DYNEX POWER INC.

REPORT FOR THE QUARTER ENDED SEPTEMBER 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 September 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.

Our Vision

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

Our Core values

Continuous Improvement

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

Engineering Excellence

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

Performance Driven

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

Accountability and Responsibility

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

Integrity and Honesty

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

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Company Profile

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

Company Facts

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

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

- Zhuzhou CSR Times Electric Co., Ltd acquired 75% of the common shares of Dynex Power Inc. in October 2008. In April 2016 this company changed its name to Zhuzhou CRRC Times Electric Co., Ltd.
- 368 employees (September 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

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

Revenue for the third quarter was robust, at $13.1 million. This represents the highest sales quarter in the history of the company. Gross margin at 11.7% showed improvement versus quarter 2, as a result of an improved product sales mix and tighter cost control. This allowed for a modest net income of $11,000 for the quarter.

For the 9 months to 30 September 2017, Dynex's sales stand at $36.2 million, a 19% increase on the same period in 2016. On a constant currency basis, the sales increase amounts to 32%. Year-to-date loss for the business stands at $527,000 versus a loss of $2.0 million for the same period last year: a 73% reduction.

Cash performance was strong. The company generated positive operating cash flow of $3.3 million in the first 9 months of 2017, due to significantly improved income performance, and improvement in working capital management.

Outlook for the fourth quarter is challenging. Management are targeting to recover the current year-to-date loss in the fourth quarter and end the year with a modest profit. However, this is subject to a considerable degree of risk due to a reduced order backlog. This will likely drive sales in the fourth quarter to be in the range of $10.5 million to $12.5 million. There are a number of actions ongoing to increase the return on sales so that the margin targets can be achieved.

Dynex continues to execute its structured turnaround plan, with positive results throughout the business.

The transformation of the company into a market-led organisation continues. There is a short-term challenge in terms of order intake, which has been lighter than expected. This has reduced backlog to the $10-11 million range, approximately $2-3 million under target. However, Dynex is pursuing ten major market opportunities for substantial orders; winning a number of these would solve this situation and ensure backlog growth, starting in the first half of 2018.

Product development at Dynex continues to accelerate, with the release to market in quarter 3 of the world's first hermetic, dynamic load balancing Press-pack IGBT. This industry-leading 4.5kV product greatly improves durability and reliability in HVDC, industrial, traction and other applications, through the use of pressure contacts that eliminate the need for solder. We have also received, from an international customer, the first order for our new 6.5kV module for delivery in the fourth quarter. With these, and our new 3.3kV and 4.5kV IGBT modules, Dynex is building a highly competive portfolio of state-of-the-art high power semiconductor products.

The quality of our manufacturing processes continues to improve, driving greater efficiencies and yields. Indeed, our IGBT yields in quarter 3 were the highest ever; further improvement will be realised in quarter 4 through the introduction of new fabrication process techniques.

The Senior Management Team continues to be strengthened with the appointment, in quarter 3, of Alan Lyons as the company's Chief Financial Officer, and Paul Deakin as the company's Quality Director. In addition, early in the fourth quarter, Dynex restructured into two divisions: Semiconductor Devices and Power Assemblies. Mark Kempton – formerly Operations Director, was appointed to the newly-formed position of Business Unit Director – Semiconductor Devices. An executive search is ongoing for the Business Unit Director – Power Assemblies. This new structure will ensure much greater strategic, operational and customer-focused performance in our major business areas. Finally, Keith Maris has joined Dynex from Rolls-Royce, as Chief Operating Officer, with the responsibility to run the company's day-to-day operations. Dynex is therefore building a high-performing leadership team. Further searches for key positions are ongoing, and I will report those to shareholders in due course.

In summary, the third quarter of 2017 exhibited further progress in the turnaround journey of Dynex Power Inc. We will continue the momentum as we close out the year, and set ourselves up for 2018.

Clive Vacher
President and Chief Executive Officer
November 14th, 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 September 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:

	£1 equals
Average rate July to September 2017	C$1.6510
Average rate July to September 2016	C$1.7181
Average rate January to September 2017	C$1.6712
Average rate January to September 2016	C$1.8202
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 September 30th, 2017	C$1.6760
Rate at December 31st, 2016	C$1.6490

As illustrated, the Canadian Dollar rate against Sterling for the third quarter of 2017 was approximately 4% stronger than in the third quarter of 2016 and the rate for the first nine months of 2017 was approximately 12% stronger than the rate for the first nine months 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 September 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 third quarter of 2017 was 14% higher than that reported in the second quarter of 2017. A Gross margin increased from 8.6% in the second quarter to 11.7% in the third quarter reflecting a more favourable product mix and the benefits of increased volumes. This improved margin along with an increased level of other income, relating to a successful settlement of a commercial dispute with a supplier, resulted in a net profit of $11,000 for the quarter.

The Company's booking to billing ratio for the quarter was 0.88. The level of bookings suggests the market will remain tough until the new products are launched in the second half o f this year.

Revenue

Revenue for the third quarter of 2017 was $13.1 million, $2.0 million or 18% higher than in the corresponding quarter of last year In Sterling terms, revenue had increased by 23% compared to the corresponding quarter of last year. The increase in Sterling terms arose across all product areas.

For the year to date, revenue was $36.2 million, $5.7 million or 19% higher than in the corresponding period of last year.

Gross Margin

The gross margin was 11.7% of revenue in the third quarter of 2017 compared to a gross margin of 18.7% of revenue in the third quarter of 2016. This is below the range targeted by management.

For the year to date, gross margin was 14.5% compared to 10.3% 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 of proceeds of a successful insurance claim, a commercial claim against a supplier, and, the sale of scrap materials.

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 9.6% of revenue in the third quarter of 2017 compared to 12.0% in the corresponding quarter of last year.

For the year to date, sales and marketing and administrative expenses were 11.9% of revenue compared to 13.2% in the corresponding period of last year. The absolute level of such expenditure had risen by 7.3% for the year to date reflecting changes to the management team and additional sales and markeing resources required to support future growth.

Research and Development Expenses

Management believes that it is important to maintain a level of 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 third quarter of 2017 was $497,000 compared with $265,000 in the corresponding quarter of the previous year. For the year to date, net expenditure was $1,417,000 compared to $1,049,000 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.

Gross research and development expenditure was 21.6% of revenue in the third quarter of 2017 compared to 26.9% of revenue in the corresponding quarter of last year and for year to date 2017 it was 21.5% of revenue compared to 27.1% in the corresponding period of last year. Management has chosen to control expenditure and focus on the management of a number of critical programmes that will deliver new products to market believing this more focused approach will deliver returns in 2018 and beyond.

Finance Costs

Finance costs for the quarter were $150,000, compared to $189,000 in the corresponding quarter of last year.

For the year to date, finance costs were $474,000 compared to $555,000 in the corresponding period of last year.

Other Gains and Losses

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

Profit before Tax

The Group reported a profit before tax in the quarter of $31,000 compared with a profit before tax of $352,000 in the corresponding quarter of last year and a loss before tax for the year to date of $559,000 compared to a loss before tax of $2,273,000 in the corresponding period of last year.

Income Tax Expense

The Group recorded a tax expense in the quarter equivalent to 65% of the profit before tax compared with an expense of 33.1% 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 5.7% of the loss before tax compared to 14.0% 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 profit of $11,000 in the third quarter of 2017 compared to a net profit of $236,000 in the corresponding quarter of last year and a loss of $527,000 for the year to date compared to a net loss of $2.0 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 $32.7 million at the end of the 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 September 2017, working capital stood at $12.9 million or 0.98 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 September 2017, the Group had net debt (borrowings less cash) of $19.3 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 increased by $70,000 since the end of the preceding year. The increase resulted from the net loss of $527,000 and an exchange gain on translation of the UK subsidiary of $457,000.

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 September 2017, the Group had a gearing ratio of 73.4%. 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 during Q4. The Group had $2,292,000 of cash at the quarter end.

Cash Flow

There was an inflow of $3.3 million from operating activities in the year to date. The loss before tax and finance charges of $559,000 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 $3.4 million and the cash movement in working capital of $3.1 million.

Commitments

The Group has capital commitments at the quarter end of $0.7 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 Q3	2017 Q2	2017 Q1	2016 Q4	2016 Q3	2016 Q2	2016 Q1	2015 Q4	2015 Q3	2016 FY	2015 FY	2014 FY
Revenue	13,119	11,546	11,553	10,045	11,079	9,123	10,273	12,718	12,254	40,519	46,512	42,166
Gross Profit	1,533	998	2,732	(1,052)	2,071	(117)	1,188	4,369	1,081	2,090	4,683	(441)
Gross profit %	11.7%	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 %	21.6%	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	31	(1,135)	545	(3,678)	352	(2,099)	(526)	3,564	603	(5,951)	270	(6,518)
Net Profit	11	(944)	406	(2,965)	236	(1,729)	(461)	2,884	483	(4,919)	166	(5,548)
Earnings per Share												
Basic	0.00	(0.01)	0.01	(0.04)	0.00	(0.02)	(0.01)	0.04	0.01	(0.06)	0.00	(0.07)
Diluted	0.00	(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	32,681	33,747	33,665	34,218	35,274	36,837	39,911	45,100	45,410	34,218	45,100	41,078
Working capital	12,816	12,851	14,534	12,714	15,560	14,322	15,830	16,325	12,988	12,714	16,325	7,565
Net debt	19,259	20,178	21,298	20,623	20,692	20,624	21,285	22,918	25,065	20,623	22,918	16,260
Equity	26,239	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	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 second and third 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 and product mix but fell back in the second quarter and improved slightly in the third quarter, again due to product mix and overall volume increase.

Management regards research and development expenditure as key to the future of the business. The absolute amount of gross expenditure on research and development in both the quarter and year to date was 5% lower than the previous year. This reduction followed a rigourous review of all activities with an increased focus on a number of new products that will come to market and contribute to 2018 revenues.

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 and third quarters 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 September 30th, 2017 the carrying amount of intangible assets and property, plant and equipment was $31.4 million.

Provisions against inventories

Management reviews the condition of inventories at the end of each reporting period and recognises a provision for slow-moving and obsolete items of inventory when they are no longer suitable for use or sale.

Management's estimate of the net realisable value of inventories is based primarily on sales prices in the forward order book and current market conditions. At September 30th, 2017 the provision against inventories was $7.9 million and the carrying amount of inventories was $10.9 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 September 30th, 2017 the provision was $171,000 and the carrying amount of trade receivables was $6.7 million.

Provisions

Management determines the best estimate of provisions based on experience of similar transactions and, in some cases, reports from independent experts and reviews them at the end of each reporting period. At September 30th, 2017 the carrying value of provisions was $1,038,000.

Disclosure Controls

Disclosure controls and procedures have been designed to provide reasonable assurance that all relevant information is gathered and reported to senior management, including the Chief Executive Officer and Chief Financial Officer, on a timely basis so that appropriate decisions can be made regarding public disclosure.

Internal Controls

Internal control over financial reporting has been designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with International Financial Reporting Standards. During the quarter ended September 30th, 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 $391,000 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 $3.2 million of goods and $1.5 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 $3.1 million. The Group also sold $0.8 million of goods to a fellow subsidiary of CRRC Times Electric, paid $89,000 in interest on a loan from another fellow subsidiary of CRRC Times Electric and provided $0 of services to a parent company of CRRC Times Electric. The Group incurred expenses in the UK of $0 on behalf of CRRC Times Electric and $15,000 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 $6.3 million of goods and $3.7 million of services to CRRC Times Electric, received a contribution towards research and development of $5.2 million and purchased materials and components from them for $5.7 million. The Group also sold $2.1 million of goods to a fellow subsidiary of CRRC Times Electric, paid $269,000 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 $45,000 on behalf of a fellow subsidiary of CRRC Times Electric which expenses were reimbursed to the Group.

At September 30th, 2017 the Group was owed $6.3 million for goods and services sold to CRRC Times Electric and owed them $6.9 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 September 30th, 2017 an amount of $633,000 was outstanding for interest under this loan.

The Group paid $324,000 in compensation during the quarter to its key management personnel and $1,025,000 for the year to date. The Group paid $5,000 in fees to directors during the quarter and $15,000 in the year to date. Directors' fees of $5,000 were outstanding at the end of the quarter.

The Group purchased services from a law firm in Canada during the quarter for $16,000 and for $49,000 during the year to date. At September 30th, 2017, $12,000 was outstanding to this law firm. One of the Company's directors is a partner in this firm.

Outlook

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

Revenue from the sale of IGBT modules and die increased in the third quarter compared from that reported in the second quarter of 2017. It is forecast to increase slightly in the forth quarter.

Revenue from the sales of power electronic assemblies also increased in the third quarter compared to the second quarter of 2017. Revenue is expected to decrease slightly in the forth quarter of 2017.

Overall, revenue in the third quarter was higher than the levels in quarter 1 or quarter 2. It is expected to remain strong in the third quarter, however it will be below the level reported in Q3 and is dependant on a number of new orders being secured that are capable of shipmet in 2017 Revenue for the full year is expected to be above that reported in 2016.

At the end of September 2017, the order book stood at $11.1 million compared to $14.5 million at the end of the second quarter of 2017. The reduction in backlog refelects the increased revenues in Q3 and tough market currently being experienced.

The business reported a net profit of $11,000 in the second quarter. Management expects to report a profit in the third quarter based on a winning and shipping a number of new orders.

Additional Information

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

Alan Lyons.
Chief Financial Officer
November14th, 2017

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

	Note	**3 months Sept 30th 2017**	3 months Sept 30th 2016	**YTD Sept 30th 2017**	YTD Sept 30th 2016
		$	$	**$**	$
Revenue	5, 6	**13,119,281**	11,079,036	**36,218,391**	30,474,329
Cost of sales		**(11,585,733)**	(9,008,230)	**(30,954,533)**	(27,332,962)
Gross profit		**1,533,548**	2,070,806	**5,263,858**	3,141,367
Other income	6	**526,425**	9,759	**612,826**	38,954
Sales and marketing expenses		**(370,911)**	(365,794)	**(1,068,538)**	(1,084,349)
Administration expenses		**(885,946)**	(967,489)	**(3,257,383)**	(2,946,099)
Research and development expenses	7	**(496,741)**	(265,680)	**(1,416,739)**	(1,048,923)
Finance costs		**(150,189)**	(188,567)	**(473,521)**	(555,144)
Other (losses)/gains		**(125,161)**	59,358	**(219,556)**	181,642
Profit/(loss) before tax	7	**31,025**	352,393	**(559,053)**	(2,272,552)
Income tax (expense)/recovery		**(20,394)**	(116,559)	**31,875**	318,085
Net profit/(loss)		**10,631**	235,834	**(527,178)**	(1,954,467)
Other comprehensive (loss)/income					
Exchange differences on translation of foreign operations (net of tax of $nil)		**(191,189)**	(629,240)	**456,947**	(6,410,162)
Total comprehensive (loss)/income for the period		**(180,558)**	(393,406)	**(70,231)**	(8,364,629)
Earnings/(loss) per share					
Basic	8	**0.00**	**0.00**	**(0.01)**	**(0.02)**
Diluted	8	**0.00**	**0.00**	**(0.01)**	**(0.02)**

All results are derived from continuing operations.

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

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

	Note	**Sept 30th 2017** $	Dec 31st 2016 $
NON-CURRENT ASSETS			
Intangible assets	9	**1,413,600**	1,524,346
Property, plant & equipment	9	**29,999,091**	31,565,940
Deferred tax asset		**1,268,363**	1,127,322
Total non-current assets		**32,681,054**	34,217,608
CURRENT ASSETS			
Inventories		**10,854,828**	11,854,067
Trade receivables		**6,672,398**	4,035,481
Amounts owing from group undertakings	13	**7,148,246**	3,573,709
Prepayments, deposits & other receivables		**1,767,081**	2,297,786
Tax recoverable		**-**	682
Cash		**2,291,570**	898,855
Total current assets		**28,734,123**	22,660,580
CURRENT LIABILITIES			
Trade payables		**2,141,737**	3,010,756
Amounts owing to group undertakings	13	**6,719,660**	2,103,917
Other payables and accruals		**3,725,905**	3,290,095
Borrowings	10	**17,415,156**	16,380,290
Provisions		**988,151**	456,773
Total current liabilities		**30,990,609**	25,241,831

DYNEX POWER INC.
Interim Condensed Consolidated Statement of Financial Position (Unaudited) in Canadian Dollars (continued)
As at September 30th, 2017

	Note	**Sep 30th 2017**	Dec 31st 2016
		$	$
NON-CURRENT LIABILITIES			
Borrowings	10	**4,135,690**	5,141,190
Provisions		**50,280**	186,337
Total non-current liabilities		**4,185,970**	5,327,527
NET ASSETS		**26,238,598**	26,308,830
EQUITY			
Share capital	11	**37,096,192**	37,096,192
Accumulated deficit		**(11,055,404)**	(10,528,225)
Exchange fluctuation reserve		**197,810**	(259,137)
TOTAL EQUITY		**26,238,598**	26,308,830

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

DYNEX POWER INC.
Interim Condensed Consolidated Statement of Changes in Equity (unaudited) in Canadian Dollars
Quarter Ended September 30th 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	-	(1,954,467)	(6,410,162)	(8,364,629)
At September 30th, 2016	37,096,192	(7,563,568)	609,352	30,141,976
Total comprehensive loss for the period	-	(2,964,657)	(868,489)	(3,833,146)
At December 31st, 2016	37,096,192	(10,528,225)	(259,137)	26,308,830
Total comprehensive income/(loss) for the period	-	(527,179)	456,947	(70,232)
At September 30th, 2017	**37,096,192**	**(11,055,404)**	**197,810**	**26,238,598**

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

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

	Note	**YTD Sept 30th 2017 $**	YTD Sept 30th 2016 $
CASH FLOW FROM OPERATING ACTIVITIES			
Loss before tax		**(559,054)**	(2,272,552)
Finance costs recognised in loss before tax		**473,521**	555,144
Investment income recognised in loss before tax		**518**	(844)
Amortization of intangible assets		**144,677**	157,886
Depreciation of property, plant & equipment		**3,428,972**	3,773,372
Provision for slow moving and obsolete inventory		**(3,188,558)**	440,500
Non cash movement in provisions		**42,294**	-
Movements in working capital	12	**3,067,615**	(2,995,584)
Income taxes paid		**(96,228)**	(66,545)
Net cash generated by/(used in) operating activities		**3,313,757**	(408,623)
CASH FLOW FROM INVESTING ACTIVITIES			
Payments for intangible assets		**(9,522)**	(54,685)
Payments for property, plant & equipment		**(1,352,617)**	(1,350,943)
Interest received		**(518)**	844
Net cash used in investing activities		**(1,362,657)**	(1,404,784)
CASH FLOW FROM FINANCING ACTIVITIES			
Proceeds from borrowings		**1,382,927**	2,821,288
Repayments of borrowings		**(1,702,462)**	(1,573,144)
Interest paid		**(206,399)**	(260,445)
Payments for other finance costs		**(14,465)**	-
Net cash generated by financing activities		**(540,399)**	987,699
NET INCREASE/(DECREASE) IN CASH		**1,410,701**	(825,708)
Cash at beginning of period		**898,855**	1,410,547
Effect of foreign currency translation on cash		**(17,986)**	(79,422)
CASH AT END OF PERIOD		**2,291,570**	505,417

All operating cash flows are derived from continuing operations.

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

1. CORPORATE INFORMATION

Dynex Power Inc. (the "Company") was formed on June 15th, 1999 under the laws of Canada by the amalgamation of GLG Dynex Power Inc. and Dynex Power Inc. GLG Dynex Power Inc. had been incorporated under the laws of Canada on February 19th, 1996. The former Dynex Power Inc. had been incorporated under the laws of Canada in the name of DPI Technologies Inc. on February 11th, 1998 and changed its name to Dynex Power Inc. on June 4th, 1999.

The registered office of the Company is 515 Legget Drive, Suite 800, Kanata, Ontario, K2K 3G4.

The Company and its subsidiary (collectively the "Group") are engaged in the design and manufacture of industrial power equipment.

The immediate parent company of the Group is Zhuzhou CRRC Times Electric Co. Ltd ("CRRC Times Electric") and the ultimate parent company of the Group is CRRC Corporation 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 Sept 30th 2017	3 months Sept 30th 2016	**YTD Sept 30th 2017**	YTD Sept 30th 2016
	$	$	**$**	$
Canada	**47,225**	7,309	**349,510**	185,506
United Kingdom	**2,393,866**	1,218,894	**7,432,378**	6,649,253
China	**4,684,418**	3,781,229	**10,178,966**	8,404,323
France	**1,108,927**	1,320,946	**4,287,368**	4,043,048
Other (None > 10%)	**4,884,846**	4,750,658	**13,970,169**	11,192,199
	13,119,282	11,079,036	**36,218,391**	30,474,329

Property, plant and equipment by geographic area

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

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

Major customers

For the quarter ended September 30th, 2017 the Group had one customer accounting for more than 10% of revenue, generating $5,426,984 (CRRC Times Electric Group) (Sept 30th, 2016 – two customers each accounting for more than 10% of revenue, generating $4,208,232 (CRRC Times Electric Group) and $717,327 respectively).

In the nine months ended September 30th, 2017 the Group had one customer accounting for more than 10% of revenue, generating $12,321,512 (CRRC Times Electric Group) (Sept 30th, 2016 – two customers each accounting for more than 10% of revenue, generating $9,275,205 (CRRC Times Electric Group) and $4,397,526 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 Sept 30th 2017	3 months Sept 30th 2016	**YTD Sept 30th 2017**	YTD Sept 30th 2016
Revenue:	**$**	$	**$**	$
Sale of goods	**11,602,056**	8,921,618	**31,974,967**	27,320,410
Rendering of services	**1,517,225**	2,157,418	**4,243,424**	3,153,919
	13,119,281	11,079,036	**36,218,391**	30,474,329
Other Income:				
Insurance Claim	**280,670**	-	**280,670**	-
Legal Claim	**227,502**	-	**227,502**	-
Sale of scrap materials	**18,503**	8,259	**98,310**	32,972
Bank interest income	**19**	9	**32**	138
Other interest income	**5**	-	**(550)**	827
Government grants	**-**	-	**-**	154
Other income	**(274)**	1,491	**6,861**	4,863
	526,425	9,759	**612,826**	38,954

7. PROFIT/LOSS BEFORE TAX

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

	3 months Sept 30th 2017	3 months Sept 30th 2016	**YTD Sept 30th 2017**	YTD Sept 30th 2016
	$	$	**$**	$
Cost of inventories sold	**10,018,770**	8,475,409	**26,593,980**	25,762,542
Staff costs (including director's remuneration):				
Wages and salaries	**4,832,869**	4,625,446	**14,651,667**	14,594,465
Other benefits	**216,873**	232,057	**646,673**	720,860
Foreign exchange differences (net)	**125,161**	(59,358)	**219,556**	(181,642)
Amortization of intangible assets charged to:				
Cost of sales	**182**	191	**554**	3,045
Research and development expenses	**21,221**	16,399	**82,293**	91,026
Administarion expenses	**20,195**	11,208	**61,830**	63,813
Depreciation of items of property, plant and equipment charged to:				
Cost of sales	**926,504**	993,237	**2,841,125**	3,241,131
Research and development expenses	**184,233**	127,224	**559,473**	411,500
Administarion expenses	**8,475**	21,002	**28,374**	120,743
Research and development expenses (before government grants and contribution from CRRC Times Electric)	**2,829,562**	2,976,508	**7,795,052**	8,254,115
Contribution from CRRC Times Electric	**(1,941,653)**	(2,477,318)	**(5,220,096)**	(6,534,151)
Government grants:				
Research and development	**(391,168)**	(233,510)	**(1,158,217)**	(671,041)
Property plant and equipment	**-**	-	**-**	(154)
Provision for slow moving and obsolete inventories	**(8,777)**	-	**(3,188,558)**	440,500

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

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

	3 months Sept 30th 2017	3 months Sept 30th 2016	**YTD Sept 30th 2017**	YTD Sept 30th 2016
	$	$	**$**	$
Earnings:				
Loss attributable to ordinary equity holders used in both basic and diluted earnings per share calculations	**10,631**	235,834	**(527,179)**	(1,954,467)
Shares:				
Weighted average number of ordinary shares outstanding during the period used in both basic and diluted earnings per share calculations	**80,509,047**	80,509,047	**80,509,047**	80,509,047

9. INTANGIBLE ASSETS & PROPERTY, PLANT AND EQUIPMENT

In the quarter ended September 30th, 2017 the Group acquired intangible assets and property, plant and equipment with an aggregate cost of $340,233 (Sept 30th, 2016 - $450,510). In the nine months ended Sept 30th, 2017 the Group acquired intangible assets and property, plant and equipment with an aggregate cost of $1,362,139 (Sept 30th, 2016 - $1,389,074).

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

At September 30th, 2017 the Group has commitments for the purchase of intangible assets and property, plant and equipment of $0.7 million (Dec 31st, 2016 - $2.1 million).

10. BORROWINGS

	Note	**Sept 30th 2017** $	Dec 31st 2016 $
Secured at amortised cost:			
Bank overdrafts	(i)	**1,220,651**	545,511
Bank loans	(i) (ii) (iii)	**10,894,000**	11,674,787
Finance lease	(iv)	**29,760**	70,922
		12,144,411	12,291,220
Unsecured at amortised cost:			
Other loans	(v) (vi) (vii)	**9,406,434**	9,230,260
		21,550,845	21,521,480
Current portion		**17,415,156**	16,380,290
Non-current portion		**4,135,690**	5,141,190
		21,550,846	21,521,480

(i) The Group has a bank overdraft of $1,220,651 (Dec 31st, 2016 - $545,511) under an approved overdraft facility of $1,676,000 (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. See Note 14.

(ii) The Group has an uncommitted money market facility from a bank for $11,732,000 of which $10,894,000 was drawn on September 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 September were repayable during October 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 September 30th, 2017 these assets have a carrying value of $58,170,991 (Dec 31st, 2016 - $52,940,346).

(iii) The Group has a bank loan for $nil (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 $426,644 (Dec 31st, 2016 - $460,835).

(iv) The finance leases are secured by the equipment leased which has a carrying value of $135,579 (Dec 31st, 2016 - $143,236).

(v) The Group has an unsecured loan from a fellow subsidiary of CRRC Times Electric of 9,050,400 (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 $218,884 (Dec 31st, 2016 - $325,660).

(vii) The Group has a loan from an unrelated party for $137,150 (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.

11. SHARE CAPITAL

At September 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:

	YTD Sept 30th 2017	YTD Sept 30th 2016
	$	$
Decrease (increase) in inventories	**4,369,117**	(1,267,214)
(Increase) decrease in trade receivables	**(2,551,496)**	569,304
Decrease (increase) in prepayments, deposits & other receivables	**577,080**	(615,164)
(Increase) decrease in amounts owing from parent company	**(3,559,705)**	584,379
(Decrease) increase in trade payables	**(936,039)**	38,237
Increase (decrease) in other payables & accruals	**218,414**	(3,006,194)
Increase in provisions	**334,566**	-
Increase in amounts owing to parent company	**4,615,678**	701,068
	3,067,615	(2,995,584)

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:

		3 months Sept 30th 2017	3 months Sept 30th 2016	**YTD Sept 30th 2017**	YTD Sept 30th 2016
		$	$	**$**	$
Transactions with CRRC Times Electric:					
Sale of goods	(i) (ii)	**3,192,257**	1,666,021	**6,339,560**	5,296,939
Rendering of services	(iii)	**1,450,585**	2,072,666	**3,716,787**	2,959,913
Amounts in respect of jointly funded research and development activity which is accounted for as a reduction in research and development expenses	(iv)	**1,941,653**	2,477,318	**5,220,096**	6,534,151
Reimbursed expenses	(v)	**-**	43,238	**41,094**	199,084
Purchases of materials and components	(i) (vi)	**3,069,199**	751,238	**5,720,707**	2,093,740
Transactions with CRRC Corporation Ltd:					
Rendering of services	(vii)	**-**	-	**136,599**	-
Transactions with fellow group					
Sale of goods	(viii)	**784,142**	469,545	**2,128,566**	1,018,353
Purchases of materials and components	(ix)	**-**	-	**-**	504,080
Interest expense	(x)	**88,910**	93,540	**269,021**	288,030
Reimbursed expenses	(xi)	**15,185**	-	**44,871**	52,654
Transactions with other parties:					
Compensation to key management personnel		**324,000**	300,000	**1,025,000**	1,007,000
Non-exective directors fees	(xii)	**5,000**	5,000	**15,000**	15,000
Legal fees and expenses	(xiii)	**15,937**	16,331	**48,997**	43,075

13. RELATED PARTY TRANSACTIONS AND BALANCES (continued)

		Sept 30th 2017	Dec 31st 2016
		$	$
Balances with CRRC Times Electric:			
Amounts owing from group undertakings	(i) - (v)	**6,322,572**	3,573,709
Amounts owing to group undertakings	(i) (vi)	**6,719,660**	2,103,917
Other payables and accruals	(iii) (iv)	**706,253**	-
Balances with CRRC Corporation Ltd			
Amounts owing from group undertakings	(vii)	**(5,195)**	-
Other payables and accruals	(vii)	**-**	-
Balances with fellow group subsidiaries:			
Amounts owing from group undertakings	(viii)	**830,869**	-
Borrowings	(ix)	**9,050,400**	8,904,600
Other payables and accruals	(ix)	**685,046**	357,160
Balances with other parties:			
Other payables and accruals	(xii)	**5,000**	10,000
Trade payables	(xiii)	**11,635**	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) 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 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)

(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 currently replacing its main bankers and expects the transfer of all its current banking and loan facilities to be completed by the end of November 2017. The Group expects to replace the uncommitted money market facility of $11,732,000 and overdraft facility of $1,676,000 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 November 10th, 2017.

Corporate Information

Board of Directors

Liu Ke'an [1] [3]
Chairman

Clive Vacher [1]
Director, President & CEO

Alan Lyons
Director & CFO

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

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UK – Deloitte LLP

Transfer Agent

Computershare Trust Company of Canada

Legal Counsel

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Ontario
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Senior Officers, VP's & Senior Managers

Clive Vacher
President, CEO & Co. Secretary

Alan Lyons
CFO

Mark Kempton
Semiconductor Business Unit Manager

Keith Maris
Chief Operating Officer

Sky Xu
Sales & Marketing Director

Bill McGhie
Power Assemblies Business Manager

Andy Dai
Technology Manager

Vincent Li
Technology Manager

Su Bailey
Head of HR

Paul Deakin
Quality Director

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