DYNEX POWER INC.

REPORT FOR THE QUARTER ENDED MARCH 31st 2017

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.

Table of Contents

Company Profile 4
Letter to Shareholders 5
Management's Discussion & Analysis 6
Interim Condensed Consolidated Statements of Comprehensive Income (unaudited) in Canadian Dollars 14
Interim Condensed Consolidated Statement of Financial Position (unaudited) in Canadian Dollars 15
Interim Condensed Consolidated Statement of Changes in Equity (unaudited) in Canadian Dollars 17
Interim Condensed Consolidated Statement of Cash Flows (unaudited) in Canadian Dollars 18
Notes to the Interim Condensed Consolidated Financial Statements (unaudited) 19
Corporate Information 30

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 April 2016 this company changed its name to Zhuzhou CRRC Times Electric Co., Ltd.
- 348 employees (March 2017)
- 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

In my letter to shareholders attached to the Annual Report for 2016, I indicated that I was determined to return the Group to profitability in 2017 and explained that I had developed a plan to initiate major changes in five main areas of the business. In this letter, I would like to update you on our progress with these workstreams during the first quarter of 2017.

Revenue for the first quarter was $11.6 million, $1.6 million or 15% higher than in the previous quarter despite a slight strengthening of the Canadian Dollar exchange rate. This revenue figure was the highest reported by the Group for four years. As a result, the Group reported a net profit of $406,000, versus a loss for the same period last year.

This positive performance is largely as a result of stronger and more focused operational execution throughout the business. Some of the incremental revenue was achieved by closing out a number of aged orders that were scheduled for 2016. The company has, in quarter one, demonstrated much more reliability and predictability in its operational performance. I expect this to continue throughout the year: Dynex will be a company our customers can count on to deliver its promises.

With the increase in operational performance, Dynex is in a position confidently to solicit more orders. This will require further development of our sales team. We have identified the areas where we believe we need to have a stronger and more focussed sales representation and we have already started looking for external recruits to fill these roles. Such recruitment, of course, cannot be completed overnight, but we expect to have made strong progress on this work by the end of 2017.

We have identified four new IGBT products that we expect to launch in the fourth quarter of 2017, together with enhancements to our existing product range. Detailed timetables for these product releases have been put in place and are reviewed daily and weekly by Senior Management. We remain on target.

We are committed to improving our operational performance, particularly in relation to lead times, on-time delivery, manufacturing yields and customer service. The first quarter showed good progress in this regard, as I have noted above, and this workstream remains very strongly on target.

In respect of improvements in product and process quality, again we are progressing in line with the targets we have set ourselves. Our strong focus on IGBT die yields is showing encouraging results, with further initiatives planned for continual improvement. Structured, systematic quality improvements will take time, but I am encouraged by the start that we have made.

The fifth work stream relates to setting clear performance expectations and accountability for all members of the Dynex team, along with empowering and engaging our workforce. Here again, progress is being made in accordance with our plan.

The senior management team meets weekly to review progress on all five of the major work streams, to ensure we remain on track and to take remedial action when any slippage is identified or can be foreseen.

Looking forward, our expectations for the second quarter are for another profitable period. The quarter's order backlog is robust. Operationally, we are working through a number of actions to deliver good revenue and a positive profit number.

The outlook for the second half of the year remains somewhat less certain. The industry increasingly works on shorter lead times than in the past, so the majority of our revenue for the second half of the year has yet to be backed by committed orders from customers. It is clear that we already have a lot more structure, strategy and focus in our sales efforts. However, it can take some time for these improved actions to translate into increased revenue. At this stage, therefore, I remain cautious about the level of revenue for second half of the year. I am, however, confident that 2017 will be a profitable year for Dynex.

I shall be providing an update on our plans and the progress we are making at our Annual General Meeting in Toronto on the 20th June. I look forward to meeting shareholders at that time.

I remain grateful for the welcome I have received upon joining Dynex and for your support for the actions we are taking to improve performance across the entire company.

Clive Vacher
President and Chief Executive Officer
May 18th, 2017

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 March 31st, 2017.

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 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, small numbers of large contracts drive revenues in this 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 January to March 2017	C$1.6506
Average rate January to March 2016	C$1.9614
Rate at March 31st, 2017	C$1.6605
Rate at December 31st, 2016	C$1.6490

As illustrated, the Canadian Dollar rate against Sterling for the first quarter of 2016 was approximately 16% stronger than in the first quarter of 2016. Consequently, exchange rate movements had a significant impact on reported revenue and expenditure in the quarter.

The Canadian Dollar rate against Sterling at March 31st, 2017 was less than 1% weaker than the rate at December 31st, 2016. Consequently, the change in rates had an insignificant 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 first quarter of 2017 was 12% higher than in the corresponding quarter of last year and would have been significantly higher but for the 16% strengthening of the Canadian Dollar. The gross margin improved to 23.7% and a net profit of $406,000 was recorded.

The Company's booking to billing ratio for the quarter was 0.90. This is lower than the ratio for 2016 and suggests the market will remain tough until the new products are launched later this year.

Revenue

Revenue in the first quarter of 2017 was $11.6 million, $1.3 million or 12% higher than in the corresponding quarter of last year In Sterling terms, revenue had increased by 34% compared to the corresponding quarter of last year. The increase in Sterling terms arose across all product areas apart from die sales.

Gross Margin

The gross margin was 23.7% of revenue in the first quarter of 2017compared to a gross margin of 11.6% of revenue in the first quarter of 2016.

Other Income

Other income for the quarter consists primarily of the sale of scrap materials. The figures for the current quarter and for the corresponding quarter 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 15.9% of revenue in the first quarter of 2017 compared to 13.5% in the corresponding quarter of last year. The increase reflected a provision for a small redundancy exercise being carried out at bthe end of the quarter..

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 first quarter of 2017 of $194,000 compared with a cost of $300,000 in the corresponding quarter of the previous year. The reduction in cost to the Group reflected managements ability to obtain external support for R&D work.

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 17.4% of revenue in the first quarter of 2017 compared to 24.8% of revenue in the corresponding quarter of last year.

Finance Costs

Finance costs for the quarter were $140,000, compared to $179,000 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.

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 $545,000 compared with a loss before tax of $526,000 in the corresponding quarter of last year.

Income Tax Expense
The Group recorded a tax charge in the quarter equivalent to 25.6% of the profit before tax compared with a tax recovery of 12.4% of the loss before tax in the corresponding quarter of last year. In 2016, there had been a substantial loss in Canada and the Group gains no tax benefit from such losses.

Net Profit/Loss
The Group reported a net profit of $406,000 in the first quarter of 2017 compared to a net loss of $461,000 in the corresponding quarter of last year.

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 $34.2 million at the end of last year to $33.7 million at the end of the first quarter. The decrease was 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 March 2017, working capital stood at $14.5 million or 1.3 times first quarter revenue compared to $12.7 million or 1.2 times quarter four revenue at the end of December 2016.

Net Debt
At the end of March 2017, the Group had net debt (borrowings less cash) of $21.3 million. At the end of December 2016, it had net debt of $20.6 million. The increase in borrowings reflected the small increase in working capital.

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

Equity
Equity has reduced by $592,000 since the end of the preceding year. Approximately two thirds of the increase is accounted for by the net profit in the quarter and one third is as a result of an exchange gain on translation of the UK subsidiary.

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 March 2017, the Group had a gearing ratio of 79.2%. At the end of the preceding year, the Group had a gearing ratio of 78.4%. 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 $591,000 of cash at the quarter end.

Cash Flow
There was an inflow of $57,000 from operating activities in the quarter. The main constituents of the cash inflow were a profit before tax and finance charges of $686,000 and depreciation of $1.1 million partially offset by and a release of provision for obsolete inventory of $1.5 million which is a non cash movement.

Commitments
The Group has capital commitments at the quarter end of $1.8 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

	2017 Q1	2016 Q4	2016 Q3	2016 Q2	2016 Q1	2015 Q4	2015 Q3	2015 Q2	2016 FY	2015 FY	2014 FY
Revenue	11,553	10,045	11,079	9,123	10,273	12,718	12,254	11,994	40,519	46,512	42,166
Gross Profit	2,732	(1,052)	2,071	(117)	1,188	4,369	1,081	756	2,090	4,683	(441)
Gross profit %	23.7%	(10.5%)	18.7%	(1.3%)	11.6%	34.4%	8.8%	6.3%	5.2%	10.1%	(1.0%)
Gross R&D %	17.4%	33.2%	26.9%	29.9%	24.8%	26.0%	22.1%	16.0%	28.6%	21.3%	15.2%
Profit before Tax	545	(3,678)	352	(2,099)	(526)	3,564	603	(520)	(5,951)	270	(6,518)
Net Profit	406	(2,965)	236	(1,729)	(461)	2,884	483	(419)	(4,919)	166	(5,548)
Earnings per Share											
Basic	0.01	(0.04)	0.00	(0.02)	(0.01)	0.04	0.01	(0.01)	(0.06)	0.00	(0.07)
Diluted	0.01	(0.04)	0.00	(0.02)	(0.01)	0.04	0.01	(0.01)	(0.06)	0.00	(0.07)
Non-current assets	33,665	34,218	35,274	36,837	39,911	45,100	45,410	43,804	34,218	45,100	41,078
Working capital	14,534	12,714	15,560	14,322	15,830	16,325	12,988	6,734	12,714	16,325	7,565
Net debt	21,298	20,623	20,692	20,624	21,285	22,918	25,065	19,108	20,623	22,918	16,260
Equity	26,901	26,309	30,142	30,535	34,456	38,507	33,333	31,430	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 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 2014, 2014 and 2016 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 10% between 2014 and 2015 and declined by 13% between 2015 and 2016. In the first case the change was a result of a weakening in the Canadain 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 revenues have also been heavily affected by exchange rate movements. In Sterling terms, revenue was low in the first and second quarter of 2016 and was strong in the first quarter of 2017. It was reasonably 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 bgross loss in 2016 reflected an inventory write-off, loss of sales and restructuring costs. Gross profit increased throughout 2015 with the figure in the fourth quarter of 2015 significantly above management expectation and the gross profit percentage fell back 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 but there was again a gross loss in the fourth quarter as a result of an inventory write-off, loss of sales and restructuring costs. Gross profit recovery sharply in the first quarter of 2017 in response to the stronger revenue reported.

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.

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 also 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 second quarter 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 from the end of 2014 to the end of the third quarter of 2015. Since then, net debt in Sterling has been relatively stable, with movements in the Canadian Dollar value reflecting changes in the Sterling Canadian Dollar exchange rate.

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:

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 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 carried out a detailed review as at the end of 2016 in order to assess whether any impairment of assets had 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.

Following completion of that review, management has concluded that no impairment of assets had taken place.

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 March 31st, 2017 the carrying amount of intangible assets and property, plant and equipment was $32.7 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 March 31st, 2017 the provision against inventories was $9.7 million and the 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 March 31st, 2017 the provision was $168,000 and the carrying amount of trade receivables was $5.9 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 March 31st, 2017 the carrying value of provisions was $980,000.

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 March 31st, 2017, 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 $437,000 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 $1.2 million of goods and $1.0 million of services to CRRC Times Electric, received a contribution towards research and development of $1.4 million and purchased materials and components from them for $1.2 million. The Group also sold $328,000 of goods to a fellow subsidiary of CRRC Times Electric and paid $88,000 in interest on a loan from another fellow subsidiary of CRRC Times Electric. The Group incurred expenses in the UK of $19,000 on behalf of

CRRC Times Electric which expenses were reimbursed to the Group.

At March 31st, 2017 the Group was owed $3.5 million for goods and services sold to CRRC Times Electric and owed them $2.2 million for materials and components purchased from them

The Group has a loan of $9.0 million from a fellow subsidiary of CRRC Times Electric. At March 31st, 2017 an amount of $448,000 was outstanding for interest under this loan.

The Group paid $351,000 in compensation during the quarter to its key management personnel. The Group paid $5,000 in fees to directors during the quarter. Directors' fees of $15,000 were outstanding at the end of the quarter.

The Group purchased services from a law firm in Canada during the quarter for $15,000. At March 31st, 2017, $33,000 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 first quarter from the figure it had been in the fourth quarter of 2016. It is forecast decrease slightly in the second quarter of 2017.

Revenue from the sale of IGBT modules and die decreased slightly in the first quarter of 2017 compared with the fourth quarter of 2016. It is forecast to increase significantly in the second quarter of 2017.

Revenue from the sales of power electronic assemblies increased significantly in the first quarter of 2017 compared to the fourth quarter of 2016. Revenue is expected to remain strong in the second quarter of 2017.

Revenue from services decreased significantly in the firstquarter of 2017 compared to the fourth quarter of 2016. It and should remain at a similar level in the second quarter.

Overall, revenue in the first quarter was significantly above the level seen in the fourth quarter of 2016. It is expected remain strong in the second quarter. Revenue for the full year is expected to be above that reported in 2016.

At the end of March 2017, the order book stood at $13.0 million compared to $14.0 million at the end of December 2016. The reduction reflected the high revenue figure in the quarter and Rhe tough market currently being experienced.

The business reported a net profit of $406,000 in the first quarter. This was significantly better than the loss reported in the fourth quarter of 2016. Management expects the business to remain profitability in the second quarter.

Additional Information

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

Bob Lockwood

Bob Lockwood.
Chief Financial Officer
May 18th, 2017

DYNEX POWER INC.
Interim Condensed Consolidated Statements of Comprehensive Income (unaudited) in Canadian Dollars
Quarter Ended March 31st, 2017

	Note	**3 months Mar 31st 2017 $**	3 months Mar 31st 2016 $
Revenue	5, 6	**11,552,648**	10,272,554
Cost of sales		**(8,820,330)**	(9,084,760)
Gross profit		**2,732,318**	1,187,794
Other income	6	**38,363**	22,395
Sales and marketing expenses		**(305,937)**	(327,242)
Administration expenses		**(1,531,650)**	(1,060,550)
Research and development expenses	7	**(194,380)**	(299,961)
Finance costs		**(140,594)**	(178,616)
Other (losses)/gains		**(52,795)**	129,811
Profit/(loss) before tax	7	**545,325**	(526,369)
Income tax (expense)/recovery		**(139,526)**	65,199
Net profit/(loss)		**405,799**	(461,170)
Other comprehensive income/(loss)			
Exchange differences on translation of foreign operations (net of tax of $nil)		**186,410**	(3,589,061)
Total comprehensive income/(loss) for the period		**592,209**	(4,050,231)
Earnings/(loss) per share			
Basic	8	**0.01**	(0.01)
Diluted	8	**0.01**	(0.01)

All results are derived from continuing operations.

These financial statements should be read in conjunction with the notes set out on pages 19 to 29.

DYNEX POWER INC.
Interim Condensed Consolidated Statement of Financial Position (unaudited) in Canadian Dollars
As at March 31st, 2017

	Note	**Mar 31st 2017**	Dec 31st 2016
		$	$
NON-CURRENT ASSETS			
Intangible assets	9	**1,482,784**	1,524,346
Property, plant & equipment	9	**31,154,449**	31,565,940
Deferred tax asset		**1,028,031**	1,127,322
Total non-current assets		**33,665,264**	34,217,608
CURRENT ASSETS			
Inventories		**11,898,099**	11,854,067
Trade receivables		**5,909,141**	4,035,481
Amounts owing from group undertakings	13	**3,945,018**	3,573,709
Prepayments, deposits & other receivables		**2,537,504**	2,297,786
Tax recoverable		**-**	682
Cash		**590,585**	898,855
Total current assets		**24,880,347**	22,660,580
CURRENT LIABILITIES			
Trade payables		**3,928,673**	3,010,756
Amounts owing to group undertakings	13	**2,167,640**	2,103,917
Other payables and accruals		**2,679,549**	3,290,095
Borrowings	10	**16,770,545**	16,380,290
Provisions		**929,880**	456,773
Total current liabilities		**26,476,287**	25,241,831

DYNEX POWER INC.
Interim Condensed Consolidated Statement of Financial Position (Unaudited) in Canadian Dollars (continued)
As at March 31st, 2017

	Note	**Mar 31st 2017**	Dec 31st 2016
		$	$
NON-CURRENT LIABILITIES			
Borrowings	10	**5,118,470**	5,141,190
Provisions		**49,815**	186,337
Total non-current liabilities		**5,168,285**	5,327,527
NET ASSETS		**26,901,039**	26,308,830
EQUITY			
Share capital	11	**37,096,192**	37,096,192
Accumulated deficit		**(10,122,426)**	(10,528,225)
Exchange fluctuation reserve		**(72,727)**	(259,137)
TOTAL EQUITY		**26,901,039**	26,308,830

These financial statements should be read in conjunction with the notes set out on pages 19 to 29.

DYNEX POWER INC.
Interim Condensed Consolidated Statement of Changes in Equity (unaudited) in Canadian Dollars
Quarter Ended March 31st 2017

	Share Capital	Deficit	Foreign Currency Translation Reserve	Total Equity
	$	$	$	$
At January 1st, 2016	37,096,192	(5,609,101)	7,019,514	38,506,605
Total comprehensive income for the period	-	(2,717,380)	3,667,858	950,478
At March 31st, 2016	37,096,192	(8,326,481)	10,687,372	39,457,083
Total comprehensive income for the period	-	(2,201,744)	(10,946,509)	(13,148,253)
At December 31st, 2016	37,096,192	(10,528,225)	(259,137)	26,308,830
Total comprehensive income for the period	-	405,799	186,410	592,209
At March 31st, 2017	**37,096,192**	**(10,122,426)**	**(72,727)**	**26,901,039**

These financial statements should be read in conjunction with the notes set out on pages 19 to 29.

DYNEX POWER INC.
Interim Condensed Consolidated Statement of Cash Flows (unaudited) in Canadian Dollars
Quarter Ended March 31st, 2017

	Note	**3 months Mar 31st 2017**	3 months Mar 31st 2016
		$	$
CASH FLOW FROM OPERATING ACTIVITIES			
Profit before tax		**545,325**	(526,369)
Finance costs recognised in profit before tax		**140,594**	178,616
Investment income recognised in profit before tax		**658**	-
Amortization of intangible assets		**51,881**	57,063
Depreciation of property, plant & equipment		**1,139,318**	1,343,479
Provision for slow moving and obsolete inventory		**(1,464,406)**	-
Non cash movement in provisions		**330,120**	-
Movements in working capital	12	**(654,479)**	(1,236,870)
Income taxes (paid)/received		**(32,329)**	-
Net cash generated by/(used in) operating activities		**56,682**	(184,081)
CASH FLOW FROM INVESTING ACTIVITIES			
Payments for intangible assets		**-**	(2,188)
Payments for property, plant & equipment		**(511,455)**	(406,934)
Interest received		**(658)**	-
Net cash used in investing activities		**(512,113)**	(409,122)
CASH FLOW FROM FINANCING ACTIVITIES			
Proceeds from borrowings		**1,185,202**	949,988
Repayments of borrowings		**(969,053)**	(113,142)
Interest paid		**(71,478)**	(77,209)
Payments for other finance costs		**(1,236)**	-
Net cash generated by financing activities		**143,435**	759,637
NET (DECREASE)/INCREASE IN CASH		**(311,996)**	166,434
Cash at beginning of period		**898,855**	1,410,547
Effect of foreign currency translation on cash		**3,726**	(57,278)
CASH AT END OF PERIOD		**590,585**	1,519,703

All operating cash flows are derived from continuing operations.

These financial statements should be read in conjunction with the notes set out on pages 19 to 29.

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

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, 2016.

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, 2016, and should be read in conjunction with those statements which are included in the Group's Annual Report for 2016.

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, 2016.

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 Mar 31st 2017	3 months Mar 31st 2016
	$	$
Canada	**225,079**	178,197
United Kingdom	**3,193,916**	2,937,314
China	**2,136,416**	2,524,075
France	**1,539,648**	1,387,577
India	**1,442,195**	210,972
Other (None > 10%)	**3,015,394**	3,034,419
	11,552,648	10,272,554

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 March 31st, 2017 the Group had one customer accounting for more than 10% of revenue, generating $2,618,593 (CRRC Times Electric Group) (Mar 31st, 2016 two customers each accounting for more than 10% of revenue, generating $2,870,232 (CSR Times Electric Group) and $2,019,042 respectively).

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 Mar 31st 2017	3 months Mar 31st 2016
Revenue:	**$**	$
Sale of goods	**10,287,069**	9,847,523
Rendering of services	**1,265,579**	425,031
	11,552,648	10,272,554
Other Income:		
Sale of scrap materials	**34,968**	19,096
Bank interest income	**(658)**	-
Government grants	**-**	155
Other income	**4,052**	3,144
	38,363	22,395

7. PROFIT/LOSS BEFORE TAX

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

	3 months Mar 31st 2017	3 months Mar 31st 2016
	$	$
Cost of inventories sold	**7,532,021**	8,642,344
Staff costs (including director's remuneration):		
Wages and salaries	**4,968,505**	5,043,532
Other benefits	**169,825**	237,437
Foreign exchange differences (net)	**52,795**	(109,661)
Amortization of intangible assets charged to:		
Cost of sales	**182**	1,702
Research and development expenses	**31,424**	32,164
Administarion expenses	**20,274**	23,196
Depreciation of items of property, plant and equipment charged to:		
Cost of sales	**945,030**	1,153,800
Research and development expenses	**184,188**	145,527
Administarion expenses	**10,101**	44,152
Research and development expenses (before government grants and contribution from CRRC Times Electric)	**2,014,746**	2,544,948
Contribution from CRRC Times Electric	**(1,383,259)**	(2,044,677)
Government grants:		
Research and development	**(437,106)**	(200,310)
Property plant and equipment	**-**	(155)
Provision for slow moving and obsolete inventories	**(1,464,406)**	-

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

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

	3 months Mar 31st 2017	3 months Mar 31st 2016
	$	$
Earnings:		
Profit/(loss) attributable to ordinary equity holders used in both basic and diluted earnings per share calculations	**405,799**	(461,170)
Shares:	**Nos**	Nos
Weighted average number of ordinary shares outstanding during the period used in the basic earnings per share calculation	**80,509,047**	80,509,047
	$	$
Earnings/(loss) per share	**0.01**	(0.01)

9. INTANGIBLE ASSETS & PROPERTY, PLANT AND EQUIPMENT

In the quarter ended March 31st, 2017 the Group acquired intangible assets and property, plant and equipment with an aggregate cost of $511,000 (Mar 31st, 2016 - $409,000).

In the quarters ended March 31st, 2017 and March 31st, 2016 the Group disposed of no intangible assets or items of property, plant and equipment.

At March 31st, 2017 the Group has commitments for the purchase of intangible assets and property, plant and equipment of $1.8 million (Dec 31st, 2016 - $2.1 million).

10. BORROWINGS

		Mar 31st 2017	Dec 31st 2016
		$	$
Secured at amortised cost:			
Bank overdrafts	(i)	**1,288,684**	545,511
Bank loans	(i) (ii) (iii)	**10,896,827**	11,674,787
Finance lease	(iv)	**62,337**	70,922
		12,247,848	12,291,220
Unsecured at amortised cost:			
Other loans	(v) (vi) (vii)	**9,641,167**	9,230,260
		21,889,015	21,521,480
Current portion		**16,770,545**	16,380,290
Non-current portion		**5,118,470**	5,141,190
		21,889,015	21,521,480

(i) The Group has a bank overdraft of $1,288,684 (Dec 31st, 2016 - $545,511) under an approved overdraft facility of $1,660,500 (Dec 31st, 2016 - $1,649,000) 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.

(ii) The Group has an uncommitted money market facility from a bank for $11,623,500 of which $10,793,250 was drawn at the end of March 2017 (Dec 31st, 2016 - $11,623,500). The repayment date is set at the time drawings are made and the interest rate is set at base rate plus 2.1%. All the drawings at the end of March were repayable during April 2017. 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 March 31st, 2017 these assets have a carrying value of $55,443,600 (Dec 31st, 2016 - $52,940,346).

(iii) The Group has a bank loan for $103,577 (Dec 31st, 2016 - $131,786) 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 $450,265 (Dec 31st, 2016 - $460,835).

(iv) The finance leases are secured by the equipment leased which has a carrying value of $140,931 (Dec 31st, 2016 - $143,236).

(v) The Group has an unsecured loan from a fellow subsidiary of CRRC Times Electric of 8,966,700 (Dec 31st, 2016 - $8,904,600) . The loan bears interest at 4% per annum and is repayable in nine equal biannual repayments between June 2016 and June 2020. See Note 13.

(vi) The Group has an unsecured interest free loan from an unrelated party of $266,819 (Dec 31st, 2016 - $325,660).

(vii) The Group has a loan from an unrelated party for $407,648 (Dec 31st, 2016 - $nil). The loan bears interest at 7.6% per annum and is repayable in nine monthly instalments from April 2016 to December 2016.

11. SHARE CAPITAL

At March 31st, 2017 there were 80,509,047 common shares of the company outstanding (Dec 31st, 2016 – 80,509,047).

12. MOVEMENTS IN WORKING CAPITAL

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

	3 months Mar 31st 2017	3 months Mar 31st 2016
	$	$
Decrease (increase) in inventories	**1,502,813**	(502,366)
(Increase) in trade receivables	**(1,834,515)**	(883,797)
(Increase) in prepayments, deposits & other receivables	**(222,708)**	(747,010)
(Increase) decrease in amounts owing from parent company	**(344,320)**	3,347,835
Increase in trade payables	**892,109**	209,344
(Decrease) in other payables & accruals	**(696,615)**	(2,905,345)
Increase (decrease) in provisions	**-**	-
Increase in amounts owing to parent company	**48,757**	244,469
	(654,479)	(1,236,870)

13. 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 as related parties.

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

		YTD Mar 31st 2017	YTD Mar 31st 2016
		$	$
Transactions with CRRC Times Electric:			
Sale of goods	(i) (ii)	**1,241,067**	2,062,885
Rendering of services	(iii)	**1,049,584**	425,031
Amounts in respect of jointly funded research and development activity which is accounted for as a reduction in research and development expenses	(iv)	**1,383,259**	2,044,677
Reimbursed expenses	(v)	**19,143**	57,425
Purchases of materials and components	(i) (vi)	**1,168,568**	641,972
Transactions with fellow group subsidiaries:			
Sale of goods	(viii)	**327,942**	436,322
Purchases of materials and components	(ix)	**-**	215,171
Interest expense	(x)	**87,911**	50,301
Transactions with other parties:			
Compensation to key management personnel		**351,000**	378,370
Non-exective directors fees	(xii)	**5,000**	5,000
Legal fees and expenses	(xiii)	**15,317**	20,156

13. RELATED PARTY TRANSACTIONS AND BALANCES (continued)

		Mar 31st 2017	Dec 31st 2016
		$	$
Balances with CRRC Times Electric:			
Amounts owing from group undertakings	(i) - (v)	**3,526,514**	3,573,709
Amounts owing to group undertakings	(i) (vi)	**2,167,640**	2,103,917
Other payables and accruals	(iii) (iv)	**-**	-
Balances with CRRC Corporation Ltd			
Amounts owing from group undertakings	(vii)	**1,024**	-
Balances with fellow group subsidiaries:			
Amounts owing from group undertakings	(viii)	**417,480**	-
Borrowings	(ix)	**8,966,700**	8,904,600
Other payables and accruals	(ix)	**448,089**	357,160
Balances with other parties:			
Other payables and accruals	(xii)	**15,000**	10,000
Trade payables	(xiii)	**28,250**	29,097
Other payables and accruals	(xiii)	**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, 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) The agreement signed on February 7th, 2014 with CRRC Times Electric for the research and development centre to provide technical support to CRRC Times Electric expired at the end of December 2016. A new agreement is being finalised and the Group is incurring expenses in advance of the contract being signed. This expenditure will be reimbursed to the Group and an advance payment towards future costs will be received once the new agreement is signed.

13. RELATED PARTY TRANSACTIONS AND BALANCES (continued)

(iv) The agreement signed on February 7th 2014 with CRRC Times Electric to share the costs of carrying out research and development projects at the Group's premises in Lincoln, England expired at the end of December 2016. A new agreement was signed in April and the Group has subsequently reveived an advance payment towards future costs.

(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) The Group has a loan for approximately $9.0 million from 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 9 biannual instalments between June 2016 and June 2020. The repayments due in June and December 2016 have not yet been made.

(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.

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.

14. APPROVAL OF THE FINANCIAL STATEMENTS

These interim condensed consolidated financial statements were approved by the board of directors of Dynex Power Inc. on May 18th, 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

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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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