DYNEX POWER INC.

REPORT FOR THE QUARTER ENDED SEPTEMBER 30th 2016

NOTICE OF NO AUDITOR REVIEW OF THESE INTERIM FINANCIAL STATEMENTS

The accompanying unaudited condensed interim consolidated financial statements of Dynex Power Inc for the quarter ended September 30, 2016 have been prepared by management and approved by the Board of Directors. The Corporation's independent auditors have not performed a review of these financial statements in accordance with the standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity's auditor.

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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This report may contain forward looking statements that involve a number of risks and uncertainties, including statements regarding the outlook for the Group's business and results of operations. By nature, these risks and uncertainties could cause actual results to differ materially from those indicated. Dynex disclaims any intention or obligation to update or revise any forward looking statement whether as a result of new information, future events or otherwise.

Company Profile

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

Company Facts

- Dynex Power Inc. was formed in June 1999
- Dynex Semiconductor Limited was formed to acquire the assets of the Lincoln Business Unit in January 2000
- The Lincoln Business Unit was founded in Lincoln England in 1956 and since that time has traded as:

AEI Semiconductors Ltd	(AEI)
Marconi Electronic Devices Ltd	(MEDL)
GEC-Plessey Semiconductors Ltd.	(GPS)

- Zhuzhou CSR Times Electric Co., Ltd acquired 75% of the common shares of Dynex Power Inc. in October 2008. In April 2016 this company changed its name to Zhuzhou CRRC Times Electric Co., Ltd.
- 352 employees (September 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
- High reliability silicon-on-sapphire integrated circuits

Customers

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

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

Letter to Shareholders

In the financial statements for the second quarter of 2016 we reported low revenues in all of our main product groups- IGBT, bipolar and power assemblies. This related to the difficult market conditions, and the low revenue resulted in an under recovery of our fixed production costs. We thus reported both a gross loss and a net loss for the quarter. I am pleased to report that during this current quarter we have seen a favourable improvement in our revenue in all sectors, and particularly in our service revenue. Furthermore, in our production operations we have in general maintained high quality and improved productivity across all our product lines, with high manufacturing yields being achieved in bipolar and IGBT fabrication lines. The net effect is an improvement in our gross profit and, although not yet meeting our expectations, we have consequently been able to report a net profit for the first time in 2016.

Nevertheless at the same time market conditions for our IGBT and bipolar products have remained slow. Uncertainty resulting from recent events in the European Union and USA, and the reported slowdown in the Chinese economy, has meant that our customers remain cautious about investment in new power electronics equipment. Moreover, the strength of the Canadian dollar relative to Sterling means that our reported revenues will be lower than expected.

Reports received by Dynex from our market analysts, IHS Technology, indicate that the total worldwide power semiconductor market fell by 2.6% in 2015, and is expected to fall further in 2016 by 0.8%. Looking ahead to 2020 the CAGR is forecast to be 2.6%. This reflects the overall slowdown in the world markets: for example, in 2011 the forecast 5-year CAGR was more than 8%.

Dynex has focussed its power semiconductor business on the faster growing high voltage IGBT module market sector for our future growth: this product sector has been reported by IHS Technology to have a total world market of more than US$300M and is currently forecast to grow through 2020 at CAGR in the range 4.2% to 4.9%, with China being the key growth region at CAGR in the range 5.2% to 5.6%.

To address this growth market we are sustaining our semiconductor R&D with an increased emphasis on the high voltage IGBT modules, and we will be increasing our R&D activities over the coming quarter. Looking further ahead, we are in the process of planning the joint R&D activities between Dynex and Zhuzhou CRRC Times Electric covering the three year period January 2017 to December 2019. As with the prior agreements, this activity at the Research Centre at Dynex will be majority funded by CRRC Times Electric. This will allow Dynex to sustain its focus on high voltage IGBT products.

This new agreement will allow us to make use of our manufacturing facilities for developing both new high voltage products for manufacture in Lincoln manufacturing lines and high and lower voltage modules for the manufacturing lines in CRRC Times Electric in China, as well as investing in certain basic longer term research. This has the benefits in the short term of loading the Dynex production lines processing R&D batches and helps to offset the high fixed costs of our semiconductor facilities, in the medium term of providing increased production loading to sustain our product lines, and in the longer term of establishing the basic platforms for our future products.

In addition to the high voltage IGBT module, a second area of focus and a major growth sector is the design and manufacture of power electronic sub-assemblies and systems. We are already seeing signs of an increase in customer enquiries and order intake for the power electronic sub-system sector, and we are hopeful of stronger revenue in the last quarter this year, and a stronger order book position for 2017. For the longer term, a major and growing activity at Dynex, also funded by CRRC Times Electric, is the design and development of automotive electric vehicle power sub-systems. This is already getting significant customer interest and we expect to see this sector beginning to impact on Dynex business in the coming year.

Overall our current outlook for the fourth quarter, based on our current order book, is for increased revenue and improvements to profitability. Looking ahead to the following period, it is too early to make a confident prediction, based on the current market uncertainty, but overall for 2017 we are planning for a small increase in revenue and continued profitability.

Many thanks for your interest in reading this report, and for your continued support, and we look forward to working with you in the future.

PDTaylor

Paul Taylor
President and Chief Executive Officer
November 24th, 2016

Management's Discussion & Analysis

The following discussion and analysis should be read in conjunction with the Interim Condensed Consolidated Financial Statements of the Company for the quarter ended September 30th, 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 acquired approximately 75% of the share capital of the Company and thus became the Company's immediate parent company. Zhuzhou CSR Times Electric changed its name in April 2016 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 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 is also engaged in the manufacture and sale of high reliability integrated circuits. This is no longer regarded by management as a core activity of the Group and so the Group is seeking to maximise the revenue from its remaining inventory of such devices.

The Group also provides advice and assistance, primarily to 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, integrated circuits and the provision of advice as separate product groups for revenue analysis but does not regard them as separate operating segments for reporting purposes. The Group does not analyse gross margins, expenses, taxation, net profit or assets by product group.

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

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

Foreign Exchange Rates

Because all of the design, manufacture and sale of products and the provision of advice are carried out by the Subsidiary, all of these transactions are initially recorded in Sterling and have to be translated into Canadian Dollars for inclusion in the Group's financial statements. Consequently, changes in the Sterling-Canadian Dollar exchange rate can have a significant influence on reported results.

The following exchange rates have been used in preparing these Condensed Consolidated Financial Statements:

	£1 equals
Average rate July to September 2016	C$1.7181
Average rate July to September 2015	C$2.0111
Average rate January to September 2016	C$1.8202
Average rate January to September 2015	C$1.9212
Rate at September 30th, 2016	C$1.7000
Rate at December 31st, 2015	C$2.0599

As illustrated, the Canadian Dollar rate against Sterling for the third quarter and year to date of 2016 was 15% and 5% stronger respectively than in the third quarter and year to date of 2015. Consequently, exchange rate movements had a significant impact on reported revenue and expenditure in the quarter and, to a lesser extent, in the year to date.

The Canadian Dollar rate against Sterling at September 30th, 2016 was 17% stronger than the rate at December 31st, 2015. Consequently, the change in rates had a significant impact on assets and liabilities at the period end.

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

Revenue in the third quarter was 10% lower than in the corresponding quarter of last year although all of this decrease was a result of the strength of the Canadian Dollar. The gross margin improved to 18.7% and a net profit of $236,000 was recorded.

The Company's booking to billing ratio for the quarter was 1.06. Although lower than the ratio in the second quarter, this provides continued support for an improvement in business in the short term.

Revenue

Revenue in the third quarter of 2016 was $11.1 million, $1.2 million or 10% lower than in the corresponding quarter of last year. The whole of this reduction was as a result of the strengthening of the Canadian Dollar against Sterling. In Sterling terms, revenue had increased by 6% compared to the corresponding quarter of last year. The increase in Sterling terms arose in relation to technical services.

For the year to date, revenue was $30.5 million, $3.3 million or 10% lower than in the first nine months of last year. Approximately 60% of this reduction was a result of the strengthening of the Canadian Dollar against Sterling. The rest of the reduction was a result of a significant fall in bipolar revenue partially offset by stronger service revenue.

Gross Margin

The gross margin was 18.7% of revenue in the third quarter of 2016 compared to a gross margin of 8.8% of revenue in the third quarter of 2015. This is still slightly below the range targeted by management.

For the year to date, gross margin was 10.3% compared to 0.1% in the corresponding period of last. Despite the strong improvement, gross margin for the year to date remains below the range targeted by management.

Other Income

Other income for the quarter consists primarily of the sale of scrap materials. The figures for the current quarter and year to date and for the corresponding quarter and year to date last 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 12.0% of revenue in the third quarter of 2016 compared to 7.4% in the corresponding quarter of last year. The increase reflected a conscious decision by management to strengthen the sales team and a lower cross charge to R&D in the quarter.

For the year to date combined sales and marketing and administration expenses was 13.2% compared to 10.5% in the corresponding period of last year.

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.

There was a net cost of research and development expenditure in the third quarter of 2016 of $266,000 compared with a credit of $198,000 in the corresponding quarter of the previous year. The increase in cost to the Group reflected the increase in R&D work being undertaken whilst third party support had not risen as quickly.

For the year to date, the net cost of research and development was $1.0 million compared with a net credit of $100,000 than in the first nine months of 2015. The increase in cost to the Group reflected the increase in R&D work being undertaken whilst third party support had not risen as quickly.

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 rose to 26.9% of revenue in the third quarter of 2016 compared to 22.1% of revenue in the corresponding quarter of last year.

For the year to date, gross research and development expenditure rose to 27.1% of revenue compared to 19.5% of revenue in the corresponding period of last year.

Finance Costs

Finance costs for the quarter were $189,000, compared to $187,000 in the corresponding quarter of last year. Finance costs would have been expected to fall by approximately $29,000 as a result of changes in exchange rates. The increase was a result of a higher level of borrowings.

For the year to date, finance costs were $555,000 compared to $532,000 in the first nine months of 2015. Finance costs would have been expected to fall by approximately $28,000 as a result of changes in exchange rates. The increase was a result of a higher level of borrowings.

Other Gains and Losses

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

Profit before Tax

The Group reported a profit before tax in the quarter of $352,000 compared with a profit before tax of $603,000 in the corresponding quarter of last year.
The profit represents the first quarterly profit in 2016.

For the year to date, the Group reported a loss before tax of $2.3 million compared with a loss before tax in the first nine months of 2015 of $3.3 million.

Income Tax Expense

The Group recorded a tax charge in the quarter equivalent to 33.1% of the profit before tax compared with a tax charge of 19.9% of the profit before tax in the corresponding quarter of last year. Both these tax charges are affected by changes in the estimatation of the tax charge that will be applied for the full year and so tax expense is better considered in the year to date figures discussed below rather than the figures for an individual quarter.

For the year to date, the tax recovery was 14.0% of the loss before tax, compared to 17.5% in the first nine months of last year. The tax recovery is broadly in line with UK tax rates but is below the current UK tax rate because there are some costs incurred in Canada which do not benefit from a tax recovery and because tax is charged on some UK Government support even though the UK company has current tax losses.

Net Profit/Loss

The Group reported a net profit of $236,000 in the third quarter of 2016 compared to a net profit of $483,000 in the corresponding quarter of last year.

For the year to date, the Group reported a net loss of $2.0 million compared to a net loss of $2.7 million in the first nine months of 2015.

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 to be in a position to take advantage of market opportunities.

Non-Current Assets

The net value of non-current assets fell from $45.1 million at the end of last year to $35.3 million at the end of the third quarter. Approximately 80% of this decrease was as a result of changes in exchange rates. In Sterling terms, non-current assets had declined by approximately 7% as a result of a reduction in capital expenditure in order to retain cash in the business.

Working Capital

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

At the end of September 2016, working capital stood at $15.6 million or 1.4 times third quarter revenue compared to $13.4 million or 1.3 times quarter four revenue at the end of December 2015.

Net Debt

At the end of September 2016, the Group had net debt (borrowings less cash) of $20.7 million. At the end of December 2015, it had net debt of $22.9 million. Borrowings would have been expected to fall a further $1.8 milllion as a result of the rise in the value of the Canadian Dollar. Borrowings did not fall by this much as a result of the losses in the year to date.

The Group had no off balance sheet financing arrangements at the quarter end nor at the previous year end.

Equity

Equity has reduced by $8.4 million since the end of the preceding year. Approximately three quarters of the reduction resulted from an exchange loss on translation of the UK subsidiary with one quarter accounted for by the losses in the year to date.

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 September 2016, the Group had a gearing ratio of 68.6%. At the end of the preceding year, the Group had a gearing ratio of 59.5%. Management does not regard this level of borrowing as excessive although in the medium to long term management intends to reduce it.

Borrowing Facilities

The Group primarily uses uncommitted facilities which are cheaper and more flexible than committed facilities. Management believes that 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 $505,000 of cash at the quarter end.

Cash Flow

There was an outflow of $204,000 from operating activities in the year to date. The main constituents of the cash outflow were a loss before tax and finance charges of $1.7 million and an increase in working capital of $2.8 million, offset by depreciation of $3.8 million and a provision for obsolete inventory of $440,000 which is a non cash movement.

Commitments

The Group has capital commitments at the quarter end of $1.6 million for intangible assets and property, plant and equipment for manufacturing and research and development.

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.

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

Selected Financial Information

	2016 Q3	2016 Q2	2016 Q1	2015 Q4	2015 Q3	2015 Q2	2015 Q1	2014 Q4	2015 FY	2014 FY	2013 FY
Revenue	11,079	9,123	10,273	12,718	12,254	11,994	9,546	10,128	46,512	42,166	39,234
Gross Profit	2,071	(117)	1,188	4,369	1,081	756	(1,523)	(4,066)	4,683	(441)	1,945
Gross profit %	18.7%	(1.3%)	11.6%	34.4%	8.8%	6.3%	(16.0%)	(40.1%)	10.1%	(1.0%)	5.0%
Gross R&D %	26.9%	29.9%	24.8%	26.0%	22.1%	16.0%	20.4%	14.5%	21.3%	15.2%	13.2%
Profit before Tax	352	(2,099)	(526)	3,564	603	(520)	(3,378)	(5,237)	270	(6,518)	(3,394)
Net Profit	236	(1,729)	(461)	2,884	483	(419)	(2,781)	(4,502)	166	(5,548)	(2,410)
Earnings per Share											
Basic	0.00	(0.02)	(0.01)	0.04	0.01	(0.01)	(0.03)	(0.06)	0.00	(0.07)	(0.03)
Diluted	0.00	(0.02)	(0.01)	0.04	0.01	(0.01)	(0.03)	(0.06)	0.00	(0.07)	(0.03)
Non-current assets	35,274	36,837	39,911	45,100	45,410	43,804	41,942	41,034	45,100	41,078	36,160
Working capital	15,560	14,322	15,830	16,325	12,988	6,734	8,156	7,565	16,325	7,565	17,724
Net debt	20,692	20,624	21,285	22,918	25,065	19,108	19,689	16,216	22,918	16,260	16,836
Equity	30,142	30,535	34,456	38,507	33,333	31,430	30,409	32,383	38,507	32,383	37,048
Dividends	0	0	0	0	0	0	0	0	0	0	0

Selected quarterly and annual financial information is presented above. All figures have been prepared in accordance with IFRS. Quarterly figures have not been audited except for balance sheet figures for each of the fourth quarters. The figures for the financial years 2013, 2014 and 2015 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 cash less borrowings. The amounts shown for equity are as disclosed in the financial statements.

Annual revenue grew by approximately 7% between 2013 and 2014 and by approximately 10% between 2014 and 2015. In both cases the increase was a result of a weakening in the Canadain Dollar. In Sterling terms revenue declined between 2013 and 2014 and remained steady in 2015. Quarterly revenue declined in the first quarter of 2015 but recovered in the following quarter. The increase in revenue in the last two quarters of 2015 reflected a weakening of the Canadian Dollar. In the first two quarters of 2016 weakening revenue has been accompanied by a strengthening Canadian Dollar. In the third quarter, revenue recovered despite a further strengthening of the Canadian Dollar.

The gross profit percentage in 2013 reflected the very poor revenue reported in the first quarter, the impact of sales of low margin products in the third quarter and the write off of inventory and provisioning of work in progress in the fourth quarter. The gross loss reported in 2014 resulted from the costs associated with a major contract cancellation and return of product by a customer. In 2015, the gross profit percentage improved significantly but is still below the level targeted by management. The gross loss in the fourth quarter of 2014 resulted from the costs associated with a major contract cancellation and return of product by a customer. The gross loss in the first quarter of 2015 is a result of the low revenue figure which reflected a tough marketplace then being experienced. Gross profit recovered in the second and third quarter of 2015. The figure in the fourth quarter of 2015 was significantly above management expectation and the gross profit percentage fell back to a more sustainable level in the first quarter of 2016. In the second quarter of 2016, low revenue resulted in a small gross loss. In the third quarter, stronger revenue saw a return to a gross profit.

Management regards research and development expenditure as key to the future of the business and seeks to grow the ratio of gross expenditure on research and development to revenue. A steady growth in gross research and development expenditure as a percentage of revenue can be seen in the figures.

The annual 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 figures for non-current assets show continued investment throughout the business. The fall in the first three quarters of 2016 are a result of the strengthening of the Canadain Dollar and management delaying capital expenditure whilst the business needs to preserve cash.

Working capital had stood at over five month's revenue in 2013. This figure reflected the fact that an increasing amount of the Group's revenue is now coming from customers in areas where credit terms are generally quite long and payment of receivables is not always as prompt. The provision for payments to be made to a customer on the cancellation of a major contract and the return of product by a customer resulted in the level of working capital at the end of 2014 falling to just over two weeks revenue. Working capital returned to more normal levels in the second half of 2015 and now stands at just over four month's revenue.

The Group had $16.8 million of net debt at the end of 2013. This figure has risen since then in order to fund increased investment in non-current assets, the rise in working capital and the losses being incurred throughout the period.

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. 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 important 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 the Group's major customer. The Group has developed and works to a Quality Policy, operated under ISO 9001:2008 in order to ensure it meets its customers' requirements as well as it possibly can. The Group constantly seeks to acquire new customers to broaden its customer base.

Certain raw materials, such as silicon, neutron transmutation doped ("NTD") silicon, molybdenum, ceramic housings, substrates, baseplates, wafer fabrication chemicals and gases, electricity, 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 into 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 14001:2004 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 currently use any financial instruments or other instruments as part of its risk management strategy.

Critical Accounting Judgements and Estimates

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

Anticipated useful lives of intangible assets and property, plant and equipment

Management determines the estimated useful lives of its intangible assets and property, plant and equipment based on historical experience of the actual lives of assets of similar nature and functions and reviews these estimates at the end of each reporting period. At September 30th, 2016 the carrying amount of intangible assets and property, plant and equipment was $34.9 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 September 30th, 2016 the provision against inventories was $9.2 million and the carrying amount of inventories was $13.3 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 September 30th, 2016 the provision was $158,000 and the carrying amount of trade receivables was $5.0 million.

Provisions

Management determines the best estimate of provisions based on experience of similar transactions and, in some cases, reports from independent experts and reviews them at the end of each reporting period. At September 30th, 2016 the carrying value of provisions was $68,000.

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 quarter ended September 30th, 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 $234,000 in grants during the quarter 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

During the quarter, the Group sold $1.7 million of goods and $2.1 million of services to CRRC Times Electric, received a contribution towards research and development of $2.5 million and purchased materials and components from them for $751,000. The Group also sold $470,000 of goods to a fellow subsidiary of CRRC Times Electric and paid $94,000 in interest on a loan from another fellow subsidiary of CRRC Times Electric. The Group incurred expenses in the UK of $43,000 on behalf of CRRC Times Electric which expenses were reimbursed to the Group.

During the the year to date, the Group sold $5.3 million of goods and $3.0 million of services to CRRC Times Electric, received a contribution towards research and development of $6.5million and purchased materials and components from them for $2.1 million. The Group also sold $1.0 million of goods to a fellow subsidiary of CRRC Times Electric, paid $288,000 in interest on a loan from another fellow subsidiary of CRRC Times Electric and purchased materials and components from another fellow subsidiary of CRRC Times Electric for $504,000 . The Group incurred expenses in the UK of $199,000 on behalf of CRRC Times Electric and $53,000 on behalf of a fellow subsidiary of CRRC Times Electric which expenses were reimbursed to the Group.

At September 30th, 2016 the Group was owed $3.0 million for goods and services sold to CRRC Times Electric and owed them $1.2 million for materials and components purchased from them. In addition, the Group had received an advance payment from CRRC Times Electric towards future research and development expenditure and for technical support of an 8-inch wafer fabrication facility in China. At the end of the quarter $1.9 million was unearned income and as such is shown under other payables and accruals. The Group owed a fellow subsidiary $276,000 and was also owed $30,000 by another fellow subsidiary which was reported under other payables and accruals.

The Group has a loan of $9.2 million from a fellow subsidiary of CRRC Times Electric. At September 30th, 2016 an amount of $276,000 was outstanding for interest under this loan.

The Group paid $300,000 in compensation during the quarter to its key management personnel and $1.0 million for the year to date. The Group paid $5,000 in fees to directors during the quarter and $15,000 in the year to date. Directors' fees of $5,000 were outstanding at the end of the quarter.

The Group purchased services from a law firm in Canada during the quarter for $16,000 and for $43,000 during the year to date. At September 30th, 2016, $28,000 was outstanding to this law firm. One of the Company's directors is a partner in this firm.

Outlook

Revenue from bipolar discrete products increased in the third quarter from the figure it had been in the second quarter of 2016. It is forecast to increase further in the fourth quarter.

Revenue from the sale of IGBT modules and die decreased slightly in the third quarter compared with the second quarter of 2016. It is forecast to increase in the fourth quarter.

Revenue from the sales of power electronic assemblies decreased slightly in the third quarter compared to the second quarter of 2016. Revenue is expected to increase substantially in the fourth quarter.

Revenue from services increased significantly in the third quarter of 2016 and should remain at a similar level in the fourth quarter.

Overall, revenue in the third quarter was significantly above the level seen in the second quarter of 2016. It is expected to increase further in the fourth quarter. Revenue for the full year is expected to be slightly below that reported in 2014.

At the end of September 2016, the order book stood at $17.2 million compared to $14.1 million at the end of June. The increase reflected an upturn in order intake during the third quarter.

The business reported a net profit of $236,000 in the third quarter. This was significantly better than the loss reported in the second quarter of 2016. Management expects the business to remain profitability in the fourth quarter.

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
November 24th, 2016

DYNEX POWER INC.
Interim Condensed Consolidated Statements of Comprehensive Income (unaudited) in Canadian Dollars
Quarter Ended September 30th, 2016

	Note	**3 months Sept 30th 2016**	3 months Sept 30th 2015	**YTD Sept 30th 2016**	YTD Sept 30th 2015
		$	$	**$**	$
Revenue	5, 6	**11,079,036**	12,254,372	**30,474,329**	33,794,045
Cost of sales		**(9,008,230)**	(11,173,043)	**(27,332,962)**	(33,480,028)
Gross profit		**2,070,806**	1,081,329	**3,141,367**	314,017
Other income	6	**9,759**	29,873	**38,954**	73,393
Sales and marketing expenses		**(365,794)**	(267,635)	**(1,084,349)**	(853,485)
Administration expenses		**(967,489)**	(634,796)	**(2,946,099)**	(2,709,206)
Research and development expenses	7	**(265,680)**	198,425	**(1,048,923)**	100,087
Finance costs		**(188,567)**	(187,137)	**(555,144)**	(532,426)
Other gains/(losses)		**59,358**	383,231	**181,642**	313,405
Profit/(loss) before tax	7	**352,393**	603,290	**(2,272,552)**	(3,294,215)
Income tax (expense)/recovery		**(116,559)**	(120,185)	**318,085**	576,835
Net profit/(loss)		**235,834**	483,105	**(1,954,467)**	(2,717,380)
Other comprehensive income					
Exchange differences on translation of foreign operations (net of tax of $nil)		(629,240)	1,420,660	(6,410,162)	3,667,858
Total comprehensive (loss)/income		**(393,406)**	1,903,765	**(8,364,629)**	950,478
Loss per share					
Basic	8	**0.00**	0.01	**(0.02)**	(0.03)
Diluted	8	**0.00**	0.01	**(0.02)**	(0.03)

All results are derived from continuing operations.

These financial statements should be read in conjunction with the notes set out on pages 20 to 31.

DYNEX POWER INC.
Interim Condensed Consolidated Statement of Financial Position (unaudited) in Canadian Dollars
As at September 30th, 2016

	Note	**Sep 30th 2016 $**	Dec 31st 2015 $
NON-CURRENT ASSETS			
Intangible assets	9	**1,229,872**	1,594,142
Property, plant & equipment	9	**33,655,798**	43,447,376
Deferred tax asset		**388,819**	57,838
Total non-current assets		**35,274,489**	45,099,356
CURRENT ASSETS			
Inventories		**13,303,943**	15,215,237
Trade receivables		**4,623,067**	5,760,619
Amounts owing from group undertakings	14	**4,204,495**	6,019,175
Prepayments, deposits & other receivables		**1,541,475**	1,236,102
Tax recoverable		**702**	3,382
Cash		**505,417**	1,410,547
Total current assets		**24,179,099**	29,645,062
CURRENT LIABILITIES			
Trade payables		**2,003,131**	2,371,233
Amounts owing to group undertakings	14	**1,247,729**	760,062
Other payables and accruals	10	**4,795,334**	8,695,638
Borrowings	11	**11,972,609**	15,423,684
Provisions		**17,000**	20,599
Total current liabilities		**20,035,803**	27,271,216

DYNEX POWER INC.
Interim Condensed Consolidated Statement of Financial Position (Unaudited) in Canadian Dollars (continued)
As at September 30th, 2016

	Note	Sep 30th 2016 $	Dec 31st 2015 $
NON-CURRENT LIABILITIES			
Borrowings	11	**9,224,809**	8,904,800
Provisions		**51,000**	61,797
Total non-current liabilities		**9,275,809**	8,966,597
NET ASSETS		**30,141,976**	38,506,605
EQUITY			
Share capital	12	**37,096,192**	37,096,192
Accumulated deficit		**(7,563,568)**	(5,609,101)
Foreign currency translation reserve		**609,352**	7,019,514
TOTAL EQUITY		**30,141,976**	38,506,605

These financial statements should be read in conjunction with the notes set out on pages 20 to 31.

DYNEX POWER INC.
Interim Condensed Consolidated Statement of Changes in Equity (unaudited) in Canadian Dollars
Quarter Ended September 30th, 2016

	Share Capital	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 period	-	(2,717,380)	3,667,858	950,478
At September 30th, 2015	37,096,192	(10,134,020)	6,371,269	33,333,441
Total comprehensive income for the period	-	2,883,544	648,245	3,531,789
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 income for the period	-	(1,954,467)	(6,410,162)	(8,364,629)
At September 30th 2016	**37,096,192**	**(7,563,568)**	**609,352**	**30,141,976**

These financial statements should be read in conjunction with the notes set out on pages 20 to 31.

DYNEX POWER INC.
Interim Condensed Consolidated Statement of Cash Flows (unaudited) in Canadian Dollars
Quarter Ended September 30th, 2016

	Note	**YTD Sept 30th 2016 $**	YTD Sept 30th 2015 $
CASH FLOW FROM OPERATING ACTIVITIES			
Loss before tax		**(2,272,552)**	(3,294,215)
Finance costs recognised in loss before tax		**555,144**	532,426
Investment income recognised in loss before tax		**(844)**	-
Amortization of intangible assets		**157,886**	121,162
Depreciation of property, plant & equipment		**3,773,372**	3,919,523
Provision for slow moving and obsolete inventory		**440,500**	(41,191)
Movements in working capital	13	**(2,790,706)**	(4,131,890)
Income taxes paid		**(66,545)**	201
Net cash used by operating activities		**(203,745)**	(2,893,984)
CASH FLOW FROM INVESTING ACTIVITIES			
Payments for intangible assets		**(54,685)**	(127,878)
Payments for property, plant & equipment		**(1,350,943)**	(2,795,671)
Interest received		**844**	-
Net cash used in investing activities		**(1,404,784)**	(2,923,549)
CASH FLOW FROM FINANCING ACTIVITIES			
Proceeds from borrowings		**2,821,288**	38,687,049
Repayments of borrowings		**(1,573,144)**	(31,807,568)
Interest paid		**(465,323)**	(650,199)
Net cash generated by financing activities		**782,821**	6,229,282
NET (DECREASE)/INCREASE IN CASH		**(825,708)**	411,749
Cash at beginning of period		1,410,547	894,609
Effect of foreign currency translation on cash		(79,422)	(625,811)
CASH AT END OF PERIOD		**505,417**	**680,547**

All operating cash flows are derived from continuing operations.

These financial statements should be read in conjunction with the notes set out on pages 20 to 31.

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, 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

These interim condensed consolidated financial statements of the Group were prepared in accordance with International Accounting Standard ("IAS") 34, "Interim Financial Reporting". Therefore these interim condensed consolidated financial statements do not include all the information and disclosures that are required in annual financial statements in accordance with International Financial Reporting Standards ("IFRS").

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. Any changes in estimates will be treated prospectively in the period in which they change. Details of the Group's key judgements and estimates are disclosed in Note 5 of the Group's consolidated financial statements for the year ended December 31st, 2015.

These interim condensed consolidated financial statements have been prepared on the basis of the same policies as described in Note 4 to the Group's consolidated financial statements for the year ended December 31st, 2015, subject to the new standards and interpretations set out in Note 4 below, and should be read in conjunction with those statements which are included in the Group's Annual Report for 2015.

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

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

3. FUTURE CHANGES IN ACCOUNTING POLICIES

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

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 Company 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. In April 2015, the IASB tentatively decided to defer the effective date by one year. 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 Company 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 Company is in the process of assessing the impact of this standard on its financial statements.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These interim condensed consolidated financial statements have been prepared using the same accounting policies as those used in the Group’s annual financial statements for the year ended December 31st, 2015.

5. 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.

	3 months Sept 30th 2016	3 months Sept 30th 2015	**YTD Sept 30th 2016**	YTD Sept 30th 2015
	$	$	**$**	$
Canada	**7,309**	-	**185,506**	-
United Kingdom	**1,218,894**	977,145	**6,649,253**	5,892,162
China	**3,781,229**	4,060,646	**8,404,323**	8,865,430
France	**1,320,946**	944,732	**4,043,048**	2,689,479
Netherlands	**105,591**	1,995,470	**580,391**	3,689,479
Other (None > 10%)	**4,645,067**	4,276,379	**10,611,808**	12,657,495
	11,079,036	12,254,372	**30,474,329**	33,794,045

Property, plant and equipment by geographic area

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

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

Major customers

For the quarter ended September 30th, 2016 the Group had two customers each accounting for more than 10% of revenue, generating $4,208,232 (CRRC Times Electric Group) and $717,327 respectively.

In the nine months ended September 30th, 2016 the Group had two customers each accounting for more than 10% of revenue, generating $9,275,205 (CRRC Times Electric Group) and $4,397,526.

6. REVENUE AND OTHER INCOME

Revenue on sale of goods and services

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

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

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

	3 months Sept 30th 2016	3 months Sept 30th 2015	**YTD Sept 30th 2016**	YTD Sept 30th 2015
Revenue:	**$**	$	**$**	$
Sale of goods	**8,921,618**	10,996,675	**27,320,410**	31,623,950
Rendering of services	**2,157,418**	1,257,698	**3,153,919**	2,170,096
	11,079,036	12,254,373	**30,474,329**	33,794,046
Other Income:				
Sale of scrap materials	**8,259**	25,231	**32,972**	58,670
Bank interest income	**9**	-	**138**	-
Other interest income	**-**	-	**827**	-
Government grants	**-**	1,595	**154**	4,574
Other income	**1,491**	3,047	**4,863**	10,149
	9,759	29,873	**38,954**	73,393

7. PROFIT/LOSS BEFORE TAX

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

	3 months Sept 30th 2016	3 months Sept 30th 2015	**YTD Sept 30th 2016**	YTD Sept 30th 2015
	$	$	**$**	$
Cost of inventories sold	**8,475,409**	10,030,098	**25,762,542**	31,339,534
Staff costs (including director's remuneration):				
Wages and salaries	**4,625,446**	4,951,780	**14,594,465**	14,642,814
Other benefits	**232,057**	231,683	**720,860**	689,075
Foreign exchange differences (net)	**(59,358)**	(318,113)	**(181,642)**	(153,032)
Amortisation of intangibe assets charged to:				
Cost of sales	**191**	1,526	**3,045**	4,374
Research and development	**16,399**	18,323	**91,026**	52,507
Administration expenses	**11,208**	22,428	**63,813**	64,281
Depreciation of items of property, plant and equipment charged to:				
Cost of sales	**993,237**	1,186,758	**3,241,131**	3,422,930
Research and development	**127,224**	115,373	**411,500**	340,193
General and administration	**21,002**	48,665	**120,743**	156,400
Research and development expenses (before government grants and contribution from CRRC Times Electric)	**2,976,508**	2,713,051	**8,254,115**	6,578,823
Contribution from CRRC Times Electric	**(2,477,318)**	(2,653,675)	**(6,534,151)**	(5,863,300)
Government grants:				
Research and development	**(233,510)**	(257,801)	**(671,041)**	(815,610)
Property plant and equipment	**-**	(1,591)	**(154)**	(4,574)
Provision for slow moving and obsolete inventories	**-**	(122,019)	**440,500**	(41,191)

8. PROFIT/LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS

Profit/loss per share calculations are based on:

	3 months Sept 30th 2016	3 months Sept 30th 2015	**YTD Sept 30th 2016**	YTD Sept 30th 2015
	$	$	**$**	$
Earnings:				
Profit/(loss) attributable to ordinary equity holders used in both basic and diluted earnings per share calculations	**235,834**	483,105	**(1,954,467)**	(2,717,380)
Shares:				
Weighted average number of ordinary shares outstanding during the period used in the basic earnings per share calculation	**80,509,047**	80,509,047	**80,509,047**	80,509,047
Shares that could be issued on exercise of options	**-**	-	**-**	-
Shares that would be repurchased out of proceeds of option exercises	**-**	-	**-**	-

9. INTANGIBLE ASSETS & PROPERTY, PLANT AND EQUIPMENT

In the quarter ended September 30th, 2016 the Group acquired intangible assets and property, plant and equipment with an aggregate cost of $450,510 (Sept 30th, 2015 - $1,106,716). In the nine months ended September 30th, 2016 the Group acquired intangible assets and property, plant and equipment with an aggregate cost of $1,389,074 (Sept 30th, 2015 - $2,758,977)

In the quarters ended September 30th, 2016 and September 30th, 2015 the Group disposed of no intangible assets or items of property, plant and equipment. In the nine months ended September 30th, 2016 the Group disposed of intangible assets and property, plant and equipment with an aggregate carrying value of $nil (Sept 30th, 2015 - $nil) which resulted in a net profit of $nil (Sept 30th, 2015 - $nil).

At September 30th, 2016 the Group has commitments for the purchase of intangible assets and property, plant and equipment of $1.6 million (Dec 31st, 2015 - $1.4 million).

10. OTHER PAYABLES AND ACCRUALS

	Sept 30th 2016	Dec 31st 2015
	$	$
Accruals	**2,005,517**	2,082,224
Unearned income	**2,233,709**	5,981,450
Other	**556,108**	631,964
	4,795,334	8,695,638

Other consists mainly of payroll taxes and pension contributions.

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

	Note	**Sept 30th 2016**	Dec 31st 2015
		$	$
CRRC Times Electric	14	**1,581,901**	4,398,352
Fellow group undertakings	14	**29,524**	35,774
Other Parties	14	**8,670**	15,200
		1,620,095	4,449,326

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

11. BORROWINGS

		Sept 30th 2016	Dec 31st 2015
		$	$
Secured at amortised cost:			
Bank overdrafts	(i)	**1,409,523**	671,586
Bank loans	(i) (ii) (iii)	**10,380,200**	12,204,827
Finance lease	(iv)	**96,982**	206,396
		11,886,705	13,082,809
Unsecured at amortised cost:			
Other loans	(v) (vi) (vii)	**9,310,713**	11,245,675
		21,197,418	24,328,484
Current portion		**11,972,609**	15,423,684
Non-current portion		**9,224,809**	8,904,800
		21,197,418	24,328,484

(i) The Group has a bank overdraft of $1,409,523 (Dec 31st, 2015 - $671,586) under an approved overdraft facility of $1,700,000 (Dec 31st, 2015 - $2,060,000) which is repayable on demand. The overdraft bears interest at UK base rate plus 1.8% 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.

(ii) The Group has an uncommitted money market facility from a bank for $11,900,000 of which $10,200,000 was drawn at the end of September 2016 (Dec 31st, 2015 - $10,299,500). The repayment date is set at the time drawings are made and the interest rate is set at base rate plus 2.4%. All the drawings at the end of September were repayable during October 2016. The facility is secured by a first charge on property, plant and equipment (excluding the equipment under leases and chattel mortgages) and current assets and is guaranteed by CRRC Times Electric. At September 30th, 2016 these assets have a carrying value of $55,778,116 (Dec 31st, 2015 - $63,594,004).

(iii) The Group has a bank loan for $180,200 (Dec 31st, 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 $489,199 (Dec 31st, 2015 - $644,063).

(iv) The Group repaid the bank loan which was secured by a fixed charge on the freehold land and buildings during the quarter (Dec 31st, 2015 - $1,529,270).

(v) The finance leases are secured by the equipment leased which has a carrying value of $221,878 (Dec 31st, 2015 - $147,126).

(vi) The Group has an unsecured loan from a fellow subsidiary of CRRC Times Electric for $9,180,000 (Dec 31st, 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. See Note 14.

(vii) The Group repaid the unsecured interest free loan from an unrelated party during the quarter (Dec 31st, 2015 - $122,216).

(viii) The Group has a loan from an unrelated party for $130,713 (Dec 31st, 2015 - $nil). The loan bears interest at 3.5% per annum and is repayable in nine monthly instalments from April 2016 to December 2016.

12. SHARE CAPITAL

At September 30th, 2016 there were 80,509,047 common shares of the company outstanding (Dec 31st, 2015 – 80,509,047).

13. MOVEMENTS IN WORKING CAPITAL

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

Movements in Working Capital:	**YTD Sept 30th 2016**	YTD Sept 30th 2015
	$	$
(Increase) decrease in inventories	**(1,267,214)**	2,772,011
Decrease in trade receivables	**175,065**	3,204,359
Decrease (increase) in amounts owing from group undertakings	**1,436,766**	(10,825)
(Increase) in prepayments, deposits & other receivables	**(624,870)**	(274,652)
Increase (decrease) in trade payables	**38,237**	(5,958,589)
Increase in amounts owing to group	**701,068**	207,257
(Decrease) in other payables & accruals	**(3,249,758)**	(2,770,655)
(Decrease) in provisions	**-**	(1,300,796)
	(2,790,706)	(4,131,890)

14. 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 and all of its affiliates as related parties.

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

		3 months Sept 30th 2016	3 months Sept 30th 2015	**YTD Sept 30th 2016**	YTD Sept 30th 2015
		$	$	**$**	$
Transactions with CRRC Times Electric:					
Sale of goods	(i) (ii)	**1,666,021**	2,857,173	**5,296,939**	6,905,118
Rendering of services	(iii)	**2,072,666**	1,154,695	**2,959,913**	1,911,533
Amounts in respect of jointly funded research and development activity which is accounted for as a reduction in research and development expenses	(iv)	**2,477,318**	2,653,675	**6,534,151**	5,863,300
Reimbursed expenses	(v)	**43,238**	131,681	**199,084**	238,533
Purchases of materials and components	(i) (vi)	**751,238**	1,079,762	**2,093,740**	3,770,250
Interest expense	(x)	**-**	34,997	**-**	178,904
Transactions with fellow group undertakings:					
Sale of goods	(viii)	**469,545**	874,765	**1,018,353**	2,249,223
Purchases of materials and components	(ix)	**-**	-	**504,080**	-
Interest expense	(x)	**93,540**	41,349	**288,030**	60,407
Reimbursed expenses	(xi)	**-**	-	**52,654**	-
Transactions with other parties:					
Compensation to key management personnel		**300,000**	373,000	**1,007,000**	1,067,000
Non-exective directors fees	(xii)	**5,000**	5,000	**15,000**	15,000
Legal fees and expenses	(xiii)	**16,331**	15,076	**43,075**	39,905

14. RELATED PARTY TRANSACTIONS AND BALANCES (continued)

		Sept 30th 2016	Dec 31st 2015
		$	$
Balances with CRRC Times Electric:			
Amounts owing from group undertakings	(i) - (v)	**3,814,410**	5,445,377
Amounts owing to group undertakings	(i) (vi)	**1,247,729**	760,062
Other payables and accruals	(iii) (iv)	**1,581,901**	4,398,352
Balances with fellow group subsidiaries:			
Amounts owing from group undertakings	(viii)	**390,085**	573,798
Borrowings	(x)	**9,180,000**	11,123,460
Amounts owing to group undertakings	(x)	**275,652**	-
Other payables and accruals	(xi)	**29,524**	35,774
Balances with other parties:			
Other payables and accruals	(xii)	**5,000**	10,000
Trade payables	(xiii)	**24,424**	7,776
Other payables and accruals	(xiii)	**3,670**	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, Africa 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.

(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.

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

(viii) 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.

(ix) The Group uses Zhuzhou Times New Material International Trading Co., Ltd to make purchases of materials and components for it in China.

(x) 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.

(xi) The Group incurs costs in the UK on behalf of CRRC Zhuzhou Institute Co Ltd. These costs are reimbursed in full. CRRC Zhuzhou Institute Co Ltd paid in advance the costs payable for the first quarter which will be deducted at the end of the contract.

(xii) Two of the Company's non-executive directors receive a fee for their services.

(xiii) 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, other than borrowings, are recorded as current liabilities and current assets since they are due upon demand or on the basis of normal creditor terms. Amounts due under borrowings are recorded as current liabilities or non-current liabilities according to the dates on which repayments are due to be made.

15. APPROVAL OF THE FINANCIAL STATEMENTS

These interim condensed consolidated financial statements were approved by the board of directors of Dynex Power Inc. on November 24th, 2016.

Corporate Information

Board of Directors

Liu Ke'an [1] [3]
Chairman

Paul Taylor [1]
Director, President & CEO

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

Debbie Weinstein [1] [2]
Director

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

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

Paul Taylor
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

Dynex Locations

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

Dynex Semiconductor Limited
Doddington Road
Lincoln, LN6 3LF
England

Telephone +44 1522 500500
Fax +44 1522 500660

Registered Office

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