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# **DYNEX POWER INC.**

## **REPORT FOR THE QUARTER ENDED JUNE 30th 2017**



### **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 June 30, 2017 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.*

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## **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 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.
- 341 employees (June 2017)
- ISO9001:2008, ISO14001:2004 and ISO 50001:2011 approved
- Further information: [www.dynexpower.com](http://www.dynexpower.com)

## Products

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

## Customers

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

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



## Letter to Shareholders

I am pleased to provide the following update on progress at Dynex.

Revenue for the second quarter was \$11.5 million, essentially equal to the first quarter and in the middle of the guidance range provided. However, a less favourable product mix, coupled with higher than expected research and development costs and a slightly weaker Canadian Dollar, contributed to a net loss of \$944,000 for this period.

For the 6 months to 30 June 2017, Dynex's sales stand at \$23.1 million, a 19% increase on the same period in 2016. The half-year loss totalled \$538,000 (2016: loss of \$2.2 million), representing an improvement of over 75% on the results for the first half of last year.

The less favourable product mix in the second quarter included larger sales of lower-margin products and correspondingly a decrease in higher-margin products than in the first quarter. This indicates more of a timing issue than an overall trend, and the mix is expected to return to normal in the third quarter. In addition, there was a number of systems delivered to customers from our Power Assemblies division that had higher costs than normal. While the systems themselves are of very high quality, our financial performance suffered due to technical challenges that took longer, and cost more, to solve than planned. Finally, higher research and development costs weighed on the quarter's financials.

The causes of the loss in quarter two, therefore, are well understood and will be addressed as part of the ongoing turnaround activities at Dynex. Specifically:

- The business is geared up operationally to focus not just on revenue growth, but also on product mix for profitability. There are ongoing initiatives to increase sales of high-margin products, coupled with better on-time delivery and a focus on cost reduction.
- In our Power Assemblies business, we are addressing the causes of schedule and cost over-runs at our large systems group. We have now shipped all overdue large systems. The project management of these systems has improved dramatically, and is already showing good results: starting with the next major system delivery in October, we plan to be on-time and on-budget going forward.
- The higher costs in research and development largely relate to projects that Dynex has funded with assistance from government bodies. The majority of these will be closed shortly.

In other news, Dynex continues to make excellent progress with its turnaround initiatives.

Our focus on becoming a market-led company, with outstanding customer service, is yielding strong results. The 19% increase in first half-year sales (36% increase on a constant-currency basis) is one indication of the way the market is responding to our new approach.

Our renewed focus in research and development is also yielding strong results. In July 2017, we announced the initial customer shipment of a groundbreaking new product: the world's first hermetic, dynamic load-balancing press-pack IGBT, on schedule. This product has since been independently tested, and performed to industry-leading standards. It is specifically targeted at the growing HVDC power market, as well as rail traction and other applications.

Another major initiative has resulted in the first customer shipment of a new 4.5kV IGBT module, also in June, to an international rail customer. Within the next few months, we will be releasing further IGBT products that will position Dynex firmly back as a technical leader in the industry.

Operationally, we continue to improve, with further improvements in both leadtimes and on-time delivery. Our quality workstream continues to drive improvements, particularly in relation to manufacturing yields which are coming in ahead of target to the improvement schedule.

Finally, our employees have responded very well to the new management approach at Dynex, aided by our Employee Engagement workstream. The annual employee engagement survey, recently completed, shows improvement in 41 of 44 (93%) of the categories surveyed, most by strong double-digit percentages. It is clear that we have a focused and dedicated team here at Dynex, who have bought in to the vision of where we are taking the company.

In closing, I would like to say that my resolve to build a sustainable and profitable company remains strong. Further work is clearly needed to achieve this, but the direction of travel is good.

**Clive Vacher**  
**President and Chief Executive Officer**  
**August 23rd, 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 June 30th, 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:

	<u>£1 equals</u>
Average rate April to June 2017	C\$1.7212
Average rate April to June 2016	C\$1.8713
Average rate January to June 2017	C\$1.6814
Average rate January to June 2016	C\$1.9163
Rate at June 30th, 2017	C\$1.6882
Rate at December 31st, 2016	C\$1.6490

As illustrated, the Canadian Dollar rate against Sterling for the second quarter of 2017 was approximately 8% stronger than in the second quarter of 2016 and the rate for the first half of 2017 was approximately 12% stronger than the rate for the first half 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 June 30th, 2017 was approximately 2% 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 second quarter of 2017 was at a similar level to that reported in the first quarter of 2017. A reduction in the gross margin to 8.6%, reflecting a less favourable product mix, and an increase in research and development expenditure resulted in a net loss of \$944,000 for the quarter.

The Company's booking to billing ratio for the quarter was 0.90. The level of bookings showed some improvement from the first quarter but suggests the market will remain tough until the new products are launched in the second half of this year.

### Revenue

Revenue for the second quarter of 2017 was \$11.5 million, \$2.4 million or 27% higher than in the corresponding quarter of last year. In Sterling terms, revenue had increased by 38% compared to the corresponding quarter of last year. The increase in Sterling terms arose across all product areas apart from power assemblies.

For the year to date, revenue was \$23.1 million, \$3.7 million or 19% higher than in the corresponding period of last year. The increase reflected significant increases in bipolar sales and services which more than offset much smaller reductions in sales of IGBT

modules, die and power assemblies.

### Gross Margin

The gross margin was 8.6% of revenue in the second quarter of 2017 compared to a negative gross margin of 1.3% of revenue in the second quarter of 2016. This is below the range targeted by management.

For the year to date, gross margin was 16.1% compared to 5.5% in the corresponding period of last year. Despite the strong improvement, gross margin 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 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 10.7% of revenue in the second quarter of 2017 compared to 14.4% in the corresponding quarter of last year.

For the year to date, sales and marketing and administrative expenses were 13.3% of revenue compared to 13.9% in the corresponding period of last year. The absolute level of such expenditure had risen by 13.8% for the year to date reflecting changes to the management team and a conscious decision by management to strengthen the sales team.

### Research and Development Expenses

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

The net expenditure on research and development for the second quarter of 2017 was \$726,000 compared with \$483,000 in the corresponding quarter of the previous year. For the year to date, net expenditure was \$920,000 compared to \$783,000 in the corresponding period of last year. The increase reflected significant increase in research and development expenditure with lower increases in the

funding from governments and CRRC Times Electric.

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 was 25.6% of revenue in the second quarter of 2017 compared to 29.9% of revenue in the corresponding quarter of last year and for the first half of 2017 it was 21.5% of revenue compared to 27.2% in the corresponding period of last year. Gross expenditure on research and development was 8.2% higher in the second quarter of 2017 compared to the second quarter of 2016 and 5.7% lower in the first half of 2017 than the corresponding period of last year. In sterling terms, gross expenditure was 9.0% higher in the second quarter of 2017 and 2.3% higher in the first half of 2017 compared to the corresponding periods of last year reflecting management's continued commitment to product development.

#### **Finance Costs**

Finance costs for the quarter were \$183,000, compared to \$188,000 in the corresponding quarter of last year. Finance costs would have been expected to fall by approximately \$15,000 as a result of changes in exchange rates.

For the year to date, finance costs were \$323,000 compared to \$367,000 in the corresponding period of last year. Finance costs would have been expected to fall by approximately \$45,000 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 loss before tax in the quarter of \$1.1 million compared with a loss before tax of \$2.1 million in the corresponding quarter of last year and a loss before tax for the year to date of \$590,000 compared to a loss before tax of \$2.6 million in the corresponding period of last year.

#### **Income Tax Expense**

The Group recorded a tax release in the quarter equivalent to 16.9% of the loss before tax compared with a release of 17.6% in the corresponding quarter of last year. The reduction arises from a 1% reduction in the UK tax rate.

For the year to date the tax release was equivalent to 8.9% of the loss before tax compared to 16.6% in the corresponding period of last year. The reduction again arises from a 1% reduction in the UK tax rate and a substantial loss in Canada for which the Group gains no tax benefit.

#### **Net Profit/Loss**

The Group reported a net loss of \$944,000 in the second quarter of 2017 compared to a net loss of \$1.7 million in the corresponding quarter of last year and a loss of \$538,000 for the year to date compared to a net loss of \$2.2 million in the corresponding period 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 second 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 June 2017, working capital stood at \$12.9 million or 1.1 times second 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 June 2017, the Group had net debt (borrowings less cash) of \$20.2 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 increased by \$110,000 since the end of the preceding year. The increase resulted from the net loss of \$538,000 and an exchange gain on translation of the UK subsidiary of \$648,000.

## Gearing

Management monitors closely the Group's gearing ratio (the ratio of net debt, being borrowings less cash balances, to equity). At the end of June 2017, the Group had a gearing ratio of 76.4%. 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. The Group is currently seeking to replace its main bankers and expects the current facilities to be replaced with similar facilities by the end of the third quarter. The Group had \$2,040,000 of cash at the quarter end.

## Cash Flow

There was an inflow of \$2.2 million from operating activities in the year to date. The loss before tax and finance charges of \$590,000 and the reduction in the inventory provision of \$3.2 million which is a non cash movement were more than offset by the depreciation charge of \$2.3 million and the cash movement in working capital of \$3.2 million.

## Commitments

The Group has capital commitments at the quarter end of \$1.9 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	2017	2016	2016	2016	2016	2015	2015	2016	2015	2014
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3	FY	FY	FY
Revenue	11,546	11,553	10,045	11,079	9,123	10,273	12,718	12,254	40,519	46,512	42,166
Gross Profit	998	2,732	(1,052)	2,071	(117)	1,188	4,369	1,081	2,090	4,683	(441)
Gross profit %	8.6%	23.7%	(10.5%)	18.7%	(1.3%)	11.6%	34.4%	8.8%	5.2%	10.1%	(1.0%)
Gross R&D %	25.6%	17.4%	33.2%	26.9%	29.9%	24.8%	26.0%	22.1%	28.6%	21.3%	15.2%
Profit before Tax	(1,135)	545	(3,678)	352	(2,099)	(526)	3,564	603	(5,951)	270	(6,518)
Net Profit	(944)	406	(2,965)	236	(1,729)	(461)	2,884	483	(4,919)	166	(5,548)
Earnings per Share											
Basic	(0.01)	0.01	(0.04)	0.00	(0.02)	(0.01)	0.04	0.01	(0.06)	0.00	(0.07)
Diluted	(0.01)	0.01	(0.04)	0.00	(0.02)	(0.01)	0.04	0.01	(0.06)	0.00	(0.07)
Non-current assets	33,747	33,665	34,218	35,274	36,837	39,911	45,100	45,410	34,218	45,100	41,078
Working capital	12,851	14,534	12,714	15,560	14,322	15,830	16,325	12,988	12,714	16,325	7,565
Net debt	20,178	21,298	20,623	20,692	20,624	21,285	22,918	25,065	20,623	22,918	16,260
Equity	26,419	26,901	26,309	30,142	30,535	34,456	38,507	33,333	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 Canadian Dollar and in the second case was a result of the strengthening of the Canadian Dollar. In Sterling terms revenue has been stable. Fluctuations in quarterly revenues have also been heavily affected by exchange rate movements. In Sterling terms, revenue was low in the first and second quarters of 2016 and was strong in the first and second quarters 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 gross 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 recovered sharply in the first quarter of 2017 in response to the stronger revenue reported but fell back in the second quarter.

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 from 2014 to 2016. This fell in the first quarter of 2017 in response to the stronger revenue reported. It has increased in the second quarter of 2017 to a level slightly below that of 2016 even though revenue remained strong.

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. Working capital increased in the first quarter of 2017 but then fell back in the second quarter of 2017 to slightly above the level at the end of 2016.

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 production 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 half of 2017, which show the business has significantly reduced its loss, the forecast for 2017, which shows the business in a break-even position by the end of the year, and the budget for 2018, which shows the business returning to profitability. 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 June 30th, 2017 the carrying amount of intangible assets and property, plant and equipment was \$32.5 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 June 30th, 2017 the provision against inventories



was \$8.1 million and the carrying amount of inventories was 12.0 million.

### **Impairment of trade receivables**

Management determines the estimated recoverability of trade receivables based on the evaluation and ageing of trade receivables, including the current creditworthiness and the past collection history of each customer and reviews these estimates at the end of each reporting period. At June 30th, 2017 the provision was \$171,000 and the carrying amount of trade receivables was \$6.5 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 June 30th, 2017 the carrying value of provisions was \$938,000.

### **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 June 30th, 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 \$330,000 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 \$1.9 million of goods and \$1.2 million of services to CRRC Times Electric, received a contribution towards research and development of \$1.9 million and purchased materials and components from them for \$1.5 million. The Group also sold \$1.0 million of goods to a fellow subsidiary of CRRC Times Electric, paid \$92,000 in interest on a loan from another fellow subsidiary of CRRC Times Electric and provided \$137,000 of services to a parent company of CRRC Times Electric. The Group incurred expenses in the UK of \$22,000 on behalf of CRRC Times Electric and \$30,000 on behalf of a fellow subsidiary of CRRC Times Electric which expenses were reimbursed to the Group.

During the year to date, the Group sold \$3.1 million of goods and \$2.3 million of services to CRRC Times Electric, received a contribution towards research and development of \$3.3 million and purchased materials and components from them for \$2.7 million. The Group also sold \$1.3 million of goods to a fellow subsidiary of CRRC Times Electric, paid \$180,000 in interest on a loan from another fellow subsidiary of CRRC Times Electric and provided \$137,000 of services to a parent company of CRRC Times Electric. The Group incurred expenses in the UK of \$41,000 on behalf of CRRC Times Electric and \$30,000 on behalf of a fellow subsidiary of CRRC Times Electric which expenses were reimbursed to the Group.

At June 30th, 2017 the Group was owed \$5.6 million for goods and services sold to CRRC Times Electric and owed them \$2.0 million for materials and components purchased from them.

The Group has a loan of \$9.1 million from a fellow subsidiary of CRRC Times Electric. At June 30th, 2017 an amount of \$599,000 was outstanding for interest under this loan.

The Group paid \$369,000 in compensation during the quarter to its key management personnel and \$711,000 for the year to date. The Group paid \$5,000 in fees to directors during the quarter and \$10,000 in the year to date. Directors' fees of \$10,000 were outstanding at the end of the quarter.

The Group purchased services from a law firm in Canada during the quarter for \$18,000 and for \$33,000 during the year to date. At June 30th, 2017, \$24,000 was outstanding to this law firm. One of the Company's directors is a partner in this firm.



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## Outlook

Revenue from bipolar discrete products decreased in the second quarter from the figure it had been in the first quarter of 2017. It is forecast to increase in the third quarter.

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

Revenue from the sales of power electronic assemblies decreased in the second quarter compared to the first quarter of 2017. Revenue is expected to increase significantly in the third quarter of 2017.

Revenue from services increased slightly in the second quarter compared to the first quarter of 2017. It is forecast to remain at a similar level in the third quarter.

Overall, revenue in the second quarter was slightly below the level seen in the first quarter of 2017. It is expected to remain strong in the third quarter. Revenue for the full year is expected to be above that reported in 2016.

At the end of June 2017, the order book stood at \$13.0 million compared to \$13.0 million at the end of the first quarter of 2017. In sterling terms the order book fell slightly reflecting the tough market currently being experienced.

The business reported a net loss of \$944,000 in the second quarter. Management expects to report a significantly reduced loss in the third quarter.

## Additional Information

Additional information relating to the Company is available on SEDAR at [www.sedar.com](http://www.sedar.com)

A handwritten signature in black ink, appearing to read "Clive Vacher", positioned to the left of a vertical yellow line.

Clive Vacher.  
Chief Financial Officer  
August 23rd, 2017

**DYNEX POWER INC.****Interim Condensed Consolidated Statements of Comprehensive Income (unaudited) in Canadian Dollars  
Quarter Ended June 30th, 2017**

		<b>3 months Jun 30th 2017</b>	3 months Jun 30th 2016	<b>YTD Jun 30th 2017</b>	YTD Jun 30th 2016
	Note	\$	\$	\$	\$
<b>Revenue</b>	5, 6	<b>11,546,462</b>	9,122,739	<b>23,099,110</b>	19,395,293
<b>Cost of sales</b>		<b>(10,548,470)</b>	(9,239,972)	<b>(19,368,800)</b>	(18,324,732)
<b>Gross profit/(loss)</b>		<b>997,992</b>	(117,233)	<b>3,730,310</b>	1,070,561
Other income	6	<b>48,038</b>	6,800	<b>86,401</b>	29,195
Sales and marketing expenses		<b>(391,691)</b>	(391,313)	<b>(697,628)</b>	(718,555)
Administration expenses		<b>(839,787)</b>	(918,060)	<b>(2,371,437)</b>	(1,978,610)
Research and development expenses	7	<b>(725,618)</b>	(483,282)	<b>(919,998)</b>	(783,243)
Finance costs		<b>(182,738)</b>	(187,961)	<b>(323,332)</b>	(366,577)
Other (losses)/gains		<b>(41,600)</b>	(7,527)	<b>(94,395)</b>	122,284
<b>Loss before tax</b>	7	<b>(1,135,404)</b>	(2,098,576)	<b>(590,079)</b>	(2,624,945)
Income tax recovery		<b>191,795</b>	369,445	<b>52,269</b>	434,644
<b>Net loss</b>		<b>(943,609)</b>	(1,729,131)	<b>(537,810)</b>	(2,190,301)
<b>Other comprehensive income/(loss)</b>					
Exchange differences on translation of foreign operations (net of tax of \$nil)		<b>461,726</b>	(2,191,861)	<b>648,136</b>	(5,780,922)
<b>Total comprehensive income/(loss) for the period</b>		<b>(481,883)</b>	(3,920,992)	<b>110,326</b>	(7,971,223)
<b>Loss per share</b>					
Basic	8	<b>(0.01)</b>	(0.02)	<b>(0.01)</b>	(0.03)
Diluted	8	<b>(0.01)</b>	(0.02)	<b>(0.01)</b>	(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 30.

**DYNEX POWER INC.**  
**Interim Condensed Consolidated Statement of Financial Position (unaudited) in Canadian Dollars**  
**As at June 30th, 2017**

		<b>Jun 30th</b>	Dec 31st
		<b>2017</b>	2016
	Note	\$	\$
<b>NON-CURRENT ASSETS</b>			
Intangible assets	9	<b>1,466,425</b>	1,524,346
Property, plant & equipment	9	<b>31,013,993</b>	31,565,940
Deferred tax asset		<b>1,266,374</b>	1,127,322
<b>Total non-current assets</b>		<b>33,746,792</b>	34,217,608
<b>CURRENT ASSETS</b>			
Inventories		<b>11,957,383</b>	11,854,067
Trade receivables		<b>6,545,013</b>	4,035,481
Amounts owing from group undertakings	13	<b>6,669,196</b>	3,573,709
Prepayments, deposits & other receivables		<b>2,082,558</b>	2,297,786
Tax recoverable		-	682
Cash		<b>2,040,453</b>	898,855
<b>Total current assets</b>		<b>29,294,603</b>	22,660,580
<b>CURRENT LIABILITIES</b>			
Trade payables		<b>3,177,185</b>	3,010,756
Amounts owing to group undertakings	13	<b>5,042,335</b>	2,103,917
Other payables and accruals		<b>5,246,310</b>	3,290,095
Borrowings	10	<b>18,028,478</b>	16,380,290
Provisions		<b>887,037</b>	456,773
<b>Total current liabilities</b>		<b>32,381,345</b>	25,241,831

**DYNEX POWER INC.****Interim Condensed Consolidated Statement of Financial Position (Unaudited) in Canadian Dollars  
(continued)**

As at June 30th, 2017

		<b>Jun 30th</b>	Dec 31st
		<b>2017</b>	2016
	Note	\$	\$
<b>NON-CURRENT LIABILITIES</b>			
Borrowings	10	<b>4,190,247</b>	5,141,190
Provisions		<b>50,647</b>	186,337
<hr/>			
Total non-current liabilities		<b>4,240,894</b>	5,327,527
<hr/>			
<b>NET ASSETS</b>		<b>26,419,156</b>	26,308,830
<hr/>			
<b>EQUITY</b>			
Share capital	11	<b>37,096,192</b>	37,096,192
Accumulated deficit		<b>(11,066,035)</b>	(10,528,225)
Exchange fluctuation reserve		<b>388,999</b>	(259,137)
<hr/>			
<b>TOTAL EQUITY</b>		<b>26,419,156</b>	26,308,830
<hr/>			

These financial statements should be read in conjunction with the notes set out on pages 20 to 30.

**DYNEX POWER INC.**  
**Interim Condensed Consolidated Statement of Changes in Equity (unaudited) in Canadian Dollars**  
**Quarter Ended June 30th 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 loss for the period	-	(2,190,301)	(5,780,922)	(7,971,223)
<b>At June 30th, 2016</b>	<b>37,096,192</b>	<b>(7,799,402)</b>	<b>1,238,592</b>	<b>30,535,382</b>
Total comprehensive loss for the period	-	(2,728,823)	(1,497,729)	(4,226,552)
At December 31st, 2016	37,096,192	(10,528,225)	(259,137)	26,308,830
Total comprehensive income/(loss) for the period	-	(537,810)	648,136	110,326
<b>At June 30th, 2017</b>	<b>37,096,192</b>	<b>(11,066,035)</b>	<b>388,999</b>	<b>26,419,156</b>

These financial statements should be read in conjunction with the notes set out on pages 20 to 30.

**DYNEX POWER INC.****Interim Condensed Consolidated Statement of Cash Flows (unaudited) in Canadian Dollars****Quarter Ended June 30th, 2017**

	YTD Jun 30th 2017	YTD Jun 30th 2016
Note	\$	\$
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>		
Loss before tax	(590,079)	(2,624,945)
Finance costs recognised in loss before tax	323,332	366,577
Investment income recognised in loss before tax	542	(844)
Amortization of intangible assets	103,079	110,262
Depreciation of property, plant & equipment	2,309,759	2,616,831
Provision for slow moving and obsolete inventory	(3,179,780)	440,500
Non cash movement in provisions	42,294	-
Movements in working capital	12 3,211,927	(1,321,970)
Income taxes paid	(64,859)	(45,069)
<b>Net cash generated by/(used in) operating activities</b>	<b>2,156,215</b>	<b>(458,658)</b>
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>		
Payments for intangible assets	(9,522)	(18,079)
Payments for property, plant & equipment	(1,012,384)	(920,488)
Interest received	(542)	844
<b>Net cash used in investing activities</b>	<b>(1,022,448)</b>	<b>(937,723)</b>
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>		
Proceeds from borrowings	1,382,927	2,821,288
Repayments of borrowings	(1,202,716)	(1,827,120)
Interest paid	(148,176)	(164,742)
Payments for other finance costs	(14,465)	-
<b>Net cash generated by financing activities</b>	<b>17,570</b>	<b>829,426</b>
<b>NET INCREASE/(DECREASE) IN CASH</b>	<b>1,151,337</b>	<b>(566,955)</b>
Cash at beginning of period	898,855	1,410,547
Effect of foreign currency translation on cash	(9,739)	(76,247)
<b>CASH AT END OF PERIOD</b>	<b>2,040,453</b>	<b>767,345</b>

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 30.

**DYNEX POWER INC.**

**Notes to the Interim Condensed Consolidated Financial Statements (unaudited)**

**Quarter Ended June 30th, 2017**

**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.

*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.

**DYNEX POWER INC.****Notes to the Interim Condensed Consolidated Financial Statements (unaudited)****Quarter Ended June 30th, 2017****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.

	<b>3 months</b>	3 months	<b>YTD</b>	YTD
	<b>Jun 30th</b>	Jun 30th	<b>Jun 30th</b>	Jun 30th
	<b>2017</b>	2016	<b>2017</b>	2016
	\$	\$	\$	\$
Canada	<b>77,206</b>	-	<b>302,285</b>	178,197
United Kingdom	<b>1,844,596</b>	2,493,045	<b>5,038,512</b>	5,430,359
China	<b>3,358,133</b>	2,189,183	<b>5,494,549</b>	4,623,095
France	<b>1,638,793</b>	1,334,526	<b>3,178,441</b>	2,722,103
Other (None > 10%)	<b>4,627,735</b>	3,105,985	<b>9,085,324</b>	6,441,539
	<b>11,546,462</b>	9,122,739	<b>23,099,111</b>	19,395,293

*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 June 30th, 2017 the Group had one customer accounting for more than 10% of revenue, generating \$4,275,935 (CRRC Times Electric Group) (Jun 30th, 2016 – two customers each accounting for more than 10% of revenue, generating \$2,309,065 (CRRC Times Electric Group) and \$1,661,157 respectively).

In the six months ended June 30th, 2017 the Group had one customer accounting for more than 10% of revenue, generating \$6,894,528 (CRRC Times Electric Group) (Jun 30th, 2016 – two customers each accounting for more than 10% of revenue, generating \$5,179,297 (CRRC Times Electric Group) and \$3,680,199 respectively).

**DYNEX POWER INC.****Notes to the Interim Condensed Consolidated Financial Statements (unaudited)****Quarter Ended June 30th, 2017****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:

	<b>3 months Jun 30th 2017</b>	3 months Jun 30th 2016	<b>YTD Jun 30th 2017</b>	YTD Jun 30th 2016
<b>Revenue:</b>	\$	\$	\$	\$
Sale of goods	<b>10,085,842</b>	8,551,270	<b>20,372,912</b>	18,398,793
Rendering of services	<b>1,460,620</b>	571,469	<b>2,726,199</b>	996,500
	<b>11,546,462</b>	9,122,739	<b>23,099,111</b>	19,395,293
<b>Other Income:</b>				
Sale of scrap materials	<b>34,968</b>	19,096	<b>34,968</b>	19,096
Bank interest income	<b>(658)</b>	-	<b>(658)</b>	-
Government grants	-	155	-	155
Other income	<b>4,052</b>	3,144	<b>4,052</b>	3,144
	<b>38,363</b>	22,395	<b>38,363</b>	22,395

**DYNEX POWER INC.**

**Notes to the Interim Condensed Consolidated Financial Statements (unaudited)**

**Quarter Ended June 30th, 2017**

**7. PROFIT/LOSS BEFORE TAX**

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

	<b>3 months</b>	3 months	<b>YTD</b>	YTD
	<b>Jun 30th</b>	Jun 30th	<b>Jun 30th</b>	Jun 30th
	<b>2017</b>	2016	<b>2017</b>	2016
	\$	\$	\$	\$
Cost of inventories sold	<b>9,057,975</b>	8,645,549	<b>16,575,209</b>	17,287,133
Staff costs (including director's remuneration):				
Wages and salaries	<b>4,850,293</b>	4,925,485	<b>9,818,798</b>	9,969,018
Other benefits	<b>259,974</b>	251,365	<b>429,800</b>	488,803
Foreign exchange differences (net)	<b>41,600</b>	7,527	<b>94,395</b>	(122,284)
Amortization of intangible assets charged to:				
Cost of sales	<b>189</b>	1,152	<b>371</b>	2,854
Research and development expenses	<b>29,648</b>	30,687	<b>61,072</b>	62,851
Administration expenses	<b>21,361</b>	21,361	<b>41,636</b>	44,557
Depreciation of items of property, plant and equipment charged to:				
Cost of sales	<b>969,591</b>	1,094,096	<b>1,914,621</b>	2,247,894
Research and development expenses	<b>191,051</b>	138,749	<b>375,239</b>	284,277
Administration expenses	<b>9,798</b>	40,506	<b>19,899</b>	84,660
Research and development expenses (before government grants and contribution from CRRC Times Electric)	<b>2,950,745</b>	2,725,183	<b>4,965,492</b>	5,270,131
Contribution from CRRC Times Electric	<b>(1,895,184)</b>	(2,004,680)	<b>(3,278,444)</b>	(4,049,358)
Government grants:				
Research and development	<b>(329,943)</b>	(237,221)	<b>(767,050)</b>	(437,530)
Property plant and equipment	-	-	-	(154)
Provision for slow moving and obsolete inventories	<b>(1,715,373)</b>	440,500	<b>(3,179,780)</b>	440,500

**DYNEX POWER INC.****Notes to the Interim Condensed Consolidated Financial Statements (unaudited)****Quarter Ended June 30th, 2017****8. PROFIT/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS**

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

<b>3 months</b>	3 months	<b>YTD</b>	YTD
<b>Jun 30th</b>	Jun 30th	<b>Jun 30th</b>	Jun 30th
<b>2017</b>	2016	<b>2017</b>	2016
<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>

**Earnings:**

Loss attributable to ordinary equity holders used in both basic and diluted earnings per share calculations

<b>(943,609)</b>	(1,729,131)	<b>(537,810)</b>	(2,190,301)
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**Shares:**

Weighted average number of ordinary shares outstanding during the period used in both basic and diluted earnings per share calculations

<b>80,509,047</b>	80,509,047	<b>80,509,047</b>	80,509,047
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**9. INTANGIBLE ASSETS & PROPERTY, PLANT AND EQUIPMENT**

In the quarter ended June 30th, 2017 the Group acquired intangible assets and property, plant and equipment with an aggregate cost of \$510,451 (Jun 30th, 2016 - \$529,443). In the six months ended June 30th, 2017 the Group acquired intangible assets and property, plant and equipment with an aggregate cost of \$1,021,906 (Jun 30th, 2016 - \$938,564).

In the quarters ended June 30th, 2017 and June 30th, 2016 the Group disposed of no intangible assets or items of property, plant and equipment. In the six months ended June 30th, 2017 and June 30th, 2016 the Group disposed of no intangible assets or items of property, plant and equipment.

At June 30th, 2017 the Group has commitments for the purchase of intangible assets and property, plant and equipment of \$1.9 million (Dec 31st, 2019 - \$2.1 million).

**DYNEX POWER INC.**

**Notes to the Interim Condensed Consolidated Financial Statements (unaudited)**

**Quarter Ended June 30th, 2017**

**10. BORROWINGS**

	Note	<b>Jun 30th 2017</b>	Dec 31st 2016
		\$	\$
Secured at amortised cost:			
Bank overdrafts	(i)	<b>1,505,146</b>	545,511
Bank loans	(i) (ii) (iii)	<b>11,018,746</b>	11,674,787
Finance lease	(iv)	<b>44,499</b>	70,922
		<b>12,568,391</b>	12,291,220
Unsecured at amortised cost:			
Other loans	(v) (vi) (vii)	<b>9,650,334</b>	9,230,260
		<b>22,218,725</b>	21,521,480
Current portion		<b>18,028,478</b>	16,380,290
Non-current portion		<b>4,190,247</b>	5,141,190
		<b>22,218,725</b>	21,521,480

- (i) The Group has a bank overdraft of \$1,505,146 (Dec 31st, 2016 - \$545,511) under an approved overdraft facility of \$1,688,200 (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 \$11,817,400 of which \$10,973,300 was drawn on June 30th, 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 June were repayable during July 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 June 30th, 2017 these assets have a carrying value of \$52,463,208 (Dec 31st, 2016 - \$52,940,346).
- (iii) The Group has a bank loan for \$45,446 (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 \$443,763 (Dec 31st, 2016 - \$460,835).
- (iv) The finance leases are secured by the equipment leased which has a carrying value of \$147,940 (Dec 31st, 2016 - \$143,236).
- (v) The Group has an unsecured loan from a fellow subsidiary of CRRC Times Electric of 9,116,280 (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 \$257,756 (Dec 31st, 2016 - \$325,660).
- (vii) The Group has a loan from an unrelated party for \$276,298 (Dec 31st, 2016 - \$nil). The loan bears interest at 7.6% per annum and is repayable in nine monthly instalments from April 2017 to December 2017.

**DYNEX POWER INC.****Notes to the Interim Condensed Consolidated Financial Statements (unaudited)  
Quarter Ended June 30th, 2017****11. SHARE CAPITAL**

At June 30th, 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:

	<b>YTD Jun 30th 2017</b>	<b>YTD Jun 30th 2016</b>
	<b>\$</b>	<b>\$</b>
<b>Movements in Working Capital:</b>		
Decrease (increase) in inventories	<b>3,359,354</b>	(1,057,364)
(Increase) in trade receivables	<b>(2,379,418)</b>	(54,691)
Decrease (increase) in prepayments, deposits & other receivables	<b>280,670</b>	(810,577)
(Increase) decrease in amounts owing from parent company	<b>(3,040,324)</b>	1,839,775
Increase in trade payables	<b>64,202</b>	229,456
Increase (decrease) in other payables & accruals	<b>1,771,320</b>	(2,246,501)
Increase in provisions	<b>228,645</b>	-
Increase in amounts owing to parent company	<b>2,927,478</b>	777,932
	<b>3,211,927</b>	(1,321,970)

**DYNEX POWER INC.****Notes to the Interim Condensed Consolidated Financial Statements (unaudited)****Quarter Ended June 30th, 2017****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:

		<b>3 months</b>	3 months	<b>YTD</b>	YTD
		<b>Jun 30th</b>	Jun 30th	<b>Jun 30th</b>	Jun 30th
		<b>2017</b>	2016	<b>2017</b>	2016
		<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>
<i>Transactions with CRRC Times Electric:</i>					
Sale of goods	(i) (ii)	<b>1,906,238</b>	1,577,347	<b>3,147,305</b>	3,640,232
Rendering of services	(iii)	<b>1,216,617</b>	516,175	<b>2,266,201</b>	887,201
Amounts in respect of jointly funded research and development activity which is accounted for as a reduction in research and development expenses	(iv)	<b>1,895,184</b>	2,004,680	<b>3,278,444</b>	4,049,358
Reimbursed expenses	(v)	<b>21,952</b>	36,457	<b>41,094</b>	93,882
Purchases of materials and components	(i) (vi)	<b>1,482,940</b>	700,530	<b>2,651,508</b>	1,342,502
<i>Transactions with CRRC Corporation Ltd:</i>					
Rendering of services	(vii)	<b>136,599</b>	-	<b>136,599</b>	-
<i>Transactions with fellow group</i>					
Sale of goods	(viii)	<b>1,016,481</b>	215,542	<b>1,344,423</b>	651,864
Purchases of materials and components	(ix)	-	288,909	-	504,080
Interest expense	(x)	<b>92,200</b>	100,773	<b>180,112</b>	194,490
Reimbursed expenses	(xi)	<b>29,687</b>	25,708	<b>29,687</b>	52,654
<i>Transactions with other parties:</i>					
Compensation to key management personnel		<b>369,000</b>	329,000	<b>711,000</b>	707,000
Non-executive directors fees	(xii)	<b>5,000</b>	5,000	<b>10,000</b>	10,000
Legal fees and expenses	(xiii)	<b>17,743</b>	21,593	<b>33,060</b>	41,744

**DYNEX POWER INC.**

**Notes to the Interim Condensed Consolidated Financial Statements (unaudited)  
Quarter Ended June 30th, 2017**

**13. RELATED PARTY TRANSACTIONS AND BALANCES (continued)**

		<b>Jun 30th 2017</b>	Dec 31st 2016
		\$	\$
<i>Balances with CRRC Times Electric:</i>			
Amounts owing from group undertakings	(i) - (v)	<b>5,556,965</b>	3,573,709
Amounts owing to group undertakings	(i) (vi)	<b>5,042,335</b>	2,103,917
Other payables and accruals	(iii) (iv)	<b>1,578,562</b>	-
<i>Balances with fellow group subsidiaries:</i>			
Amounts owing from group undertakings	(viii)	<b>1,112,231</b>	-
Borrowings	(ix)	<b>9,116,280</b>	8,904,600
Other payables and accruals	(ix)	<b>599,120</b>	357,160
<i>Balances with other parties:</i>			
Other payables and accruals	(xii)	<b>10,000</b>	10,000
Trade payables	(xiii)	<b>14,043</b>	29,097
Other payables and accruals	(xiii)	<b>10,200</b>	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 April 4th, 2017 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 total costs of the joint research and development would be \$41.4 million over a three year period commencing from January 1st, 2017, with CRRC Times Electric's share of those costs being \$35.5 million and the Group's share being \$5.9 million. CRRC Times Electric paid \$2.9 million in advance being 25% of their estimated contribution for the first year.
- (iv) The agreement signed on April 6th, 2017 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)**

- (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 and June 2017 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. EVENTS AFTER THE REPORTING PERIOD**

The Group is seeking to replace its main bankers and expects the transfer of all its current banking and loan facilities to be completed by the end of the third quarter of 2017. The Group expects to replace the uncommitted money market facility of \$11,817,400 and overdraft facility of \$1,688,200 with similar facilities. CRRC Times Electric will provide support to the Group during this move.

**14. APPROVAL OF THE FINANCIAL STATEMENTS**

These interim condensed consolidated financial statements were approved by the board of directors of Dynex Power Inc. on August 23rd, 2017.



## Corporate Information

### Board of Directors

Liu Ke'an <sup>(1) (3)</sup>  
Chairman

Clive Vacher <sup>(1)</sup>  
Director, President & CEO

Debbie Weinstein <sup>(1) (2)</sup>  
Director

David Banks <sup>(1) (2) (3)</sup>  
Director

Richard Wu <sup>(1) (2) (3)</sup>  
Director

George Guo <sup>(1)</sup>  
Director

Gary Liu <sup>(1)</sup>  
Director

<sup>(1)</sup> Member of the Governance Committee

<sup>(2)</sup> Member of Audit Committee

<sup>(3)</sup> Member of Compensation Committee

### Stock Exchange Listing

Toronto Ventures Exchange  
Symbol: DNX

### Auditors

Canada – Deloitte LLP  
UK – Deloitte LLP

### Transfer Agent

Computershare Trust Company of Canada

### Legal Counsel

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

### Senior Officers, VP's & Senior Managers

Clive Vacher  
President & CEO, Acting 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  
Head of HR

### Dynex Locations

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