changes will give a higher focus to nominated major opportunities and market sectors, the second objective of these changes is to significantly increase sales revenue via our distribution sales partners.

Key targets for 2017 are to complete new customer programme qualifications for module devices to support business growth, continue to develop further our customer satisfaction programme and to add additional key customers.

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, 2016.

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. In 2016 CSR Times Electric changed its name to Zhuzhou CRRC Times Electric Co., Ltd ("CRRC Times Electric"). CRRC Times Electric is established in the People's Republic of China and is quoted on The Hong Kong Stock Exchange. CRRC Times Electric is itself majority owned by CRRC Corporation Limited which is therefore the Company's ultimate parent company. CRRC Corporation is established in the People's Republic of China

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 within the Semiconductor Business Unit of CRRC Times Electric, is to be recognised as one of the world's leading manufacturers of high power semiconductors.

The Group also provides advice and assistance, primarily to CRRC 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, 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 Assemblies small numbers of large contracts drive revenues. 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 2016	C$1.6652
Average rate October to December 2015	C$2.0296
Average rate January to December 2016	C$1.7815
Average rate January to December 2015	C$1.9483
Rate at December 31st, 2016	C$1.6490
Rate at December 31st, 2015	C$2.0599

As illustrated, the Canadian Dollar rate against Sterling for the fourth quarter of 2016 was approximately 18% stronger than the rate in the corresponding quarter of 2015 and the average rate for the whole of 2016 was approximately 9% stronger than the rate in 2015. Consequently, exchange rate movements had a significant impact on the reported revenue or expenditure for the fourth quarter and the year.

The Canadian Dollar was approximately 25% stronger against Sterling at December 31st, 2016 compared to the rate at December 31st, 2015. Consequently, exchange rate movements had a significant impact on the value of assets and liabilities at the end of 2016 compared to balances at the end of 2015.

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 decline in revenue of $2.7 million or 21% over the figure for the corresponding quarter of the preceding year and a loss of $3.0 million compared to a profit of $2.9 million in the corresponding quarter of the previous year. The decline in revenue was primarily caused by the strengthening of the Canadian Dollar against Sterling. The loss reflected the inventory write-off, loss of sales and restructuring costs referred to in the press release dated February 2, 2017.

Revenue for the year was $40.5 million, 13% lower than in the preceding year. The decline in revenue was primarily caused by the strengthening of the Canadian Dollar against Sterling. Gross profit was equivalent to 5.2% of revenue in the year, compared to a gross profit equivalent to 10.1% in the preceding year. A net loss for the year of $4.9 million was reported compared to a net profit in the preceding year of $166,000. The loss reflected the inventory write-off, loss of sales and restructuring costs referred to in the press release dated February 2, 2017.

The Company's booking to billings ratio for the year was 1.02 which is higher than it was in the previous year.

Revenue

Revenue for the fourth quarter of 2016 was $10.0 million, $2.7 million or 21% lower than in the corresponding quarter of last year. Nearly all of the decrease was a result of the movement in exchange rates. In Sterling terms revenue had only fallen by 4%.

For the year, revenue of $40.5 million was $6.0 million or 13% lower than in the preceding year. The decrease was mainly as a result of the strengthening of the Canadian Dollar against Sterling. In Sterling terms revenue had only fallen by 5%.

For the year, in Sterling terms there was a significant increase in revenue from services and a small increase in revenue from power assemblies but these increases were more than offset by the reduction in bipolar and IGBT revenues.

Gross Margin

The Group reported a gross loss of $1.1 million in the fourth quarter. In the corresponding quarter of last year, a gross profit of $4.4 million had been reported. The gross margin is significantly below the level that management would normally expect and reflected the inventory write-off and the sales that had been expected to take place in the fourth quarter but which did not get shipped before the year-end both as set out in the press release dated February 2nd 2017.

For the year, a gross profit of $2.1 million was reported, equivalent to 5.2% of revenue. A gross profit of $4.7 million had been reported in 2015, equivalent to 10.0% of revenue. The gross profit in 2016 is below the range of gross profit that management normally expects and reflects the items referred to above that affected the fourth quarter figure.

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 15.6% of revenue in the fourth quarter of 2016 compared to 6.4% in the corresponding quarter of last year. The level reported in the fourth quarter of 2015 was exceptionally low and was not expected to be maintained. The figure reported in fourth quarter of 2016 includes approximately $420,000 relating to restructuring costs.

For the year such expenses were 14.4% compared to 9.5% in the previous year. Management targets a level of 10% or lower.

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.

In the fourth quarter of the year, the Group recorded a net cost of $684,000 for research and development activities compared to a net surplus in the corresponding quarter of last year of $213,000.

For the year, the net cost of research and development was $1.7 million compared to a net surplus of $313,000 in the preceding year. In 2015, management had been particularly successful in obtaining grants and support from CRRC Times Electric, the EU and UK Government to support the work being carried out.

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 28.6% of revenue in the year compared to 21.3% 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 $175,000 in the fourth quarter of 2016, $70,000 or 29% lower than in the corresponding quarter of last year. The decrease reflects in part the strengthening of the Canadian against Sterling. In Sterling terms the cost had only fallen by 13%. This fall reflects a lower level of borrowing during the quarter.

Finance costs were $730,000 for the year, $47,000 or 6% lower than in the preceding year. The decrease is more than accounted for by the strengthening of the Canadian Dollar. In Sterling terms, finance costs had risen by 16.0% reflecting a lower level of borrowing in the earlier part of 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/Loss before Tax

The Group recorded a loss before tax of $3.7 million in the fourth quarter of 2016 compared to a profit before tax of $3.6 million in the corresponding quarter of the preceding year. Without the inventory write-off, loss of sales and restructuring costs referred to above, a profit before tax of approximately $600,000 would have been reported in the quarter.

For the year, there was a loss before tax of $6.0 million. In the preceding year a profit before tax of $270,000 had been reported. Without the inventory write-off, loss of sales and restructuring costs referred to above, a loss before tax of approximately $1.7 million would have been reported in 2016.

Tax Expense/Recovery

The Company had a tax recovery of $713,000 in the fourth quarter, equivalent to 19% of the profit before tax. The Company had a tax charge of $681,000, equivalent to 19% of the profit in the corresponding quarter of the preceding year.

For the year, a tax recovery of $1.0 million, equivalent to 17% of the loss before tax, was recorded compared to a tax charge of $104,000, equivalent to 39% of the profit before tax in the preceding year.

Net Profit/Loss

The Group reported a net loss of $3.0 million in the fourth quarter of 2016 compared to a net profit of $2.9 million in the corresponding quarter of last year. Without the inventory write-off, loss of sales and restructuring costs referred to above, a net profit for the fourth quarter of approximately $500,000 would have been reported.

For the year, the Group reported a net loss of $4.9 million compared to a net profit of $166,000 in the preceding year. Without the inventory write-off, loss of sales and restructuring costs referred to above, a net loss of approximately $1.4 million would have been reported.

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.

Non-Current Assets

Net non-current assets decreased from $45.1 million at the end of 2015 to stand at $34.2 million at the end of 2016. The decrease was almost entirely as a result of the strengthening of the Canadian Dollar against Sterling. In Sterling terms there had been a small reduction in net non-current assets.

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 2016, working capital stood at $12.7 million compared to $16.3 million at the end of 2015. The reduction in working capital was almost entirely as a result of the strengthening of the Canadian Dollar against Sterling. In Sterling terms, there had been a slight reduction in working capital.

Net Debt

At the end of 2016, the Group had net debt (borrowings less cash) of $20.6 million. At the end of 2015, it had net debt of $22.9 million. The reduction in borrowings was more than accounted for by the strengthening of the Canadian Dollar against Sterling. In Sterling terms, net debt had increased in order to finance the net loss incurred during the year.

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

Equity

Equity decreased by $12.2 million since the end of the preceding year. Two thirds of this decrease is a result of the strengthening of the Canadian Dollar against Sterling. One third of the decrease is a result of the retained loss for the year.

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 2016, the Group had a gearing ratio of 78.4%. At the end of the preceding year, the Group had a gearing ratio of 59.5%. Management does not regard this level of gearing as excessive although in the medium to long term management intends to reduce it.

Borrowing Facilities

Prior to 2014, the Group sought to have committed facilities sufficient to meet its expected financing needs for the next two years. However, the Group now uses uncommitted facilities which are cheaper and more flexible than committed facilities. The facilities are guaranteed by CRRC Times Electric and CRRC Times Electric has also supplied management with a letter of support. Management believes these facilities are unlikely to be withdrawn by the bank providing them in view of the bank's relationship with CRRC Times Electric. The Group had cash balances of $899,000 at the year end.

Cash Flow

There was an inflow of $74,000 from operating activities in the year. Depreciation of property plant and equipment and amortisation of intangibles totalled $5.1 million and finance costs and inventory provisions, both of which are non-cash items, totalled $731,000 and $440,000 respectively. These amounts more than offset the loss before tax.

The investment in intangible assets and property, plant and equipment of $1.8 million and interest paid of $704,000 resulted in an increase in debt of $2.2 million and decreased cash balances of $423,000.

Commitments

The Group has capital commitments at the year-end of $2.1 million for intangible assets, 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

	2016 Q4	2016 Q3	2016 Q2	2016 Q1	2015 Q4	2015 Q3	2015 Q2	2015 Q1	2016 FY	2015 FY	2014 FY
Revenue	10,045	11,079	9,123	10,273	12,718	12,254	11,994	9,546	40,519	46,512	42,166
Gross profit/(loss)	(1,052)	2,071	(117)	1,188	4,369	1,081	756	(1,523)	2,090	4,683	(441)
Gross profit %	(10.5%)	18.7%	(1.3%)	11.6%	34.4%	8.8%	6.3%	(16.0%)	5.2%	10.1%	(1.0%)
Gross R&D %	33.2%	26.9%	29.9%	24.8%	26.0%	22.1%	16.0%	20.4%	28.6%	21.3%	15.2%
Profit/(loss) before tax	(3,678)	352	(2,099)	(526)	3,564	603	(520)	(3,378)	(5,951)	270	(6,518)
Net profit/(loss)	(2,965)	236	(1,729)	(461)	2,884	483	(419)	(2,781)	(4,919)	166	(5,548)
Earnings per Share											
Basic	(0.04)	0.00	(0.02)	(0.01)	0.04	0.01	(0.01)	(0.03)	(0.06)	0.00	(0.07)
Diluted	(0.04)	0.00	(0.02)	(0.01)	0.04	0.01	(0.01)	(0.03)	(0.06)	0.00	(0.07)
Non-current assets	34,218	35,274	36,837	39,911	45,100	45,410	43,804	41,942	34,218	45,100	41,078
Working capital	12,714	15,560	14,322	15,830	16,325	12,988	6,734	8,156	12,714	16,325	7,565
Net debt	20,623	20,692	20,624	21,285	22,918	25,065	19,108	19,689	20,623	22,918	16,260
Equity	26,309	30,142	30,535	34,456	38,507	33,333	31,430	30,409	26,309	38,507	32,383
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 2015 and 2016 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 2014, 2015 and 2016 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 non-current assets 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 is defined as borrowings less cash. The amounts shown for equity are as disclosed in the financial statements.

Annual revenue grew by approximately 10% between 2014 and 2015 and declined by 13% between 2015 and 2016. In the first cases the change was a result of a weakening of the Canadian Dollar and in the second case was a result of the strengthening of the Canadian Dollar. In Sterling terms, revenue has been stable. Fluctuations in quarterly revenue have also been heavily affected by exchange rate movements. In Sterling terms, revenue was low in the first quarter of 2015 and the first and second quarter of 2016 but was reasonable stable in all other quarters.

The gross loss in 2014 reflected a major contract cancellation. The gross profit percentage recovered significantly in 2015 but was still below the level targeted by management. The gross loss in 2016 reflected an inventory write-off, loss of sales and restructuring costs. Gross profit declined in the first quarter of 2015 as a result of the very poor revenue figure for the quarter but then improved by quarter throughout the year. It fell back in the first quarter of 2016 as revenue declined and then fell negative in the second quarter as revenue fell further. Gross profit recovered with the improvement in revenue in the third quarter but fell negative in the fourth quarter as a result of an inventory write-off, loss of sales and restructuring costs.

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 annual figures.

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.

Non-current assets have declined slightly throughout the period as management has been cautious about investment until the business shows better results. However, the figures reflect the weakening of the

Canadian Dollar throughout 2015 and its strengthening throughout 2016.

Working capital levels were unusually low at the end of the fourth quarter of 2014 and the first two quarters of 2015 as a result of accounting for a contract cancellation that took place at the end of 2014. Working capital levels increased in 2015 and then declined in 2016. These figures were affected by changes in the exchange rate between the Canadian Dollar and Sterling

Net debt increased significantly over the period. The increase primarily reflects the losses being made.

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 CRRC Times Electric in October 2008 made the Group part of a larger group of companies. 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. The purchase of a 75% stake in the Company by CRRC Times Electric in October 2008 gives the Group improved access to the Chinese market. 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 CRRC 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 CRRC 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 CRRC Times Electric equipment and that may materially reduce the future demand for IGBT modules. The Group is working closely with CRRC Times Electric, has set up several joint teams and is increasing its R&D expenditure to ensure that its products are able to meet CRRC 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 CRRC Times Electric in October 2008 has given the Group a much closer relationship with this entity which has become one of the Group's major customers. 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.

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 System under ISO 50001 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 does not use financial instruments or other instruments as part of its risk management strategy.

Critical Accounting Judgements and Estimates

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

Going Concern

The Group's management has judged that the accounts should be prepared on a going concern basis. In reaching this conclusion, management looked at the preliminary results for the first quarter of 2017, which show the business has returned to profitability, and the budgets for 2017 and 2018, which show the business remains profitable. Management also considered the financing available to the Group and a letter of support received from CRRC Times Electric and concluded that the funds necessary to finance the business for the next twelve months would remain available.

Impairment review

In view of the recent results of the Group, management has carried out a detailed review in order to assess whether any impairment of assets has taken place. As part of that review, management has prepared a five year plan for the business. The plan incorporates the budget for 2017 as the first year of the plan.

The review has considered asset impairment for each of the three cash generating units: semiconductor devices, assemblies and distribution of CRRC Times Electric products.

For semiconductor devices, which accounts for approximately 90% of the Group's non-current assets and working capital, revenue growth of 1% has been forecast for the budget year. For the remaining four years of the plan, compound revenue growth of 14% has been forecast. This forecast incorporates sales of three new products that will be launched during 2017. The forecast is based on known projects expected to be undertaken by known customers and the percentage of such business expected to be available to the Group.

For power assemblies, which accounts for approximately 9% of the Group's non-current assets and working capital, revenue growth of 34% has been forecast for the budget year. This is based on known projects the Group expects to undertake in 2017. For the remaining four years of the plan, compound revenue growth of 17% has been forecast. This forecast reflects the success of the unit in generating new For distribution of CRRC Times Electric products, which accounts for approximately 1% of the Group's non-current assets and working capital, revenue growth of 32% has been forecast in 2017 and a compound revenue growth rate of 31% in the following four years. This is significantly lower than the compound growth rate achieved over the last five years.

A terminal growth rate of 3.5% has been assumed for all three units. This is in line with the forecast growth of the markets in which Dynex competes over the next 5 years which is the longest term forecast available to the Group.

The manufacture of semiconductor devices is a high fixed cost business with a relatively low marginal cost of manufacture. As a result, the gross margins earned in the manufacture of semiconductor devices are forecast to increase substantially as the volume of sales increases. The gross margins earned in power assemblies are forecast to remain at the same level as currently enjoyed. The distribution of CRRC Times Electric product is a low margin business and this is forecast to continue.

Overhead expenses are assumed to fall in 2017 in line with the Group's budget. Completion of a major new business system implementation and a recent redundancy exercise underpin this reduction. Overhead expenses are assumed to rise at approximately 5% in the following four years.

Working capital is forecast to drop in 2017. This is principally a result of extended credit terms from suppliers and tighter control of inventory. New teams have been put in place to achieve these improvements. Working capital is forecast to grow in the remaining four years of the plan but at a lower rate than the growth in revenue.

Management has assumed a weighted average cost of capital of 12% and this has been used as the discount rate in the impairment review.

Management has reviewed the value of assets based on this five year plan and a 12% discount rate and has concluded that no impairment of assets had taken place at the year end.

Management has also reviewed the sensitivity of that conclusion to changes in assumptions. For power assemblies and the distribution of CRRC Times Electric products, whilst reductions in the growth forecast in the five year plan would naturally reduce the gross profit in these units, even if the Group were only to achieve half the growth rate assumed in the five year plan, no impairment of assets would take place.. For semiconductor devices, because of the high fixed cost nature of the business, a reduction in forecast growth rate in the four years beyond the budget year from 14% to 12% could result in an impairment taking place. Management will, therefore, reassess their conclusion should there be an indication that the forecast growth will not be achieved. A reduction in the terminal growth rate alone to 2% would not affect the outcome of the impairment review. An increase in the discount rate to 15% alone would not affect the outcome of the impairment review.
business in the recent past and the increased focus now being placed on this activity by the Group.

Anticipated useful lives of non-current assets

Management determines the estimated useful lives of its non-current assets based on historical experience of the actual lives of non-current assets of similar nature and functions and reviews these estimates at the end of each reporting period. At December 31st 2016 the carrying amount of non-current assets was $34.2 million.

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, 2016 the provision against inventories was $10.3 million and the net carrying amount of inventories was $11.9 million.

Impairment of trade receivables

Management determines the estimated recoverability of trade receivables based on the evaluation and ageing of trade receivables, including the current creditworthiness and the past collection history of each customer and reviews these estimates at the end of each reporting period. At December 31st, 2016 the provision was $167,000 and the net carrying amount of trade receivables was $4.0 million.

Recognition of Deferred Tax Asset

In recognising the deferred tax asset, management reviewed the five year plan for 2017 to 2021, which incorporates the budget for 2017. The plan showed a return to sustained profitability sufficient to utilise fully the deferred tax asset.

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, 2016 the carrying value of provisions was $643,000.

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, 2016, 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 $1.5 million in grants during the year from the European Union and the UK Government to assist in its research and development activities.

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

The Group buys from and sells to related parties materials and manufactured products. Where the Group or the related party is the ultimate customer for these goods, they are sold at arm's length prices. If the Group or related party is acting as a distributor, the goods are sold at the price to the end customer less a discount to reimburse the distributor for the work they will be carrying out.

During the fourth quarter of 2016, the Group sold $1.8 million of goods and $1.9 million of services to CRRC Times Electric, received a contribution towards research and development of $1.9 million and purchased materials and components from them for $511,000. The Group also sold $683,000 of goods to a fellow subsidiary of CRRC Times Electric, paid $338,000 in interest on a loan from another fellow subsidiary of CRRC Times Electric and provided $307,000 of services to a parent company of CRRC Times Electric. The Group also incurred $138,000 of expenses on behalf of CRRC Times Electric, which expenses were reimbursed to the Group.

During the year, the Group sold $7.0 million of goods and $4.9 million of services to CRRC Times Electric, received a contribution towards research and development of $8.4 million and purchased materials and components from them for $2.6 million. The Group also paid $138,000 of expenses on behalf of CRRC Times Electric, which were subsequently reimbursed by them. The Group also sold $1.7 million of goods to a fellow subsidiary of CRRC Times Electric, paid $391,000 in interest on loans from another fellow subsidiary of CRRC Times Electric, purchased materials and components from an affiliate of CRRC Times Electric and provided $307,000 of services to a parent company of CRRC Times Electric.

At December 31st, 2016 the Group was owed $3.0 million for goods and services sold to CRRC Times Electric and owed them $1.6 million for materials and components purchased from them. The Group was also owed $606,000 by a fellow subsidiary which is reported under trade receivables.

At the end of the year, the Group had a loan of $8.9 million from a fellow subsidiary of CRRC Times Electric.

The Group paid $1.3 million in compensation during the year to its key management personnel. This had all been paid prior to the year end. The Group also accrued $284,000 for termination benefits which amount had not been paid at the year end. The Group also paid $20,000 to its non-executive directors. The Group purchased services from a law firm in Canada during the quarter for $15,000 and during the year for $58,000. At December 31st, 2016, $38,000 was outstanding to this law firm. One of the Company's directors is a partner in this firm.

Outlook

Revenue from bipolar discrete products declined slightly in the fourth quarter of 2016. It is forecast to rise significantly in the first quarter of 2017. Overall, revenue for bipolar discrete devices is forecast to be higher in 2017 than it was in 2016.

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 CRRC Times Electric applications. However, this work has taken longer than expected.

Revenue from IGBT modules and die rose slightly in the fourth quarter of 2016. Revenue from IGBT modules and die is forecast to decline slightly in the first quarter of 2017 but to be substantially higher in 2017 than it was in 2016.

Revenue from power assemblies declined significantly in the fourth quarter of 2016. It is expected to increase substantially in the first quarter of 2017. It is expected to be significantly higher in 2017compared to 2016.

Earnings from supplying advice and assistance to CRRC Times Electric remained steady in the fourth quarter of 2016. It is expected to decline in the first quarter of 2017 and to be significantly lower in 2017 than it was in 2016.

At the end of December 2016, the order book stood at $14.0 million, approximately $1.2 million or 8% lower than at the end of 2015. The whole of this decline was caused by the strengthening of the Canadian Dollar. In Sterling terms, the order book had been slightly higher at the end of 2016 than it was at the end of 2015.

Revenue in the fourth quarter of 2016 was $10.0 million. This was lower than the level in the third quarter of 2016. Quarterly revenue is expected to be significantly higher than this in the first and second quarter of 2017. The outlook for the third and fourth quarters is currently less certain but management is budgeting for higher revenue in 2017 than that reported in 2016.

The Group reported a quarterly loss after tax in the fourth quarter of 2016 of $3.0 million and for the year of $4.9 million. Management expects to return to profit in the first quarter of 2017 and to remain profitable throughout the year.

The Group's management has judged that the accounts should be prepared on a going concern basis. In reaching this conclusion, management looked at the preliminary results for the first quarter of 2017, which show the business has returned to profitability, and the budgets for 2017 and 2018, which show the business remains profitable. Management also considered the financing available to the Group and a letter of support received from CRRC Times Electric and concluded that the funds necessary to finance the business for the next twelve months would remain available.

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
May 1st, 2017

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.

Clive Vacher President & Chief Executive Officer	Bob Lockwood Vice President & Chief Financial Officer
May 1st, 2017	May 1st, 2017

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 is 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. 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, 2016.

Clive Vacher President & Chief Executive Officer	Bob Lockwood Vice President & Chief Financial Officer
May 1st, 2017	May 1st, 2017

Independent Auditor's Report

To the Shareholders of
Dynex Power Inc.

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Dynex Power Inc., which comprise the consolidated statements of financial position as at December 31, 2016 and 2015, and the consolidated statements of profit (loss) and other 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 audit 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, 2016 and 2015, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Deloitte LLP

Chartered Professional Accountants

May 1st, 2017

Birmingham, United Kingdom.

DYNEX POWER INC.
Consolidated Statement of Profit (Loss) and Other Comprehensive Income in Canadian Dollars
Year Ended December 31st, 2016

	Note	2016	2015
		$	$
Revenue	6,7	**40,519,413**	46,512,345
Cost of Sales		**(38,429,715)**	(41,829,244)
Gross Profit		**2,089,698**	4,683,101
Other income	7	**47,288**	81,043
Sales and marketing expenses		**(1,429,127)**	(1,169,003)
Administration expenses		**(4,409,051)**	(3,270,465)
Research and development (expenses)/surplus	10	**(1,733,689)**	313,235
Finance costs	8	**(730,669)**	(776,920)
Other gains and (losses)	9	**214,933**	408,747
(Loss)/Profit before Tax	10	**(5,950,617)**	269,738
Income tax recovery/(expense)	11	**1,031,493**	(103,574)
Net (Loss)/ Profit		**(4,919,124)**	166,164
Other Comprehensive (Loss)/ Income			
Items that may be reclassified subsequently to net profit/loss			
Exchange differences on translation of foreign operations (net of tax of $nil)		**(7,278,651)**	4,316,103
Total Comprehensive (Loss)/ Income for the Year		**(12,197,775)**	4,482,267
(Loss)/Profit per Share			
Basic	12	**(0.06)**	0.00
Diluted	12	**(0.06)**	0.00

All results are derived from continuing operations.

These financial statements should be read in conjunction with the notes set out on pages 26 to 58.

DYNEX POWER INC.
Consolidated Statement of Financial Position in Canadian Dollars
As at December 31st, 2016

	Note	2016	2015
		$	$
NON-CURRENT ASSETS			
Intangible assets	13	**1,524,346**	**1,594,142**
Property, plant and equipment	14	**31,565,940**	**43,447,376**
Deferred tax asset	22	**1,127,322**	**57,838**
Total non-current assets		**34,217,608**	**45,099,356**
CURRENT ASSETS			
Inventories	15	**11,854,067**	**15,215,237**
Trade receivables	16	**4,035,481**	**6,334,417**
Amounts owing from parent company	29	**3,573,709**	**5,445,377**
Prepayments, deposits and other receivables	17	**2,297,786**	**1,236,102**
Tax recoverable		**682**	**3,382**
Cash		**898,855**	**1,410,547**
Total current assets		**22,660,580**	**29,645,062**
CURRENT LIABILITIES			
Trade payables		**3,010,756**	**2,371,233**
Amounts owing to parent company	29	**2,103,917**	**760,062**
Other payables and accruals	18	**3,290,095**	**8,695,638**
Borrowings	19	**16,380,290**	**15,423,684**
Provisions	21	**456,773**	**20,599**
Total current liabilities		**25,241,831**	**27,271,216**

DYNEX POWER INC.
Consolidated Statement of Financial Position in Canadian Dollars (continued)
As at December 31st, 2016

	Note	**2016** $	2015 $
NON-CURRENT LIABILITIES			
Borrowings	19	**5,141,190**	8,904,800
Provisions	21	**186,337**	61,797
Total non-current liabilities		**5,327,527**	8,966,597
NET ASSETS		**26,308,830**	38,506,605
EQUITY			
Share capital	23	**37,096,192**	37,096,192
Accumulated deficit		**(10,528,225)**	(5,609,101)
Foreign currency translation reserve		**(259,137)**	7,019,514
TOTAL EQUITY		**26,308,830**	38,506,605

These financial statements should be read in conjunction with the notes set out on pages 26 to 58.

Liu Ke'an
Chairman
May 1st, 2017

Clive Vacher
Director
May 1st, 2017

DYNEX POWER INC.
Consolidated Statement of Changes in Equity in Canadian Dollars
Year Ended December 31st, 2016

	Share Capital	Retained Profit/ (Deficit)	Foreign Currency Translation Reserve	Total Equity
	$	$	$	$
At January 1st, 2015	37,096,192	(7,416,640)	2,703,411	32,382,963
Total comprehensive income for the year	-	166,164	4,316,103	4,482,267
Capital contribution	-	1,641,375	-	1,641,375
At December 31st, 2015	37,096,192	(5,609,101)	7,019,514	38,506,605
Total comprehensive loss for the year	-	(4,919,124)	(7,278,651)	(12,197,775)
At December 31st, 2016	**37,096,192**	**(10,528,225)**	**(259,137)**	**26,308,830**

These financial statements should be read in conjunction with the notes set out on pages 26 to 58.

DYNEX POWER INC.
Consolidated Statement of Cash Flows in Canadian Dollars
Year Ended December 31st, 2016

	Note	**2016**	2015
		$	$
CASH FLOW FROM OPERATING ACTIVITIES			
Profit/(loss) before tax		**(5,950,617)**	269,738
Finance costs recognised in loss before tax		**730,669**	776,920
Investment income recognised in loss before tax		**(844)**	-
Amortization of intangible assets	13	**206,087**	169,288
Depreciation of property, plant and equipment	14	**4,897,300**	5,282,462
(Gain) Loss on disposal of property, plant and equipment		**(5,348)**	(3,361)
Provision for slow moving and obsolete inventory		**1,841,951**	(424,680)
Movements in working capital	26	**(2,109,223)**	(6,742,646)
Income taxes (paid)/received		**(110,675)**	(102,545)
Net cash generated/(used) by operating activities		**(500,700)**	(774,824)
CASH FLOW FROM INVESTING ACTIVITIES			
Payments for intangible assets		**(437,513)**	(443,438)
Payments for property, plant & equipment		**(1,385,381)**	(3,558,443)
Interest received		**844**	-
Proceeds from the sale of fixed assets		**6,656**	5,167
Net cash used in investing activities		**(1,815,394)**	(3,996,714)
CASH FLOW FROM FINANCING ACTIVITIES			
Capital contribution		**-**	1,641,375
Proceeds from borrowings		**2,821,288**	38,484,089
Repayments of borrowings		**(603,728)**	(33,352,566)
Interest paid		**(324,668)**	(866,577)
Net cash generated/(used) by financing activities		**1,892,892**	5,906,321
NET (DECREASE)/INCREASE IN CASH		**(423,202)**	1,134,783
Cash at beginning of year		**1,410,547**	894,609
Effect of foreign currency translation on cash		**(88,490)**	(618,845)
CASH AT END OF YEAR		**898,855**	1,410,547

All operating cash flows derive from continuing operations.

These financial statements should be read in conjunction with the notes set out on pages 26 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 CRRC Times Electric Co. Ltd ("CRRC Times Electric") and the ultimate parent company of the Group is CRRC Corporation Limited ("CRRC 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"). The accounting policies of the Group are based on the IFRS applicable as at December 31st, 2016 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. CHANGES IN ACCOUNTING POLICIES

No new accounting pronouncements were applicable during the year.

The Group has not implemented the following new and revised accounting pronouncements that have been issued but are not yet effective. The Group has reviewed these pronouncements and determined that the following may have an impact on the Group.

IFRS 9: Financial Instruments

IFRS 9 was issued by the International Accounting Standards Board ("IASB") in November 2009 and October 2010 and will replace IAS 39. IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. Two measurement categories continue to exist to account for financial liabilities in IFRS 9, fair value through profit or loss ("FVTPL") and amortized cost. Financial liabilities held-for-trading are measured at FVTPL, and all other financial liabilities are measured at amortized cost unless the fair value option is applied. The treatment of embedded derivatives under the new standard is consistent with IAS 39 and is applied to financial liabilities and non-derivative costs not within the scope of the standard. This IFRS, which is to be applied retrospectively, is effective for annual periods beginning on or after January 1, 2018, with earlier adoption permitted. The Group is in the process of assessing the impact of this standard on its financial statements.
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IFRS 15: Revenue from Contracts with Customers

Issued in May 2014, IFRS 15 establishes principles that an entity shall apply to report useful information to users of financial statements about the nature, amount, timing, and uncertainty of revenue and cash flows arising from a contract with a customer. The main principle of this standard is that an entity shall recognize revenue to depict the transfer of promised services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those services. Application of IFRS 15 is currently mandatory for annual periods beginning on or after January 1, 2018, and is to be applied retrospectively. Early adoption is permitted. The Group is in the process of assessing the impact of this standard on its financial statements.

IFRS 16: Leases

IFRS 16 which supersedes IAS 17, provides a model for the identification of lease arrangements and their treatment in the financial statements of both lessees and lessors. This new standard is effective on January 1, 2019. The Group is in the process of assessing the impact of this standard on its financial statements.

Amendments to IAS 7: Statement of Cash Flows and IAS 12: Recognition of Deferred Tax Assets

Amendments to these statements are effective on January 1, 2017. The Group is in the process of assessing the impact of these amendments on its 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.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 the Company and its subsidiary 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 the statement of profit (loss). 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 foreign currency translation 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 at the contractual rates as labour hours are delivered and direct expenses are incurred.

Research and development costs

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

Government grants

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

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

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

Intangible Assets

Intangible assets comprise business systems and simulation software and are recorded at cost less accumulated amortization and accumulated impairment losses.

Amortization 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.

Amortization is calculated using the straight-line method over the anticipated useful lives of the assets. The estimated useful life of intangible assets is 3- 6 years.

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.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment (continued)

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	8-12 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 intangible assets and 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 at 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. Purchase price and other variances are expensed as they arise.

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

Cash

Cash comprises cash on hand and demand deposits.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments

Trade receivables, amounts owing from parent company, other receivables 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, other receivables and cash are measured at fair value. As these assets are all short-term with no stated interest rate they are valued at the original invoice amounts or the original amount deposited at the bank less payments received 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 the statement of profit (loss) to administration expenses.

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 less amounts paid. 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 proceeds received less payments made. Any gains or losses are credited in the statement of profit (loss) 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.

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.

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 intangible assets or 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.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Leases (continued)

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. In reaching this conclusion, management looked at the preliminary results for the first quarter of 2017, which show the business has returned to profitability, and the budgets for 2017 and 2018, which show the business remains profitable. Management also considered the financing available to the Group and a letter of support received from CRRC Times Electric and concluded that the funds necessary to finance the business for the next twelve months would remain available.

Cash-generating units

For the purposes of impairment reviews, the Group's management has judged that the business has three cash-generating units: semiconductor devices, power assemblies and sale of CRRC Times Electric products.

5. CRITICAL ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Key Judgements (continued)

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 intangible assets and property, plant and equipment

The Group's management determines the estimated useful lives of its intangible assets and property, plant and equipment based on historical experience of the actual lives of intangible assets and 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, 2016 the carrying amount of intangible assets and property, plant and equipment was $33,090,286 (2015 - $45,041,518).

Impairment reviews

In view of the recent results of the Group, management has carried out a detailed review in order to assess whether any impairment of assets has taken place. As part of that review, management has prepared a five year plan for the business. The plan incorporates the budget for 2017 as the first year of the plan.

The review has considered asset impairment for each of the three cash generating units: semiconductor devices, assemblies and distribution of CRRC Times Electric products.

For semiconductor devices, which accounts for approximately 90% of the Group's non-current assets and working capital, revenue growth of 1% has been forecast for the budget year. For the remaining four years of the plan, compound revenue growth of 14% has been forecast. This forecast incorporates sales of three new products that will be launched during 2017. The forecast is based on known projects expected to be undertaken by known customers and the percentage of such business expected to be available to the Group.

For power assemblies, which accounts for approximately 9% of the Group's non-current assets and working capital, revenue growth of 34% has been forecast for the budget year. This is based on known projects the Group expects to undertake in 2017. For the remaining four years of the plan, compound revenue growth of 17% has been forecast. This forecast reflects the success of the unit in generating new business in the recent past and the increased focus now being placed on this activity by the Group.

5. CRITICAL ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Estimation uncertainty (continued)

For distribution of CRRC Times Electric products, which accounts for approximately 1% of the Group's non-current assets and working capital, revenue growth of 32% has been forecast in 2017 and a compound revenue growth rate of 31% in the following four years. This is significantly lower than the compound growth rate achieved over the last five years.

A terminal growth rate of 3.5% has been assumed for all three units. This is in line with the forecast growth of the markets in which Dynex competes over the next 5 years which is the longest term forecast available to the Group.

The manufacture of semiconductor devices is a high fixed cost business with a relatively low marginal cost of manufacture. As a result, the gross margins earned in the manufacture of semiconductor devices are forecast to increase substantially as the volume of sales increases. The gross margins earned in power assemblies are forecast to remain at the same level as currently enjoyed. The distribution of CRRC Times Electric product is a low margin business and this is forecast to continue.

Overhead expenses are assumed to fall in 2017 in line with the Group's budget. Completion of a major new business system implementation and a recent redundancy exercise underpin this reduction. Overhead expenses are assumed to rise at approximately 5% in the following four years.

Working capital is forecast to drop in 2017. This is principally a result of extended credit terms from suppliers and tighter control of inventory. New teams have been put in place to achieve these improvements. Working capital is forecast to grow in the remaining four years of the plan but at a lower rate than the growth in revenue.

Management has assumed a weighted average cost of capital of 12% and this has been used as the discount rate in the impairment review.

Management has reviewed the value of assets based on this five year plan and a 12% discount rate and has concluded that no impairment of assets had taken place at the year end.

Management has also reviewed the sensitivity of that conclusion to changes in assumptions. For power assemblies and the distribution of CRRC Times Electric products, whilst reductions in the growth forecast in the five year plan would naturally reduce the gross profit in these units, even if the Group were only to achieve half the growth rate assumed in the five year plan, no impairment of assets would take place.. For semiconductor devices, because of the high fixed cost nature of the business, a reduction in forecast growth rate in the four years beyond the budget year from 14% to 12% could result in an impairment taking place. Management will, therefore, reassess their conclusion should there be an indication that the forecast growth will not be achieved. A reduction in the terminal growth rate alone to 2% would not affect the outcome of the impairment review. An increase in the discount rate to 15% alone would not affect the outcome of the impairment review.

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, 2016 the carrying amount of inventories was \$11,854,067 (2015 - \$15,215,237) and the provision for slow-moving and obsolete items of inventory was \$10,340,257 (2015 - \$10,698,325).

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, 2016 the carrying amount of trade receivables was $4,035,481 (2015 - $6,334,417) and the provision for impairment of trade receivables was $167,041 (2015 - $216,428).

Recognition of Deferred Tax Asset

In recognising the deferred tax asset, management reviewed the five year plan for 2017 to 2021, which incorporates the budget for 2017. The plan showed a return to sustained profitability sufficient to utilise fully the deferred tax asset.

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, 2016 the carrying value of provisions was $643,110 (2015 - $82,396).

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.

	2016	2015
	$	$
Canada	**293,927**	265,980
China	**12,508,582**	13,610,860
United Kingdom	**8,147,054**	8,260,892
France	**5,406,554**	3,757,717
Other(None > 10%)	**14,163,296**	20,616,896
	40,519,413	46,512,345

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.

7. REVENUE AND OTHER INCOME

Major customers

For the year ended December 31st, 2016 the Group had two customers accounting for more than 10% of revenue, generating $15,400,217 (CRRC Group) and $5,055,538 respectively (2015 – two customers accounting for more than 10% of revenue, generating $20,147,004 (CRRC Group) and $5,120,553 respectively).

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:

	2016	2015
Revenue:	**$**	$
Sale of goods	**35,242,478**	42,901,628
Rendering of services	**5,276,935**	3,610,717
	40,519,413	46,512,345
Other Income:		
Sale of scrap materials	**40,197**	63,095
Bank interest income	**146**	-
Other interest income	**827**	144
Government grants	**154**	5,806
Other income	**5,964**	11,998
	47,288	81,043

8. FINANCE COSTS

An analysis of finance costs is as follows:

Interest on bank borrowings	**311,860**	260,333
Interest on other borrowings	**405,223**	418,772
Interest on finance leases	**13,586**	97,815
	730,669	776,920

Interest on other borrowings includes $389,725 (2015 - $403,163) relating to interest on loans from related parties.

9. OTHER GAINS AND LOSSES

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

	2016	2015
	$	$
Foreign exchange gain	**209,586**	405,386
Gain on disposal of property, plant and equipment	**5,347**	3,361
	214,933	408,747

10. (LOSS)/PROFIT BEFORE TAX

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

	2016	2015
	$	$
Cost of inventories sold	**33,011,153**	38,198,344
Staff costs (including director's remuneration):		
Wages and salaries	**19,107,465**	19,760,505
Other benefits	**944,376**	926,249
Lease payments for plant and machinery under operating leases	**467,305**	684,529
Foreign exchange differences (net)	**(209,588)**	(405,386)
Amortization of intangible assets charged to:		
Cost of sales	**3,228**	5,978
Research and development	**119,834**	75,934
Administration expenses	**83,025**	87,376
Depreciation of items of property, plant and equipment charged to:		
Cost of sales	**4,194,324**	4,611,853
Research and Development	**555,638**	467,339
Administration expenses	**147,338**	203,269
Research and development expenses (before government grants and contribution from CSR Times Electric)	**11,592,882**	9,866,167
Contribution from CSR Times Electric	**(8,387,838)**	(9,147,615)
Government grants:		
Research and development	**(1,471,355)**	(1,031,787)
Property plant and equipment	**(154)**	(5,806)
Provision for obsolete inventories	**1,841,951**	(424,680)

11. INCOME TAX (RECOVERY)/EXPENSE

The major components of the income tax (recovery)/expense are as follows:

	2016	2015
	$	$
Current tax expense	**104,275**	102,748
Deferred tax recovery relating to:		
Origination and reversal of temporary differences	**(1,135,768)**	826
Changes in tax rates	-	-
Total deferred tax (recovery)/expense	**(1,135,768)**	826
Total income tax (recovery)/expense	**(1,031,493)**	103,574

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

(Loss)/profit) before tax	**(5,950,617)**	**269,738**
Expected tax expense/(recovery) at Canadian Statutory rate	**(1,576,914)**	**71,481**
Factors affecting charge:		
Income not subject to tax	**(60,403)**	**(19,933)**
Expenses for which tax relief not available	**38,485**	**80,445**
Different tax rate for subsidiary operating in other jurisdiction	**338,395**	**(23,422)**
Unused tax losses and tax offsets not recognised as deferred tax assets	**197,303**	**27,830**
Impact of reduction in tax rates	-	-
(Over)/under provision at start of year	**(74,934)**	**(54,393)**
Other differences	**106,575**	**21,566**
	(1,031,493)	**103,574**

The Canadian statutory tax rate is 26.5% (2015 – 26.5%). The United Kingdom statutory tax rate is 20% (2015 – 20.25%).

12. (LOSS)/PROFIT PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS

(Loss)/Profit per share calculations are based on:

	2016	2015
	$	$
(Loss)/Profit:		
(Loss)/Profit attributable to ordinary equity holders used in both basic and diluted earnings per share calculations	**(4,919,124)**	166,164
Shares:	**Nos**	Nos
Weighted average number of ordinary shares outstanding during the period used in both the basic and diluted earnings per share calculation	**80,509,047**	80,509,047
	$	$
(Loss)/Profit Per Share (Basic and Diluted)	**0.06**	0.00

For the years ended December 31st, 2016 and 2015 there were no shares or other instruments outstanding that would have a dilutive effect on profit or loss per share.

13. INTANGIBLE ASSETS

	2016	2015
	$	$
Cost		
At Beginning of Year	**1,924,976**	1,283,713
Additions	**444,194**	445,900
Net exchange difference	**(391,688)**	195,363
At End of Year	**1,977,482**	1,924,976
Depreciation		
At Beginning of Year	**330,834**	133,333
Charge for the year	**206,087**	169,288
Net exchange difference	**(83,785)**	28,213
At End of Year	**453,136**	330,834
Carrying value at year end	**1,524,346**	**1,594,142**

Intangible assets relate to software.

The carrying value of intangible assets pledged as security is $nil (2015 - $nil)

At December 31st, 2016 the Group has commitments for the purchase of intangible assets of $210,000 (2015 - $20,000).

14. PROPERTY, PLANT AND EQUIPMENT

	Land	Buildings	Plant & Machinery	Assets under construction	Total
	$	$	$	$	$
Cost					
At January 1st, 2015	3,180,651	5,265,926	51,756,234	719,035	60,921,846
Additions	-	-	1,091,327	2,267,405	3,358,732
Reclassifications	-	66,930	1,059,565	(1,126,495)	-
Disposals	-	-	(126,069)	-	(126,069)
Net exchange difference	447,158	741,319	7,309,716	251,267	8,749,460
At December 31st, 2015	3,627,809	6,074,175	61,090,773	2,111,212	72,903,969
Additions	-	-	673,757	731,677	1,405,433
Reclassifications	-	-	1,994,768	(1,994,768)	-
Disposals	-	-	(161,689)	-	(161,689)
Net exchange difference	(723,659)	(1,211,650)	(12,196,586)	(539,450)	(14,671,345)
At December 31st, 2016	**2,904,150**	**4,862,525**	**51,401,023**	**308,671**	**59,476,368**
Depreciation					
At January 1st, 2015	-	415,735	20,622,165	-	21,037,900
Charge for the year	-	141,704	5,140,758	-	5,282,462
Eliminated on disposal	-	-	(124,262)	-	(124,262)
Net exchange difference	-	66,560	3,193,933	-	3,260,493
At December 31st, 2015	-	623,999	28,832,594	-	29,456,593
Charge for the year	-	132,569	4,764,731	-	4,897,300
Eliminated on disposal	-	-	(160,381)	-	(160,381)
Net exchange difference	-	(135,865)	(6,147,219)	-	(6,283,084)
At December 31st, 2016	**-**	**620,703**	**27,289,725**	**-**	**27,910,428**
Carrying value					
At December 31st, 2016	**2,904,150**	**4,241,822**	**24,111,298**	**308,671**	**31,565,940**
At December 31st, 2015	3,627,809	5,450,176	32,258,179	2,111,212	43,447,376

The carrying value of property, plant and equipment pledged as security is $31,565,940 (2015 - $43,447,376) (Note 19).

14. PROPERTY, PLANT AND EQUIPMENT (continued)

The net book value of plant and machinery includes $143,236 (2015 - $206,396) in respect of assets held under hire purchase agreements which are accounted for as finance leases. The depreciation charge for the year includes $24,878 (2015 - $47,835) in respect of leased assets.

At December 31st, 2016 the Group has commitments for the purchase of property, plant and equipment of $1.9 million (2015 - $1.4 million).

15. INVENTORIES

	2016	2015
	$	$
Raw materials	**3,269,670**	4,032,660
Work in progress	**6,991,323**	9,403,386
Finished goods	**1,593,074**	1,779,191
	11,854,067	15,215,237

At December 31st, 2016 no inventory was carried at net realisable value (2015 - $140,001).

At December 31st, 2016 the amount of inventory expected to be recovered after more than twelve months was $nil (2015 - $829,000).

The carrying value of inventories pledged as security is $11,854,067 (2015 - $15,215,237).

16. TRADE RECEIVABLES

	2016	2015
	$	$
Trade receivables	**4,202,522**	6,550,845
Less bad debt provision	**(167,041)**	(216,428)
	4,035,481	6,334,417

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 made a net recovery of bad debts.

The ageing of the Group's trade receivables at December 31st, 2016 and 2015, net of the provision for impairment is as follows:

	2016	2015
	$	$
Not yet overdue	**2,343,110**	5,527,795
Less than one month overdue	**1,393,637**	354,623
Between one and two months overdue	**219,264**	252,931
Greater than two months overdue	**79,470**	199,068
	4,035,481	6,334,417

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:

	2016	2015
	$	$
At January 1st	**216,428**	173,447
Impairment losses recognised	**3,957**	19,265
Amounts recovered	**(327)**	(8,167)
Amounts utilised	**(32,841)**	-
Net exchange difference	**(20,176)**	31,883
At December 31st	**167,041**	216,428

Included in the provision for impairment are individually impaired assets of $139,658 (2015 - $186,948) which have been provided in full. 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	**2016**	2015
		$	$
Due from related parties	29	**-**	377,547

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

The carrying value of trade receivables pledged as security is $4,035,481 (2015 - $6,334,417).

17. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2016	2015
	$	$
Prepayments	**682,103**	322,460
Deposits and other receivables	**1,615,683**	913,642
	2,297,786	1,236,102

Deposits and other receivables mainly comprises receivables for research and development tax credits, value added tax and government grants.

The carrying value of prepayments, deposits and other receivables pledged as security is $1,615,683 (2015 - $913,642).

18. OTHER PAYABLES AND ACCRUALS

	2016	2015
	$	$
Accruals	**1,487,774**	2,082,224
Advance payments received	**1,251,161**	5,981,450
Other	**551,160**	631,964
	3,290,095	8,695,638

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	**2016** $	2015 $
Due to related parties	29	**51,420**	4,398,352

The balances above due to related parties are unsecured and interest-free.

19. BORROWINGS

	Note	**2016** $	2015 $
Secured at amortised cost:			
Bank overdrafts	(i)	**545,511**	671,586
Bank loans	(ii), (iii)	**11,674,787**	12,204,827
Finance leases	(iv) and 20	**70,922**	206,396
		12,291,220	13,082,809
Unsecured at amortised cost:			
Other loans	(v), (vi)	**9,230,260**	11,245,675
		21,521,480	24,328,484
Current portion		**16,380,290**	15,423,684
Non-current portion		**5,141,190**	8,904,800
		21,521,480	24,328,484

The non-current portion of borrowings matures as follows:

	2016 $	2015 $
Between one and two years	**2,172,990**	2,706,622
Between two and five years	**2,968,200**	6,198,178
	5,141,190	8,904,800

(i) The Group has a bank overdraft of $545,511 (2015 - $671,586) under an approved overdraft facility of $1,649,000 (2015 - $2,060,000) which is repayable on demand. The overdraft bears interest at UK base rate plus 2.32% on balances up to the approved overdraft limit and at the bank's standard interest rate on balances over the approved limit. The overdraft facility is secured under the same charge as in (ii) below.

19. BORROWINGS (continued)

(ii) The Group has an uncommitted money market facility from a bank for $11,543,000 (2015 - $10,299,500 which was fully drawn at the end of 2016 and 2015. The repayment date and the interest on the money market facility is set at the time drawings are made and varies depending on the length of the drawing. The rate on drawings at the end of 2016 was 2.1% (2015 - 2.7%) and the drawings were all repayable within one month. The facility is secured by a first charge on property, plant and equipment (excluding equipment under leases and chattel mortgages) and current assets. At December 31st, 2016 these assets have a carrying value of $52,940,346 (2015 - $63,594,044). The facility is guaranteed by CRRC Times Electric.

(iii) The Group has a bank loan for $131,786 (2015 - $376,057) which was received on September 19th, 2013. The loan bears interest at an effective interest rate of 4.3% per annum and is repayable in monthly instalments between October 2013 and September 2017. The loan is secured by a chattels mortgage on equipment with a carrying value of $460,835(2015 - $644,063).

(iv) The finance leases are secured by the equipment leased which has a carrying value of $143,236 (2015 - $319,455).

(v) The Group has an unsecured loan from a fellow subsidiary of CRRC - Times Electric for $8,904,600 (2015 - $11,123,460). The loan bears interest at 4% per annum and is repayable in nine equal biannual repayments between June 2016 and June 2020

(vi) The Group has an unsecured interest free loan from an unrelated party for $325,660 (2015 - $122,216). The loan is repayable in monthly instalments between December 2016 and October 2019.

20. OBLIGATIONS UNDER FINANCE LEASES

Finance leases relate to manufacturing equipment with lease terms of between one 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	
	2016	2015	**2016**	2015
	$	$	**$**	$
Not later than one year	**59,979**	132,559	**56,130**	117,801
Later than one year and not later than five years	**14,996**	93,657	**14,792**	88,595
	74,975	226,216	**70,922**	206,396
Less future finance charges	**(4,053)**	(19,820)	-	-
Present value of minimum lease payments	**70,922**	206,396	**70,922**	206,396

	2016	2015
	$	$
Included in financial statements as:		
Current borrowings	**56,130**	117,801
Non-current borrowings	**14,792**	88,595
	70,922	206,396

21. PROVISIONS

	2016	2015
	$	$
Warranties	**16,490**	20,599
Legal costs	**164,900**	-
Restructuring	**412,250**	-
Removal costs of equipment	**49,470**	61,797
	643,110	82,396
Current portion	**456,773**	20,599
Non-current portion	**186,337**	61,797
	643,110	82,396

The movements in provisions are as follows:

	Warranties	Legal costs	Restructuring	Removal of equipment	Total
	$	**$**	**$**	**$**	**$**
At January 1st, 2016	20,599	-	-	61,797	82,396
Additional provisions	-	166,520	412,250	-	578,770
Amounts utilised	-	-	-	-	-
Amounts reversed	-	-	-	-	-
Net exchange difference	(4,109)	(1,620)	-	(12,327)	(18,056)
At December 31st, 2016	**16,490**	**164,900**	**412,250**	**49,470**	**643,110**

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 has made a provision for legal costs in relation to a contract dispute with a supplier.

The Group has made provision for restructuring costs that were committed before the year end.

The Group has 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. The timing of these outflows is uncertain as the Group has no current plans to remove these items of equipment.

22. DEFERRED TAX ASSETS

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, 2015	(2,693,468)	90,300	2,656,987	(53,819)	-
Recognised in profit or loss	133,851	-	(233,546)	72,401	(27,294)
Net exchange difference	(370,797)	12,695	440,644	2,590	85,132
At December 31st, 2015	(2,930,414)	102,995	2,864,085	21,172	57,838
Recognised in profit or loss	(71,979)	-	942,973	160,499	1,031,493
Tax paid fully recoverable	-	-	-	106,573	106,573
Net exchange difference	605,407	(20,545)	(651,532)	(1,912)	(68,582)
At December 31st, 2016	(2,396,986)	82,450	3,155,526	286,332	1,127,322

In recognising the deferred tax asset, management reviewed the five year plan for 2017 to 2021, which incorporates the budget for 2017. The plan showed a return to sustained profitability sufficient to utilise fully the deferred tax asset.

The Company has an aggregate temporary loss of $1.3 million (2014 - $8.3 million gain) relating to the investment in its subsidiary for which a deferred tax asset has not been recognised. The Company controls the reversal of the liability and it is expected that it will not reverse in the foreseeable future.

The Group has unused tax losses and tax credits in Canada which management sees no prospect of utilising and for which, therefore, no deferred tax asset has been recognised. These tax losses expire as follows:

	$
2025	**260,000**
2026	**514,000**
2027	**938,000**
2028	**522,000**
2029	**534,000**
2030	**434,000**
2031	**370,000**
2032	**300,000**
2033	**287,000**
2034	**298,000**
2035	**100,000**
2036	**400,000**
no expiry date	**43,000**
	5,000,000

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, 2015 and 2016	**80,509,047**	**37,096,192**

The Company has no issued and outstanding preferred shares.

The common shares have no par value.

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 (2015 – 2,657,316) of the common shares of the Company outstanding from time to time are reserved for the issuance of 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. There are currently no options outstanding.

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24. FINANCIAL INSRUMENTS AND RISK MANAGMENT

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

December 31st, 2016	**Carrying Value**	**Fair Value**
	$	**$**
Financial Assets:		
Trade receivables	**4,035,481**	**4,035,481**
Amounts owing from parent company	**3,573,709**	**3,573,709**
Deposits and other receivables	**1,615,683**	**1,615,683**
Cash	**898,855**	**898,855**
	10,123,728	**10,123,728**
Financial Liabilities:		
Trade payables	**3,010,756**	**3,010,756**
Amounts owing to parent company	**2,103,917**	**2,103,917**
Other payables	**551,160**	**551,160**
Current borrowings	**16,380,290**	**16,293,713**
Non-current borrowings	**5,141,190**	**5,032,973**
	27,187,313	**26,992,519**

December 31st, 2015	Carrying Value	Fair Value
	$	$
Financial Assets:		
Trade receivables	6,334,417	6,334,417
Amounts owing from parent company	5,445,377	5,445,377
Deposits and other receivables	913,642	913,642
Cash	1,410,547	1,410,547
	14,103,983	14,103,983
Financial Liabilities:		
Trade payables	2,371,233	2,371,233
Amounts owing to parent company	760,062	760,062
Other payables	631,964	631,964
Current borrowings	15,423,684	15,193,201
Non-current borrowings	8,904,800	8,709,481
	28,091,743	27,665,941

24 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

All financial assets are classified as loans and receivables.

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

The fair value of trade receivables, amounts owing from parent company, deposits and other receivables, cash, trade payables, amounts owing to parent company, other payables and accruals and bank overdrafts approximates their carrying value because of the short maturity of these instruments.

The fair value of current and non-current borrowings excluding the bank overdrafts is determined using the present value of future cash flows under current financing agreements, based on a current interest rate of between 0% and 4.3% (2015: 0% and 5.5%) being the Group's current estimated borrowing rate for loans and finance leases with similar terms and conditions.

Market risk

The Group is exposed to foreign currency fluctuations. At December 31st, 2016 the split of financial instruments by currency is as follows (all figures are stated in Canadian Dollar equivalents):

	C$	GBP	Euro	US$	Yen	Total
	$'000	$'000	$'000	$'000	Y'000's	$'000
Trade receivables	-	874	1,912	1,249	-	4,035
Amounts owing from parent	0	2,934	-	640	-	3,574
Other receivables	48	1,568	-	0	0	1,616
Cash	16	4	810	69	-	899
Trade payables	(31)	(2,637)	(305)	(32)	(6)	(3,011)
Amounts owing to parent company	0	(357)	(1,228)	(519)	-	(2,104)
Other payables	-	(517)	(34)	-	-	(551)
Current borrowings	-	(16,380)	-	-	-	(16,380)
Non-current borrowings	-	(5,141)	-	-	-	(5,141)
	33	**(19,652)**	**1,155**	**1,407**	**(6)**	**(17,063)**

A 10% increase (decrease) in the value of Sterling against the Euro and US Dollar at the end of the year would have increased (decreased) net loss for the year by approximately $260,000. 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 approximately $700,000. 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 approximately $100,000.

24. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

Market risk (continued)

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

A 10% increase (decrease) in the value of the Dollar against Sterling at the end of the year would have decreased (increased) other comprehensive income by approximately $2.6 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 losses for the year by approximately $400,000. 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 increase (decrease) the net loss by approximately $110,000 in the year.

Credit risk

The Group is exposed to credit risk in relation to the $4.0 million of trade receivables (2015 - $6.3 million) $3.6 million of amounts owing from parent company (2015 - $5.4 million), $2.3 million of deposits and other receivables (2015 - $0.8 million) and $900,000 of cash (2015 - $1.4 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 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 (2015 - $14.1 million), being the carrying value of trade receivables, amounts owing from parent company, deposits and other receivables and cash.

Liquidity risk

The Group generally makes one major payment run each week. At December 31st, 2016 none of the Group’s trade payables was overdue by more than two weeks. 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 $11.5 million money market facility and a $1.6 million overdraft facility with its main banker which are used to manage day to day requirements. At December 31st, 2016 the money market facility was fully utilized and $546,000 of the overdraft facility was being utilised (2015 - $672,000). In relation to long term debt, management believes it can re-borrow or repay all these facilities as they fall due out of its cash flow. At the present time the Group is committed to approximately $1.5 million 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:

	2016	2015
	$	$
Current borrowings	**16,380,290**	15,423,684
Non-current borrowings	**5,141,190**	8,904,800
Less Cash	**(898,855)**	(1,410,547)
Net debt	**20,622,625**	22,917,937
Shareholders' equity	**26,308,830**	38,506,605
Net gearing ratio	78.4%	59.5%

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:

	2016	2015
	$	$
(Increase) decrease in inventories	**(1,607,581)**	1,530,590
Decrease (increase) in trade receivables	**1,022,608**	3,642,831
(Increase) in prepayments, deposits & other receivables	**(1,424,106)**	46,798
(Increase) decrease in amounts owing from parent company	**1,093,988**	(2,368,392)
Increase in trade payables	**1,116,080**	(5,119,088)
Increase (decrease) in other payables & accruals	**(4,496,499)**	(2,452,777)
Increase (decrease) in provisions	**582,820**	(1,965,232)
(Decrease) increase in amounts owing to parent company	**1,603,467**	(57,376)
	(2,109,223)	(6,742,646)

27. PENSIONS

The Group incurred expenses of $609,368 (2015 - $613,924) with respect to the defined contribution pension plan.

At December 31st, 2016 $88,442 was outstanding to the pension plan (2015 - $98,428) and is included in other payables and accruals. This amount was paid in January 2017.

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 four years.

At December 31st, 2016 and 2015 the Group had total future minimum lease payments under non-cancellable operating leases which fall due as follows:

	2016	2015
	$	$
Not later than one year	**379,378**	466,496
Later than one year and not later than five years	**106,807**	218,033
	486,185	684,529

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 CRRC Times Electric Co., Ltd, its directors and their immediate families, CRRC Corporation and all of its affiliates and LaBarge Weinstein Professional Corporation (in which one of our directors is a partner) as related parties.

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

		2016	2015
		$	$
Transactions with CRRC Times Electric:			
Sale of goods	(i) (ii)	**7,047,355**	10,105,985
Rendering of services	(iii)	**4,874,557**	2,879,883
Amounts in respect of jointly funded research and development activity which is accounted for as a reduction in research and development expenses	(iv)	**8,388,300**	9,147,615
Reimbursed expenses	(v)	**137,612**	266,793
Purchases of materials and components	(i) (vi)	**2,604,503**	4,414,838
Interest expense	(x)	**-**	189,937
Capital contribution		**-**	1,594,755
Transactions with CRRC Corporation Limited			
Rendering of services	(viii)	**307,462**	439,939
Transactions with fellow group subsidiaries:			
Sale of goods	(ix)	**1,701,644**	3,102,662
Purchases of materials and components	(i)	**386,614**	-
Interest expense	(x)	**390,598**	210,288
Transactions with key management personnel:			
Short term employment benefits		**1,247,023**	1,299,001
Post-employment benefits		**42,730**	46,919
Termination benefits		**263,840**	-
Total compensation		**1,553,593**	1,345,920
Transactions with other parties:			
Directors' fees	(xi)	**20,000**	20,000
Legal fees and expenses	(xii)	**68,305**	67,095

29. RELATED PARTY TRANSACTIONS AND BALANCES (continued)

		2016	2015
		$	$
Balances with CRRC Times Electric:			
Amounts owing from parent company	(i) - (v)	**3,573,709**	5,445,377
Amounts owing to parent company	(i) (vi)	**2,103,917**	760,062
Other payables and accruals	(iii) (iv)	**-**	4,398,352
Balances with fellow group subsidiaries:			
Trade receivables	(ix)	**-**	377,547
Borrowings	(vii)	**8,904,600**	11,123,460
Other payables and accruals	(vii)	**51,420**	-
Balances with key management personnel:			
Other payables and accruals	(ix)	**10,000**	10,000
Balances with other parties:			
Trade payables	(xii)	**29,097**	7,776
Other payables and accruals	(xii)	**5,200**	5,200

(i) CRRC Times Electric is the Group's main distributor for high power semiconductors in The People's Republic of China and the Group is CRRC Times Electric's main distributor for high power semiconductors in Europe and parts of Asia. 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. During 2016, some of these goods were supplied by a fellow subsidiary of CRRC Times Electric.

(ii) CRRC 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) On February 7th, 2014 the Group signed a new agreement with CRRC Times Electric for the research and development centre to provide technical support to CRRC Times Electric for its 8 inch wafer fabrication facility in China. Under the new agreement it was estimated that the costs for the project would be $ 4.6 million over a three year period commencing from January 2014. CRRC Times Electric paid in advance 25% of their contribution.

(iv) On February 7th, 2014 the Group signed a new agreement with CRRC 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 was estimated that the costs of the joint research and development would be $36.0 million over a three year period commencing from January 2014, and it is agreed that CRRC Times Electric will provide funding of 80% of the costs and the Group will contribute 20%. CRRC Times Electric paid in advance 25% of their contribution.

29. RELATED PARTY TRANSACTIONS AND BALANCES (continued)

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

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

(vii) On August 13th, 2015 the Group was provided with a loan for approximately $12.1 million by CRRC Times Electric (Hong Kong) Co., Ltd, a fellow subsidiary of CRRC Times Electric, which bears interest at 4% per annum and is repayable in 10 biannual instalments between December 2015 and June 2020. Part of the loan was used to repay a previous loan of approximately $5.5 million from CRRC Times Electric that bore interest at 5% and was due to be repaid between December 2016 and December 2018. Part of the loan was used to repay another loan from CRRC Times Electric (Hong Kong) Co., Ltd (see (x) below). Accrued interest on this loan is reported as part of Other Payables and Accruals.

(viii) The Group provides management training courses to CRRC Corporation Limited.

(ix) In 2011, the Group appointed Times Electric USA LLC, a fellow subsidiary of CRRC 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 $1 million by CRRC Times Electric (Hong Kong) Co., Ltd, a fellow subsidiary of CRRC Times Electric to purchase equipment. The loan bore interest at 3.25% per annum and was due to be repaid on September 7th, 2015. This loan was repaid in August 2015 (see (vii) above).

(xi) Directors' fees comprise directors' fees payable to two non-executive directors. The directors' fees are paid half yearly in arrears. The balances have not yet been paid.

(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 apart from the loans from CRRC Times Electric and CRRC Times Electric (Hong Kong) Co., Ltd which are recorded as a non-current liability.

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 May 1st, 2017.

Corporate Information

Board of Directors

Liu Ke'an [(1) (3)]
Chairman

Clive Vacher [(1)]
Director, President & CEO

Debbie Weinstein [(1) (2)]
Director

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

Richard Wu [(1) (2) (3)]
Director

George Guo [(1)]
Director

Gary Liu [(1)]
Director

(1) Member of the Governance Committee
(2) Member of Audit Committee
(3) Member of Compensation Committee

Stock Exchange Listing

Toronto Ventures Exchange
Symbol: DNX

Auditors

Canada – Deloitte LLP
UK – Deloitte LLP

Transfer Agent

Computershare Trust Company of Canada

Legal Counsel

LaBarge Weinstein Professional Corporation
515 Legget Drive, Suite 800
Kanata
Ontario
K2K 3G4

Senior Officers, VP's & Senior Managers

Clive Vacher
President & CEO

Bob Lockwood
VP Finance, CFO & Co. Secretary

Mark Kempton
Operations Director

Sky Xu
Sales & Marketing Director

Bill McGhie
Power Assemblies Business Manager

Andy Dai
Technology Manager

Vincent Li
Technology Manager

Su Bailey
HR Manager

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