



## **DYNETEK REPORTS 2006 SIX MONTH AND SECOND QUARTER RESULTS**

- **Record six month revenues of \$17.6 million – up 21% from the first six months of 2005**
- **Record second quarter revenues of \$8.8 million – up 26% from the second quarter of 2005**
- **Positive cash flow from operations of \$1.4 million for the first six months of 2006 and \$0.4 million for the second quarter of 2006**

**Calgary, Alberta, Canada – August 10, 2006** – Dynetek Industries Ltd. (TSX:DNK), a leader in the design, manufacturing and marketing of proprietary fuel storage cylinders and systems for compressed natural gas (CNG) and hydrogen, today reported results for the three-months and six months ended June 30, 2006. Conference call information is provided below.

### **Financial Highlights**

- Total revenue for the six months ended June 30, 2006 of \$17.6 million increased \$3.6 million or 21% from the same period of 2005.
- Total revenues for the three months ended June 30, 2006 of \$8.8 million increased \$1.8 million or 26% from the comparative second quarter of 2005.
- Cylinder and system sales for the six months ended June 30, 2006 of \$16.3 million increased \$4.3 million or 36% compared with the six months ended June 30, 2005.
- Cylinder and system sales for the three months ended June 30, 2006 of \$8.1 million increased \$1.7 million or 27% from the comparative second quarter of 2005.
- Contribution margins fell from 24% in the first quarter to 22% in the second quarter.
- Cash flow from operations of \$1.4 million for the first six months of 2006 and \$0.4 million for the second quarter of 2006.
- Tenth consecutive quarter of positive EBITDA<sup>1</sup> including \$0.6 million for the three months ended June 30, 2006.
- Confirmed order book in excess of \$16.9 million the majority to be delivered in the latter half of 2006.

Robb Thompson, President and Chief Executive Officer, said the second quarter results reflect Dynetek's continued commitment to focusing on CNG cylinder and system sales to our target market of bus and truck manufacturers predominantly in Europe and to tapping into new market opportunities for our bulk hauling technology.

"Unfortunately, the second quarter margins fell to 22% from 24% in the first quarter, as heavy rains and flooding shut down the manufacturing plant of a key raw material supplier and prevented it from delivering for a period. In order to maintain our market leadership and customer needs, we were forced to fill European customer orders on a more costly basis. We are taking steps to ensure this situation will not recur."

"The six-month net earnings and cash flow from operations are representative of what we, as an alternative energy company, can achieve with revenue streams from both CNG and compressed hydrogen", Mr. Thompson said. "Our CNG growth is particularly strong in Europe, which reconfirms that the CNG market place is where opportunities support revenue growth and sustained earnings. This contrasts with the hydrogen market where revenue growth leading to profitability is more limited for now."

"With the growth patterns we have experience and with our backlog orders at \$16.9 million in the second quarter – the majority of which will be delivered this year, we believe we can continue to achieve the positive results of the first six months into the last six months of 2006."

*(1) Earnings before interest, taxes, non-cash foreign exchange, impairment of other assets, stock based compensation, depreciation and amortization (EBITDA) is a non-GAAP measure and may not be comparable to similar measures used by other companies. Management believes EBITDA is a useful measure to assist in the assessment of Dynetek's ability to generate cash flows from its operations.*

## OPERATIONAL HIGHLIGHTS

For the six months ended June 30, 2006 Dynetek reported net income of \$0.1 million compared to a loss of (\$0.5) million for the same period of 2005. For the three months ended June 30, 2006 Dynetek reported a net loss of (\$0.2) million compared to a loss of (\$0.4) million for the same period of 2005. In the first six months of 2006, Dynetek achieved total revenues of \$17.6 million compared to \$14.0 million for the same period of 2005. Cylinder and system sales for the six months ended June 30, 2006 were \$16.3 million compared to \$12.0 million for the same period of 2005. In the second quarter of 2006, Dynetek achieved total revenues of \$8.8 million (2005 - \$7.1 million) with cylinder and system sales of \$8.1 million (2005 - \$6.4 million) included in these second quarter results. The Company's goal is to achieve increased cylinder and system sales in each quarter compared to the prior year comparative quarter. The Company recorded cash flow from operations of \$1.4 million for the six months ended June 30, 2006, compared to \$2.3 million for the same period of 2005. Cash flow from operations for the three months ended June 30, 2006 was \$0.4 million compared to \$2.5 million for the same period of 2005. The Company continues to have positive EBITDA<sup>1</sup> and reported \$1.4 million for the six months ended June 30, 2006 and positive EBITDA<sup>1</sup> of \$0.6 million for the three months ended June 30, 2006 representing the tenth consecutive quarter.

The Company continues to focus its compressed natural gas cylinder sales in areas such as California and Europe. In Europe, the Company has seen strong growth due to the need to meet regulatory environmental requirements and the price differential of natural gas compared to diesel. In the first six months of 2006, Dynetek's European operations achieved record cylinder and system sales of \$9.5 million. Dynetek's proprietary technology provides advantages such as less weight, more compressed natural gas on board and less operating costs, being the value proposition we offer our customers that our competitors cannot provide. This same model was used to develop the California market for heavy-duty trucks.

The cylinder and system sales from the Canadian operations for the six months ended June 30, 2006 were \$6.8 million, an increase of 41% when compared to the comparable period of 2005. During the second quarter of 2006, Dynetek completed delivery (\$3.0 million CDN) of the bulk transportation modules to John Thompson Engineering PTY, a division of Burns and Roe Worley, located in Sydney Australia. Dynetek's BT modules will be used to transport compressed natural gas (CNG) to a power plant located in Western Australia.

Dynetek's research and development team continues to focus its efforts on compressed hydrogen and related storage requirements. During the first six months of 2006 the Company continued to work with 9 different OEMs, including Ford, Hyundai, DaimlerChrysler and Nissan, to design, manufacture and deliver the hydrogen storage solution on 12 confidential development programs.

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## MANAGEMENT'S DISCUSSION AND ANALYSIS

The following sets out management's discussion and analysis of our financial position and results of operations for the three months and six months ended June 30, 2006 and 2005. The interim management's discussion and analysis (MD&A) updates our annual MD&A included in our 2005 Annual Report to Shareholders, to which readers are referred. No update is provided where an item is not material or where there has been no material change from the discussion in our annual MD&A.

### Financial Highlights

(tabular amounts in thousands of Canadian dollars, except share capital and per share data)  
(unaudited)

	Three months ended June 30		Six months ended June 30	
	2006	2005	2006	2005
<b>Revenue</b>				
Cylinder and system sales	<b>8,090</b>	6,356	<b>16,323</b>	12,032
Research and development income	<b>644</b>	683	<b>1,262</b>	1,876
Investment and other income	<b>38</b>	11	<b>57</b>	68
	<b>8,772</b>	7,050	<b>17,642</b>	13,976
Net earnings (loss)	<b>(149)</b>	(374)	<b>67</b>	(549)
Net earnings (loss) per common share (basic and fully diluted)	<b>(0.01)</b>	(0.02)	<b>0.00</b>	(0.03)
EBITDA <sup>1</sup>	<b>566</b>	262	<b>1,386</b>	796
Capital expenditures	<b>385</b>	448	<b>830</b>	810
Cash and cash equivalents	<b>2,619</b>	4,838	<b>2,619</b>	4,838
Non-cash working capital <sup>2</sup>	<b>12,168</b>	12,318	<b>12,168</b>	12,318
Cash flow from operations	<b>380</b>	2,450	<b>1,376</b>	2,299
Total assets	<b>44,964</b>	46,419	<b>44,964</b>	46,419
Long-term debt	<b>1,327</b>	1,661	<b>1,327</b>	1,661
Common shares outstanding	<b>20,940,451</b>	20,939,701	<b>20,940,451</b>	20,939,701
Weighted average common shares outstanding	<b>20,939,911</b>	20,638,780	<b>20,939,911</b>	20,638,780

(1) Earnings before interest, taxes, non-cash foreign exchange, stock based compensation, depreciation and amortization (EBITDA) is a non-GAAP measure and may not be comparable to similar measures used by other companies. Management believes EBITDA is a useful measure to assist in the assessment of Dynetek's ability to generate cash flows from its operations.

(2) Non-cash working capital is current assets after cash less current liabilities.

**Cylinder and system sales** for the six months ended June 30, 2006 were \$16.3 million, up 36% from \$12.0 million for the same period of 2005. Cylinder and system sales for the three months ended June 30, 2006 were \$8.1 million up \$1.7 million or 27% for the same period in 2005. The Canadian dollar to US dollar exchange rate averaged \$1.13 during the first six months of 2006 compared to \$1.24 for the same period of 2005. Had the U.S. dollar to Canadian dollar exchange rate achieved the levels of the first six months of 2005 in the first six months of 2006, revenues would have been \$0.7 million higher. The Canadian dollar to Euro exchange rate averaged \$1.40 during the first six months of 2006 compared to \$1.59 for the same period of 2005. Had the Euro to Canadian dollar exchange rate achieved the levels of the first six months of 2005 in the first six months of 2006, revenues would have been \$1.3 million higher.

During the second quarter of 2006, customers who purchased the DyneCell fuel storage systems<sup>®</sup> for CNG included: Marubeni Metals Corp. (Japan), McNeilus Truck (United States), Iris Bus (Italy), Thomas Built Buses (United States), NEOMAN (Europe), Heuliez Bus (Europe), John Thompson Engineering (Australia), BredaMenarinibus (Europe) and Millennium Transit Services (United States). Customers who purchased hydrogen and other compressed gas fuel storage systems included: DaimlerChrysler (Germany), Hyundai (Korea), Ford Motor Company (United States), and Nissan (Japan).

**Research and development income** for the six months ended June 30, 2006 was \$1.3 million, down 33% or \$0.6 million from the same period in 2005. Research and development income for the second quarter was \$ 0.6 million, down 14% or \$0.1 million from the same period of 2005. During the first six months of 2006, Dynetek continued to be involved with Natural Resources Canada (NRCan) and 9 different Original Equipment Manufacturers (OEMs), including Ford, Hyundai, DaimlerChrysler and Nissan, to design, manufacture and deliver the hydrogen storage solution on 12 confidential development programs. Revenues received from the OEMs regarding these projects are recorded on billing milestones outlined in the contracts and, therefore, timing

differences occur between when costs are incurred and funding is received. Non-repayable cost shared monies received from NRCan are recorded as revenue in the period it is invoiced.

During 2006, Dynetek received non-repayable cost shared monies of \$0.4 million from NRCan for the development and testing of a 700bar (10000psi) complete fueling system.

**Investment and other income** for the six months ended June 30, 2006 was \$0.1 million, comparable to the same period in 2005. In the second quarter of 2006, investment and other income was \$38,000 compared to \$11,000 for the same period of 2005.

**Cost of goods sold** was \$12.5 million for six months ended June 30, 2006 compared to \$9.0 million for the same period in 2005. Cost of goods sold was \$6.3 million for three months ended June 30, 2006 compared to \$4.8 million for the same period in 2005. Corresponding contribution margins for the six months ended June 30, 2006 were \$3.8 million, or 23% of sales compared to \$3.0 million or 25% of sales for the same period of 2005. Corresponding contribution margins for the three months ended June 30, 2006 were \$1.8 million, or 22% of sales compared to \$1.6 million or 25% of sales for the same period of 2006. The reduction in the contribution margin is reflective of the increase in carbon fibre pricing over the last year and increased freight charges.

**General and administrative expense** was \$1.9 million for the six months ended June 30, 2006, \$0.2 million higher than the \$1.7 million for the same period of 2005. General and administrative expense was \$1.0 million for the three months ended June 30, 2006 \$0.1 million higher than \$0.9 million for the same period of 2005. Overall general and administration costs decreased as a percentage of revenue from 12% in the first six months of 2005 to 11% in the first six months of 2006. Overall general and administration costs decreased as a percentage of revenue from 13% in the second quarter of 2005 to 11% in the second quarter of 2006.

**Research and product development expense** was \$1.0 million for the six months ended June 30, 2006 compared to \$1.7 million for the same period in 2005. Research and product development expense was \$0.5 million for the quarter ended June 30, 2006 compared to \$0.6 million for the same period in 2005. Research and development expense consists of materials, labour and costs of benefits and overhead related to research and development activity.

The majority of Dynetek's research and development programs are co-funded with major OEMs and government (NRCan). The funding from the OEMs for the research and development programs is recorded as research and development revenue based on billing milestones outlined in the contracts. This can result in timing differences between when costs are incurred and funding is received. The government funding is recorded either as research and development income or loans. The cost shared monies received from NRCan, which is non-repayable, are recorded as research and development revenue in the period it is invoiced and the repayable government cost shared monies are recorded as a loan.

**Marketing expense** was \$0.8 million for the six months ended June 30, 2006, comparable to the same period of 2005. Marketing expense was \$0.4 million for the three months ended June 30, 2006, comparable to the same period of 2005. Overall marketing expense was 5% of sales for the six months ended June 30, 2006 compared to 6% of sales for the same period of 2005. Overall marketing expense was 5% of sales for the three months ended June 30, 2006 compared to 6% of sales for the same period of 2005.

**Depreciation** was \$0.7 million for the six months ended June 30, 2006, \$0.1 million higher than the \$0.6 million for the same period of 2005. Depreciation was \$0.4 million for the three months ended June 30, 2006, \$0.1 million higher than the \$0.3 million for the same period of 2005.

**Amortization** was \$0.3 million for the six months ended June 30, 2006, which was \$0.1 million higher than the same period of 2005. Amortization was \$0.2 million for the three months ended June 30, 2006, which is \$0.1 million higher than the \$0.1 million for the same period of 2005. Items included in amortization expense include process and development costs, patents and deferred start-up costs for the European operation.

**Foreign exchange** for six months ended June 30, 2006 was a loss of (\$0.2) million compared to a loss of (\$0.4) million in the same period of 2005. Foreign exchange for three months ended June 30, 2006 was a loss of (\$0.1) million which is comparable to the same period of 2005. Dynetek's Canadian operations invoices the majority of its revenue in US dollars and the European operation invoices in Euros. The Company reports its results in

Canadian dollars but the revenues are generated in US dollars, Euros and Canadian dollars. The foreign exchange loss in the first six months of 2006 is a result of a weakening of the United States dollar against the Canadian dollar resulting in a negative impact on the foreign denominated accounts receivable and cash when translating into Canadian dollars for financial reporting purposes and the settlement of accounts receivable transactions during the period.

To minimize exposure to foreign exchange fluctuations the Company began using monthly forward contracts in order to reduce the foreign exchange translation exposure on accounts receivable, payables and cash. The effect of the monthly forward contracts was a net cash outflow of \$144,500 CAD for the six months ended June 30, 2006. Had the Company not entered into the contracts, the Company would have recorded a net foreign exchange loss of \$71,500 CDN.

**Net Earnings** for the six months ended June 30, 2006 was \$67,000 or \$nil per common share compared to a loss of (\$0.5) million or (\$0.03) per common share for the comparable period. Net loss for the three months ended June 30, 2006 was (\$0.1) million or (\$0.01) per common share compared to (\$0.4) million or (\$0.02) per common share for the same period of 2005. The net income in the first six months is substantially the result of an increase in cylinder and system sales, a reduction of stock based compensation and a decrease in the foreign exchange loss. The net loss for the three months ended June 30, 2006 is substantially the result of a reduction of the margin and increases in depreciation expense and amortization of intangible assets and deferred costs.

## **VALVE DIVISION**

The Valve Division is focused entirely on research and development activities. During the first six months of 2006 the Valve Division received no additional funding of non-repayable cost shared monies from NRCan compared to the \$0.2 million received in 2005.

## **EUROPEAN OPERATIONS**

Dynetek Europe GmbH ('Dynetek Germany') has progressed considerably since its inception in 2001 by obtaining cylinder and production certification, developing infrastructure, and marketing the DyneCell<sup>®</sup> primarily throughout Europe.

In the six months ended June 30, 2006 the subsidiary generated \$9.5 million of revenue compared to \$8.3 million in the same period of 2005. In the quarter ended June 30, 2006 the subsidiary generated \$4.3 million of revenue compared to \$4.8 million for the same period of 2005.

## Summary of Quarterly Results

The following table shows selected unaudited financial information for the past nine quarters ending June 30, 2006. The information has been obtained from our quarterly unaudited financial statements, which have been prepared in accordance with Canadian GAAP and, in the opinion of management, have been prepared using accounting policies consistent with the audited financial statements and include all adjustments necessary for the fair presentation of the results of the interim periods. We expect our operating results to vary significantly from quarter to quarter and they should not be relied upon to predict future information.

(thousands of Canadian dollars except per share data) (unaudited)	June 30 2004	Sept. 30 2004	Dec. 31 2004	Mar. 31 2005	June 30 2005	Sept. 30 2005	Dec. 31 2005	Mar. 31 2006	June 30 2006
<b>Revenues</b>									
Cylinder and system sales	4,403	5,270	8,177	5,676	6,356	5,631	5,858	8,233	8,090
Research & development income	1,406	723	576	1,193	683	362	603	618	644
Investment & other income	18	10	29	57	11	12	317	19	38
	5,827	6,003	8,782	6,926	7,050	6,005	6,778	8,870	8,772
<b>Operating expenses</b>									
Cost of goods sold	3,277	3,893	6,090	4,175	4,796	4,139	4,538	6,241	6,307
Marketing & general and admin.	1,336	1,239	1,479	1,154	1,347	1,118	1,548	1,331	1,384
Research & product development	1,044	490	860	1,063	645	604	461	478	515
	5,657	5,622	8,429	6,392	6,788	5,861	6,547	8,050	8,206
<b>Earnings before interest, income taxes, non-cash foreign exchange, stock based compensation, impairment of other assets, depreciation &amp; amortization<sup>1</sup></b>	170	381	353	534	262	144	231	820	566
Foreign exchange (gain) loss	(37)	226	71	241	127	357	258	70	146
Depreciation & amortization	416	430	447	373	411	449	466	486	518
Stock based compensation	87	88	144	95	99	100	106	48	51
Impairment of other assets	-	-	-	-	-	535	-	-	-
Income taxes	15	7	4	-	-	-	-	-	-
	481	751	666	709	637	1,441	829	604	715
<b>Net Income (loss)</b>	(311)	(370)	(313)	(175)	(375)	(1,297)	(598)	216	(149)
<b>Earnings (loss) per share</b>									
Basic and fully diluted	(0.01)	(0.02)	(0.02)	(0.01)	(0.02)	(0.06)	(0.03)	0.01	(0.01)

(1) Earnings before interest, taxes, stock based compensation, non-cash foreign exchange, depreciation and amortization (EBITDA) is a non-GAAP measure and may not be comparable to similar measures used by other companies. Management believes EBITDA is a useful measure to assist in the assessment of Dynetek's ability to generate cash flows from its operations.

## Intangible assets and deferred costs

(thousands of Canadian dollars)  
(unaudited)

	Three months ended June 30		Six months ended June 30	
	2006	2005	2006	2005
Patents	21	121	22	258
Certification costs	278	277	628	377
Deferred Costs	24	-	44	-
	<b>323</b>	398	<b>694</b>	635

Intangible asset expenditures for the six months ended June 30, 2006 were \$0.7 million compared to \$0.6 million for the same period of 2005. The additions for the three and six months ended June 30, 2006 were due to certification and patent costs incurred during the period. The Company will invest in patents and costs associated with product certification in future years to ensure protection of our intellectual property, developed products and production processes.

## Capital Expenditures

(thousands of Canadian dollars)  
(unaudited)

	Three months ended June 30		Six months ended June 30	
	2006	2005	2006	2005
Building and leaseholds	16	34	23	348
Manufacturing equipment	165	446	351	2,788
Office furniture and other equipment	14	-	19	-
Computer hardware and software	16	5	18	7
Manufacturing equipment under construction	174	(37)	419	(2,333)
	<b>385</b>	448	<b>830</b>	810

Capital expenditures for the six months ended June 30, 2006 were \$0.8 million which is comparable to the same period in 2005. Capital expenditures for the three months ended June 30, 2006 were \$0.4 million which is comparable to the same period in 2005.

The Company's capital resource requirements consist of capital expenditures to maintain and improve the existing production line.

## Financial Resources and Liquidity

The Company's principal liquidity requirements relate to the increase in working capital required to maintain our increase in sales.

As at June 30, 2006 Dynetek had cash and cash equivalents of \$2.6 million, compared to \$3.0 million at March 31, 2006 and \$2.8 million at December 31, 2005. Dynetek was cash flow positive from operations of \$1.4 million for the six months ended June 30, 2006 and \$0.4 million for the three months ended June 30, 2006. Dynetek's working capital level was \$14.8 million at June 30, 2006, as a result of the growth of the Company's revenues and the increase in production levels to meet demand.

The Company's investment in inventory resulted in an increase of \$1.2 million to \$11.6 million at June 30, 2006 from December 31, 2005. Work-in-progress represented by confirmed orders increased by \$0.4 million to \$3.0 million. Raw material levels increased by \$1.2 million to \$4.3 million as a result of carbon fiber deliveries received at the end of June. Finished goods inventory decreased by \$0.4 million to \$4.3 million from the December 31, 2005 levels.

At June 30, 2006 accounts receivable were \$6.0 million a reduction of \$0.5 million when compared to December 31, 2005. The Company seeks to manage the collection of receivables and the payment of payables in a manner that working capital levels will continue to fund ongoing operations. Accounts payable at June 30, 2006 were \$5.7 million, compared to \$5.1 million as at December 31, 2005.

The Company's actual funding requirements will vary depending on a number of factors, including the increase of the CNG system sales on a global basis, the progress of research and development projects and the development of additional relationships with strategic partners. Dynetek remains committed to enhancing its technological leadership and remaining a market leader in the industrial gas fuel storage industry, including CNG and hydrogen.

The long-term debt relates to repayable research and development funding supplied by NRCan. These agreements allow Dynetek to retain the intellectual property and to receive long-term funding. The debt is repayable only in the form of royalties based on specific related commercial product sales and is interest free. The Company has \$0.1 million to be repaid in 2006. The Company believes that additional cost shared monies will continue to be available from governments and OEMs for future research and development projects.

Dynetek continues to build on the strong strategic alliances with several major OEMs whereby confidential joint funding has been obtained to develop complete hydrogen fuel storage systems. Other research programs with strategic partners, such as government bodies, who provide financial and technical support, are also in place to explore other storage applications in the energy marketplace.

At June 30, 2006, the Company had an unused \$5.0 million line of credit facility with a major chartered bank.

### Transactions with Related Parties

For the six months ended June 30, 2006, the Company purchased under normal terms and conditions \$5.1 million (2005 - \$2.9 million) of material used in the production of lightweight fuel storage systems from Mitsubishi Rayon Corporation, a shareholder of the Company.

### Outstanding Share Data

#### Issued and outstanding:

	Number of Shares	Amount
Balance December 31, 2004	20,547,232	52,589
Warrants exercised <sup>(i)</sup>	360,594	(225)
Options exercised	31,875	30
Reclassification of contributed surplus	-	38
Balance at December 31, 2005	20,939,701	52,432
Options exercised	750	1
<b>Balance at June 30, 2006</b>	<b>20,940,451</b>	<b>52,433</b>

(i) On May 7, 2005 885,000 share purchase warrants were exercised in a cashless conversion and 360,594 common shares were issued.

	June 30 2006	December 31 2005
<b>Securities convertible into common shares:</b>		
Stock options	1,162,750	1,180,500
Warrants	756,738	1,174,294

As at July 31, 2006 Common shares outstanding were 20,940,451, options outstanding of 1,141,500 and warrants outstanding of 493,722.

### OUTLOOK

Revenues from CNG cylinder and system sales in each quarter of 2006 are expected to increase over the comparative quarter in 2005. This growth is expected primarily from the Company's existing European operations and from new opportunities primarily in bulk hauling and the Californian market.

Revenue from compressed hydrogen cylinder and system sales will continue to vary on a quarter-to-quarter and year-to-year basis. This revenue is dependent on the compressed hydrogen storage requirements of OEMs and other industrial hydrogen companies. The Company is unable to influence the timing of the automotive OEMs compressed hydrogen development programs.

Research and development income is directly related to the Company plans for new products or processes which have the best opportunity of creating near-term revenues. The ability to generate funding from customers and partners dictates how much research and development occurs over any 12-month period. Timing differences can occur between when research and development costs are incurred and when revenue is invoiced and earned. Therefore a deficiency or surplus of revenues over expenditures may vary on a quarter-by-quarter basis. The Company's goal over a twelve month fiscal period is to be at least break-even with the research and development program.

In the third quarter of 2006 the Company will invest approximately \$1.0 million in production expansion in the European operation to meet the growing demand for CNG solutions. The Company believes with these expenditures in manufacturing assets and additional space it has the assets in place to support its current rate of growth and has no plans for any additional significant expenditures on capital assets during the remainder of 2006. The Company will continue to seek international opportunities for additional production locations to provide near-term ongoing revenue growth. Potential production strategic partnerships and opportunities to finance international growth are reviewed on a case-by-case basis.

The Company continues to review all options to deal with growth and global prospects. As disclosed in March 2006, a Special Committee has been formed to review and advise the Board of Directors of strategic alternatives available to the Company for enhancing shareholder value, including, but not limited to, raising of capital, strategic partnerships or business combinations.

### **Additional information relating to Dynetek**

Additional information concerning Dynetek, including the AIF, is available on SEDAR at [www.sedar.com](http://www.sedar.com).

Dynetek Industries Ltd. is a leading international company engaged in the design, manufacturing and marketing of fueling systems and high-pressure components including valves and regulators. The key component of the storage system is the DyneCell<sup>®</sup> cylinder, capable of storing high pressure gases including compressed natural gas (CNG), hydrogen, and various industrial gases. Dynetek's cylinder and fuel storage systems applications include but are not limited to: the transportation industry, including passenger automobiles, light and heavy-duty trucks, transit and school buses; the bulk hauling of compressed gases; and stationary storage or ground storage refueling applications.

### **Conference Call**

Dynetek will hold a conference call and web cast on Friday, August 11, 2006 at 7:00 a.m. MST (9:00 a.m. EST) to discuss its Second Quarter 2006 financial and operating results and to provide an update on developments of the Company.

Participants in the continental United States and Canada can access the conference call at 1-800-741-3792. Participants calling from the UK geographic area can access the call at 1-800-528-0626 or 44-870-001-3126.

Digital replay of the call will be available approximately one hour after the call is completed and until August 25, 2006. To access the replay in the continental United States or Canada call 1-800-558-5253 or from outside this geographic area, call 1-416-626-4100. To access the replay in the UK geographic area call 1-800-692-0831 or 44-870-000-3081. The confirmation number for the replay is 21300853. The audio web cast can be accessed on Dynetek's web site at [www.dynetek.com](http://www.dynetek.com) and it will be archived for replay for 30 days.

## Forward looking statements

*In addition to historical information, this Interim Report and the management's discussion and analysis of financial condition and results of operations contains forward-looking statements and should be read in conjunction with the financial statements and related notes for the year ended December 31, 2005. Forward-looking statements are based upon current assumptions, expectations and estimates that involve a number of risks and uncertainties and actual results could differ materially from those discussed in the forward-looking statements. Readers are encouraged to review the section in the Management's Discussion and Analysis titled 'Principal Risks and Uncertainties' for a discussion of factors that could affect Dynetek's future operations and financial results. Forward-looking statements are based upon management's assumptions, expectations and estimates at the time the statements are made. Dynetek does not update forward-looking statements should circumstances or management's assumptions, expectations or estimates change.*

For further information, please contact:

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Web: [www.dynetek.com](http://www.dynetek.com)

**Dynetek Industries Ltd.**  
**Consolidated Balance Sheets**

(thousands of Canadian dollars)  
(unaudited)

	<b>June 30</b>	December 31
	<b>2006</b>	2005
<b>ASSETS</b>		
Current assets		
Cash and cash equivalents	2,619	2,809
Accounts receivable	6,023	6,516
Inventory (note 3)	11,585	10,392
Prepaid expenses	442	719
	<b>20,669</b>	20,436
<b>Intangible assets and deferred costs</b>	<b>5,432</b>	5,054
<b>Capital assets</b>	<b>16,358</b>	16,216
<b>Future income tax</b>	<b>2,505</b>	2,505
	<b>44,964</b>	44,211
<b>LIABILITIES</b>		
Current liabilities		
Accounts payable and accrued liabilities	5,731	5,145
Current portion of long-term debt	151	137
	<b>5,882</b>	5,282
<b>Long-term debt</b>	<b>1,327</b>	1,341
<b>SHAREHOLDERS' EQUITY</b>		
Share capital (note 4)	52,433	52,432
Contributed surplus (note 5)	2,281	2,182
Deficit	<b>(16,959)</b>	(17,026)
	<b>37,755</b>	37,588
	<b>44,964</b>	44,211

See accompanying notes to the unaudited consolidated financial statements

## CONSOLIDATED STATEMENTS OF OPERATIONS AND DEFICIT

(thousands of Canadian dollars except share capital and per share amounts)  
(unaudited)

	Three months ended		Six months ended	
	2006	June 30 2005	2006	June 30 2005
<b>REVENUE</b>				
Sales	<b>8,090</b>	6,356	<b>16,323</b>	12,032
Research and development	<b>644</b>	683	<b>1,262</b>	1,876
Investment and other income	<b>38</b>	11	<b>57</b>	68
	<b>8,772</b>	7,050	<b>17,642</b>	13,976
<b>EXPENSES</b>				
Cost of goods sold	<b>6,307</b>	4,796	<b>12,548</b>	8,971
General and administrative	<b>989</b>	921	<b>1,884</b>	1,691
Research and product development	<b>515</b>	645	<b>993</b>	1,708
Marketing	<b>395</b>	426	<b>831</b>	810
Depreciation	<b>355</b>	297	<b>688</b>	568
Amortization of intangible assets and deferred costs	<b>163</b>	113	<b>316</b>	215
Foreign exchange loss	<b>146</b>	127	<b>216</b>	368
Stock based compensation (note 4)	<b>51</b>	99	<b>99</b>	194
	<b>8,921</b>	7,424	<b>17,575</b>	14,525
<b>Earnings (loss) before income taxes</b>	<b>(149)</b>	(374)	<b>67</b>	(549)
<b>PROVISION FOR TAXES</b>				
Large corporations tax	-	-	-	-
	-	-	-	-
<b>NET EARNINGS (LOSS)</b>	<b>(149)</b>	(374)	<b>67</b>	(549)
Deficit, beginning of period	<b>(16,810)</b>	(14,756)	<b>(17,026)</b>	(14,581)
<b>DEFICIT, END OF PERIOD</b>	<b>(16,959)</b>	(15,130)	<b>(16,959)</b>	(15,130)
<b>Per Share Information</b>				
Net loss per share (basic and diluted)	<b>(0.01)</b>	(0.02)	<b>0.00</b>	(0.03)
Weighted average number of common shares outstanding	<b>20,939,911</b>	20,638,780	<b>20,939,911</b>	20,638,780

See accompanying notes to the unaudited consolidated financial statements



**CONSOLIDATED STATEMENT OF CASH FLOWS**

(thousands of Canadian dollars)  
(unaudited)

	Three months ended		Six months ended	
	June 30		June 30	
	2006	2005	2006	2005
<b>Cash flows provided by (used for) operating activities</b>				
<b>NET EARNINGS (LOSS)</b>	<b>(149)</b>	<b>(374)</b>	<b>67</b>	<b>(549)</b>
Items not involving cash				
Depreciation	355	297	688	568
Amortization of intangible assets and deferred costs	163	113	316	215
Stock based compensation	51	99	99	194
Unrealized foreign exchange loss (gain)	(179)	229	(99)	400
	241	364	1,071	828
<b>Changes in non-cash working capital</b>				
Accounts receivable	1,094	1,172	493	1,191
Inventory	(542)	(489)	(1,193)	(636)
Prepaid expenses	95	47	277	164
Accounts payable and accrued liabilities	(706)	1,487	586	977
Unrealized foreign exchange gain (loss) in non-cash working capital	198	(131)	142	(225)
Cash flow from operations	380	2,450	1,376	2,299
<b>INVESTING ACTIVITIES</b>				
Other assets	-	(8)	-	(10)
Additions to intangible assets and deferred costs	(323)	(398)	(694)	(635)
Additions to capital assets	(385)	(448)	(830)	(810)
Unrealized foreign exchange gain (loss) in investing activities	-	8	-	10
	(708)	(846)	(1,524)	(1,445)
<b>FINANCING ACTIVITIES</b>				
Exercise of options	-	-	1	30
	-	-	1	30
Foreign exchange gain (loss) on cash held in a foreign currency	(19)	(106)	(43)	(185)
<b>Increase (decrease) in cash and cash equivalents</b>	<b>(347)</b>	<b>1,498</b>	<b>(190)</b>	<b>699</b>
<b>Cash and cash equivalents, beginning of period</b>	<b>2,966</b>	<b>3,340</b>	<b>2,809</b>	<b>4,139</b>
<b>Cash and cash equivalents, end of period</b>	<b>2,619</b>	<b>4,838</b>	<b>2,619</b>	<b>4,838</b>

Interest income received during the period ended June 30, 2006 was \$0.1 million (2005 - \$0.1 million) and interest paid during the period ended June 30, 2005 was \$ nil (2005 - \$ nil).

See accompanying notes to the unaudited consolidated financial statements

# SELECTED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the three and six months ended June 30, 2006 and 2005 and as at June 30, 2006 and December 31, 2005

(tabular amounts in thousands of Canadian dollars, except share capital amounts)  
(unaudited)

## 1. BASIS OF PRESENTATION

The unaudited interim consolidated financial statements of Dynetek Industries Ltd. ("Dynetek" or "the Company") have been prepared by management in accordance with Canadian generally accepted accounting principles. The unaudited interim consolidated financial statements have been prepared following the same accounting policies and methods of computation as the most recent annual audited consolidated financial statements for the year ended December 31, 2005. The unaudited interim consolidated financial statements should be read in conjunction with the audited consolidated financial statements and the notes thereto in the Company's Annual Report for the year ended December 31, 2005.

## 2. SIGNIFICANT ACCOUNTING POLICIES

### a) Revenue recognition

Cylinder and system revenue is recognized when finished goods are shipped to the customer.

Research and development revenue is generated by projects co-funded with the original equipment manufacturers (OEMs) and government agencies. This revenue is recognized when contractual deliverables and milestones are met. Timing differences can occur between when costs are incurred and when revenue is invoiced and earned.

### b) Research and development costs

Research and development costs are expensed as incurred.

### (c) Use of estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires the Company's management to make estimates and assumptions that affect the amounts reported in these financial statements and notes thereto. Actual results could differ from those estimates.

## 3. INVENTORY

	June 30 2006	December 31 2005
Raw materials	4,276	3,105
Work-in-progress	2,995	2,633
Finished goods	4,314	4,654
	<b>11,585</b>	<b>10,392</b>

## 4. SHARE CAPITAL

The issued and outstanding common shares of the Company along with securities convertible into common shares are as follows:

Issued and outstanding:	Number of Shares	Amount
Balance December 31, 2004	20,547,232	52,589
Warrants exercised	360,594	(225)
Options exercised	31,875	30
Reclassification of contributed surplus	-	38
Balance at December 31, 2005	20,939,701	52,432
Options exercised	750	1
<b>Balance at June 30, 2006</b>	<b>20,940,451</b>	<b>52,433</b>

	June 30 2006	December 31 2005
<b>Securities convertible into common shares:</b>		
Stock options	1,162,750	1,180,500
Warrants	756,738	1,174,294

The estimated fair value of the options used for accounting purposes has been determined using the Black Scholes option-pricing model with the following assumptions:

	<b>Six months ended June 30</b>	
	<b>2006</b>	2005
Weighted average risk-free interest rate	<b>1.75</b>	1.75
Weighted average expected life	<b>5 Years</b>	5 Years
Estimated volatility in the market price of the common shares	<b>82%</b>	87%
Dividend yield	<b>0%</b>	0%

The weighted average fair value per option is \$2.16 (2005 - \$2.10). 10,500 options were issued to employees during the second quarter of 2006.

## 5. CONTRIBUTED SURPLUS

The following table summarizes information about contributed surplus.

Balance at December 31, 2005	2,182
Stock based compensation expense	99
<b>Balance at June 30, 2006</b>	<b>2,281</b>

## 6. TRANSACTIONS WITH RELATED PARTIES

For the six months ended June 30, 2006, the Company purchased under normal terms and conditions \$5.1 million (2005 - \$2.9 million) of material used in the production of lightweight fuel storage systems from Mitsubishi Rayon Corporation, a shareholder of the Company.

## 7. SEGMENTED INFORMATION

The Company currently conducts business in one operating segment, which involves the manufacture and sale of lightweight fuel storage systems. The majority of the Company's operations and assets relating to commercial production were located in Canada at June 30, 2005. Revenues attributed to foreign countries are based on the location of the customer.

	<b>Three months ended June 30</b>		<b>Six months ended June 30</b>	
	<b>2006</b>	2005	<b>2006</b>	2005
Cylinder and system sales				
Canada	<b>92</b>	154	<b>175</b>	364
United States	<b>262</b>	1,127	<b>1,147</b>	2,378
Japan	<b>165</b>	114	<b>480</b>	629
European Union	<b>4,337</b>	4,854	<b>9,518</b>	8,446
Australia	<b>2,988</b>	-	<b>4,607</b>	-
Other	<b>246</b>	107	<b>396</b>	215
	<b>8,090</b>	6,356	<b>16,323</b>	12,032

# Corporate Information

## Board of Directors

**Heinz O. Portmann**  
Chairman of the Board  
Dynetek Industries Ltd.  
Calgary, Alberta

**Andrew T.B. Stuart †**  
Chairman  
Sustainability Shift Inc  
Toronto, Ontario

**Peter A. Leus †√**  
Director  
Starlaw Holdings Ltd.  
Montreal, Quebec

**Michael J. Lang\* †**  
Chairman  
Stonebridge Merchant Capital Corp.  
Calgary, Alberta

**Larry A. Wright\* √**  
Executive Vice President  
Multimatic Inc  
Markham, Ontario

**William K. Kovalchuk\***  
President  
Claret Asset Management Corp.  
Montreal, Quebec

**Robb D. Thompson**  
President and Chief Executive Officer  
Dynetek Industries Ltd.  
Calgary, Alberta

\* Audit Committee member

† Compensation Committee member

√ Corporate Governance Committee member

## Officers and Management

**Heinz O. Portmann**  
Chairman of the Board

**Robb D. Thompson**  
President and Chief Executive Officer

**Michael D. Portmann**  
Vice President and General Manager

**Ulrich Imhof**  
Vice President, Engineering

**Dr. Christian Rasche**  
Managing Director  
Dynetek Europe GmbH

**Karen Y. Minton**  
Vice President, Finance and  
Administration

**Norman E. Hall**  
Corporate Secretary

**Corporate Head Office**  
4410 – 46<sup>th</sup> Avenue SE  
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Tel (403) 720 0262  
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Web site: <http://www.dynetek.com>

**Subsidiary**  
**Dynetek Europe GmbH**  
Breitscheider Weg 117a  
D-40885 Ratingen  
Germany

## Bankers

**Bank of Nova Scotia**  
Calgary, Alberta

**Auditors**  
**Deloitte & Touche LLP**  
Calgary, Canada

**Legal Counsel**  
**Gowling Lafleur Henderson LLP**  
Calgary, Alberta

**Transfer Agent and Registrar**  
**CIBC Mellon Trust Company**  
with offices in Toronto,  
Montreal and Calgary

**Stock Listing**  
**Toronto Stock Exchange**  
Trading Symbol: DNK

## Investor Relations

To obtain additional information about Dynetek or to be placed on our mailing list for quarterly reports please contact:

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**Dynetek Industries Ltd.**