



## **DYNETEK REPORTS 2007 SIX MONTH AND SECOND QUARTER RESULTS**

- **Record six month total revenues of \$18.6 million – up 6% from the first six months of 2006**
- **Positive cash flow from operations of \$1.0 million for the first six months of 2007**

**Calgary, Alberta, Canada – August 14, 2007** – 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, 2007.

### **Financial Highlights**

- Total revenue for the six months ended June 30, 2007 of \$18.6 million increased \$1.0 million or 6% from the same period of 2006.
- Cash flow from operations of \$1.0 million for the first six months of 2007 and cash deficiency from operations of (\$1.1) million for the second quarter of 2007.
- Fifteenth consecutive quarter of positive EBITDA<sup>1</sup>
- Confirmed order book in excess of \$14.9 million, with the majority to be delivered in the second half of 2007.
- Loss of (\$2.1) million for the six months ended June 30, 2007 and (\$2.3) million for the three months ended June 30, 2007 relates to the impairment of the future tax asset, which has been directly affected by the deferral of tenders for the European bus markets into 2008. The reduction of the future income tax asset is a non-cash item.

Christian Rasche, President and Chief Executive Officer, pointed out that the second quarter revenues are also a result of Dynetek successfully achieving all planned deliverables for the hydrogen fuel system development project for DaimlerChrysler in cooperation with Magna Steyr. "The fact that all milestones of this challenging project were accomplished on time underlines once again Dynetek's expertise in the development and manufacturing of storage systems for hydrogen and natural gas."

Despite second quarter cylinder and system sales being 27% lower than in Q2 2006, Dynetek was still able to increase total revenue for the six months ended June 30, 2007 by \$ 1.0 million due to increased research and development revenues, stronger component sales and intensified contract development service activities. This highlights the importance of the diversification of Dynetek's product offering that allows the Company to buffer market demand variations for the different products.

As indicated in our news release and interim report for Q1 2007, the reason for lower than expected cylinder and systems sales is a result of requests for tenders by many European bus manufacturers being unexpectedly deferred until later 2007 and into 2008. "For this reason we expect that our European cylinder and system sales in Q3 and Q4 2007 will be lower than the levels achieved in 2006 for the comparable periods. Dynetek is undertaking measures to control spending and to increase activities in other areas to minimize the impact of the slower than expected European market. The lower revenues for CNG cylinder and system sales will be compensated with a higher revenue in R&D activities which reflects the increasing activities in the hydrogen market", commented Mr. Rasche. "We expect the activities in the European market to pick up by Q1 2008. Dynetek is very well positioned in the CNG market place where opportunities will enable the Company to achieve the long-term goals of net income and continued revenue growth."

*(1) EBITDA is a non-GAAP financial measure that is defined and discussed in the Non-GAAP Financial Measures section of the Management's Discussion and Analysis.*

## OPERATIONAL HIGHLIGHTS

In the first six months of 2007, Dynetek achieved total revenues of \$18.6 million compared to \$17.6 million for the same period of 2006. Cylinder and system sales for the six months ended June 30, 2007 were \$15.2 million compared to \$16.3 million for the same period of 2006. In the second quarter of 2007, Dynetek achieved total revenues of \$8.1 million (2006 - \$8.8 million) with cylinder and system sales of \$5.8 million (2006 - \$8.1 million) and research and development revenue of \$2.3 million (2006 - \$0.6 million). The Company recorded cash flow from operations of \$1.0 million for the six months ended June 30, 2007, compared to \$1.4 million for the same period of 2006. Cash deficiency from operations for the three months ended June 30, 2007 was (\$1.1) million compared to cash flow from operations of \$0.4 million for the same period of 2006. The Company continues to have positive EBITDA<sup>1</sup> and reported \$1.7 million for the six months ended June 30, 2007 and positive EBITDA<sup>1</sup> of \$0.8 million for the three months ended June 30, 2007 representing the fifteenth consecutive quarter.

Dynetek reported a loss of (\$2.1) million for the six months ended June 30, 2007 and (\$2.3) million for the three months ended June 30, 2007. The loss is the result of the impairment of the future tax asset, which has been directly affected by the deferral of tenders for the European bus markets into 2008. The reduction of the future income tax asset is a non-cash item.

The Company continues to focus its compressed natural gas cylinder and system sales in areas such as California and Europe. In Europe, the Company has seen strong growth due to the need to meet regulatory environmental emission reduction requirements and the positive price differential in favour of natural gas compared to diesel. 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. In the first six months of 2007, Dynetek's European operations achieved cylinder and system sales of \$8.9 million (2006 - \$9.5 million). For the quarter ended June 30, 2007, Dynetek's European operations achieved cylinder and system sales of \$3.1 million (2006 - \$4.3 million). The cylinder and system sales from the Canadian operations for the six months ended June 30, 2007 were \$6.3 million (2006 - \$6.8 million). Cylinder and system sales from the Canadian operations for the quarter ended June 30, 2007 were \$2.5 million (2006 - \$3.8 million).

Dynetek's research and development team continues to focus its efforts on compressed hydrogen and related storage requirements. During the first six months of 2007 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.

In February of 2007 Dynetek accepted a purchase order representing approximately \$7 million (CAD) in compressed hydrogen system sales with Magna Steyr, an operating unit of Magna International Inc. The purchase order involves the development, certification and supply of 700bar compressed hydrogen fuel storage systems, including related engineering, to Magna Steyr in connection with DaimlerChrysler's fuel cell program. Dynetek delivered the first storage system under this project in July of 2007.

(1) EBITDA is a non-GAAP financial measure that is defined and discussed in the Non-GAAP Financial Measures section of the Management's Discussion and Analysis.

## 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, 2007 and 2006. The interim management's discussion and analysis (MD&A) updates our annual MD&A included in our 2006 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.

### Non-GAAP Financial Measures

Dynetek Industries Ltd. ("the Company") reports its financial results in accordance with generally accepted accounting principles (GAAP). It also occasionally uses certain non-GAAP financial measures, such as EBITDA, working capital and non-cash working capital. Dynetek defines EBITDA as earnings before interest, taxes, stock based compensation, non-cash foreign exchange, depreciation, amortization and impairment of other assets. Dynetek defines working capital as current assets less current liabilities. Dynetek defines non-cash working capital as current assets less cash and current liabilities. These non-GAAP financial measures are always clearly indicated. The Company believes that non-GAAP financial measures provide investors and analysts with useful information so that they can better understand the financial results and perform a better analysis of the Company's growth and profitability potential. Since non-GAAP financial measures do not have a standardized definition, they may differ from the non-GAAP financial measures used by other companies. The Company strongly encourages investors to review its financial statements and other publicly filed reports in their entirety and not rely on a single non-GAAP financial measure.

### 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	
	2007	2006	2007	2006
<b>Revenue</b>				
Cylinder and system sales	5,838	8,090	15,160	16,323
Research and development income	2,259	644	3,177	1,262
Investment and other income	38	38	308	57
	<b>8,135</b>	<b>8,772</b>	<b>18,645</b>	<b>17,642</b>
Net income (loss)	(2,309)	(149)	(2,142)	67
Net income (loss) per common share (basic and fully diluted)	(0.11)	(0.01)	(0.10)	0.00
EBITDA <sup>1</sup>	784	566	1,694	1,386
Capital expenditures	443	385	731	830
Cash and cash equivalents	1,600	2,619	1,600	2,619
Non-cash working capital <sup>1</sup>	11,003	12,168	11,003	12,168
Working capital <sup>1</sup>	12,603	14,787	12,603	14,787
Cash flow (deficiency) from operations	(1,126)	380	993	1,376
Total assets	44,500	44,964	44,500	44,964
Long-term debt	1,544	1,327	1,544	1,327
Common shares outstanding	20,940,451	20,940,451	20,940,451	20,940,451
Weighted average common shares outstanding	20,940,451	20,939,911	20,940,451	20,939,911

(1) EBITDA, working capital and non cash working capital are non-GAAP financial measures that are defined and discussed in the Non-GAAP Financial Measures section of the Management's Discussion and Analysis.

**Cylinder and system sales** for the six months ended June 30, 2007 were \$15.2 million, down 7% from \$16.3 million for the same period of 2006. Cylinder and system sales for the three months ended June 30, 2007 were \$5.8 million, down \$2.3 million or 28% for the same period in 2006. The primary reason for the reduction in cylinder and system sales for both the six months and three months ended June 30, 2007 is the unexpected deferral of tenders by European bus manufacturers.

**Research and development income** for the six months ended June 30, 2007 was \$3.2 million, up 146% or \$1.9 million from the same period in 2006. Research and development income for the second quarter of 2007 was \$2.3 million, up 283% or \$1.7 million from the same period of 2006. The primary reason for the increase in research and development income for both the six months and three months ended June 30, 2007 is the revenues relating to the

Magna Steyr purchase order involving the design, certification and supply of 700bar compressed hydrogen fuel storage systems. During the first six months of 2007, 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.

**Investment and other income** for the six months ended June 30, 2007 was \$0.3 million, compared to \$57,000 for the same period in 2006. In the second quarter of 2007, investment and other income was \$38,000 comparable to the same period of 2006.

**Cost of goods sold** was \$12.4 million for the six months ended June 30, 2007 compared to \$12.5 million for the same period in 2006. Cost of goods sold was \$4.8 million for the three months ended June 30, 2007 compared to \$6.3 million for the same period in 2006. Corresponding contribution margins for the six months ended June 30, 2007 were \$2.8 million, or 18% of sales compared to \$3.8 million, or 23% of sales for the same period of 2006. Corresponding contribution margins for the three months ended June 30, 2007 were \$1.0 million, or 17% of sales compared to \$1.8 million, or 22% of sales for the same period of 2006. The margin reduction is due primarily to the airfreight costs incurred in the first quarter and the reduced cylinder and system sales volumes in the second quarter to cover fixed manufacturing costs.

**General and administrative expense** was \$1.9 million for the six months ended June 30, 2007 which is comparable to the same period of 2006. General and administrative expense was \$1.0 million for the three months ended June 30, 2007 comparable to the same period of 2006. Overall general and administration costs decreased as a percentage of revenue from 11% in the first six months of 2006 to 10% in the first six months of 2007. Overall general and administration costs increased as a percentage of revenue from 11% in the second quarter of 2006 to 12% in the second quarter of 2007. This increase in the second quarter is the result of lower cylinder and system sales volumes.

**Research and product development expense** was \$1.8 million for the six months ended June 30, 2007 compared to \$1.0 million for the same period in 2006. Research and product development expense was \$1.2 million for the quarter ended June 30, 2007 compared to \$0.5 million for the same period in 2006. The increase in expenses is reflective of the increase in revenue resulting from the additional programs in the first half of 2007 compared to the same period of 2006. 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 \$0.7 million for the six months ended June 30, 2007, compared to \$0.8 million for the same period of 2006. Marketing expense was \$0.4 million for the three months ended June 30, 2007, comparable to the same period of 2006. Overall marketing expense was 5% of sales for the six months ended June 30, 2007 which is comparable to the same period of 2006. Overall marketing expense was 7% of sales for the three months ended June 30, 2007 compared to 5% of sales for the same period of 2006. The increase in this percentage in the second quarter is the result of lower cylinder and system sales.

**Interest Expense** was \$0.1 million for the six months ended June 30, 2007, \$0.1 million higher than the \$nil for the same period of 2006. Interest expense was \$33,000 for the three months ended June 30, 2007, compared to \$nil for the same period of 2006.

**Depreciation** was \$0.8 million for the six months ended June 30, 2007, \$0.1 million higher than the \$0.7 million for the same period of 2006. Depreciation was \$0.4 million for the three months ended June 30, 2007, which is comparable to the same period of 2006.

**Amortization** was \$0.5 million for the six months ended June 30, 2007, which was \$0.2 million higher than the same period of 2006. Amortization was \$0.2 million for the three months ended June 30, 2007, which is comparable to the same period of 2006. 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, 2007 was a loss of (\$0.1) million compared to a loss of (\$0.2) million in the same period of 2006. Foreign exchange for three months ended June 30, 2007 was a loss of (\$0.1) million which is comparable to the same period of 2006. 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 2007 and the second quarter of 2007 is a result of a weakening of the Euro 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.

**Future Income Tax** for the first six months of 2007 were \$2.1 million compared to \$nil for the same period of 2006. The future income taxes for the three months ended June 30, 2007 were \$2.3 million compared to \$nil for the same period of 2006. During the second quarter of 2007 the Company considered the future income tax asset impaired due to the deferral of sales for the European bus markets into 2008 and reduced the future income tax asset value to \$nil. For tax purposes the non-capital losses that the future tax asset represents are still available for use by the Company to reduced taxable income until 2010 and were not affected by the recorded impairment for book purposes.

**Net Loss** for the six months ended June 30, 2007 was (\$2.1) million or (\$0.10) per common share compared to net income of \$67,000 or \$nil per common share for the comparable period of 2006. Net loss for the three months ended June 30, 2007 was (\$2.3) million or (\$0.11) per common share compared to (\$0.1) million or (\$0.01) per common share for the same period of 2006. The net loss for the three and six months ended June 30, 2007 is substantially the result of the impairment of the future income tax asset, and a decrease in contribution margin on cylinder and system sales which is offset by positive margin on the research and development projects in the periods.

## Summary of Quarterly Results

The following table shows selected unaudited financial information for the past nine quarters ending June 30, 2007. 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 2005	Sept. 30 2005	Dec. 31 2005	Mar. 31 2006	June 30 2006	Sept 30 2006	Dec. 31 2006	Mar. 31 2007	June 30 2007
<b>Revenues</b>									
Cylinder and system sales	6,356	5,631	5,858	8,233	8,090	8,275	11,334	9,322	5,838
Research & development income	683	362	603	618	644	376	771	918	2,259
Investment & other income	11	12	317	19	38	13	14	270	38
	7,050	6,005	6,778	8,870	8,772	8,664	12,119	10,510	8,135
<b>Operating expenses</b>									
Cost of goods sold	4,796	4,139	4,538	6,241	6,307	6,393	9,513	7,630	4,817
Marketing & general and admin.	1,347	1,118	1,548	1,331	1,384	1,387	1,802	1,312	1,350
Research & product development	645	604	461	478	515	567	650	658	1,184
	6,788	5,861	6,547	8,050	8,206	8,347	11,965	9,600	7,351
<b>Earnings before interest, income taxes, non-cash foreign exchange, depreciation &amp; amortization, stock based compensation, and impairment of other assets, <sup>1</sup></b>	262	144	231	820	566	317	154	910	784
Interest	-	-	-	-	-	22	62	68	33
Foreign exchange (gain) loss	127	357	258	70	146	6	75	(1)	115
Depreciation & amortization	411	449	466	486	518	546	1,018	568	642
Stock based compensation	99	100	105	48	51	54	56	28	28
Impairment of other assets	-	535	-	-	-	-	-	-	-
Income taxes	-	-	-	-	-	-	150	80	2,275
	637	1,441	829	604	715	628	1,361	743	(3,093)
<b>Net earnings (loss)</b>	(375)	(1,297)	(598)	216	(149)	(311)	(1,207)	167	(2,309)
<b>Earnings (loss) per share</b>									
Basic and fully diluted	(0.02)	(0.06)	(0.03)	0.01	(0.01)	(0.02)	(0.05)	0.01	(0.11)

(1) EBITDA is a non-GAAP financial measure that is defined and discussed in the Non-GAAP Financial Measures section of the Management's Discussion and Analysis.

## Intangible assets and deferred costs

(thousands of Canadian dollars)  
(unaudited)

	Three months ended		Six months ended	
	2007	June 30 2006	2007	June 30 2006
Patents	10	21	16	22
Certification costs	153	278	423	628
Deferred Costs	17	24	62	44
	<b>180</b>	323	<b>501</b>	694

Intangible asset expenditures for the six months ended June 30, 2007 were \$0.5 million compared to \$0.7 million for the same period of 2006. Intangible asset expenditures for the three months ended June 30, 2007 were \$0.2 million compared to \$0.3 million for the same period of 2006. The additions for the three and six months ended June 30, 2007 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		Six months ended	
	2007	June 30 2006	2007	June 30 2006
Building and leaseholds	227	16	236	23
Manufacturing equipment	1,152	165	1,413	351
Office furniture and other equipment	51	14	103	19
Computer hardware and software	9	16	21	18
Manufacturing equipment under construction	(996)	174	(1,042)	419
	<b>443</b>	385	<b>731</b>	830

Capital expenditures for the six months ended June 30, 2007 were \$0.7 million compared to \$0.8 million for the same period in 2006. Capital expenditures for the three months ended June 30, 2007 were \$0.4 million which is comparable to the same period in 2006.

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

## Financial Resources and Liquidity

To date, the Company has met its liquidity needs through its working capital position and operating bank line. Due to the unexpected deferral of European bus tenders the Company is evaluating several alternative funding arrangements to meet its current liquidity needs until the anticipated recovery of the European bus markets in early 2008.

The Company's actual funding requirements and financing alternatives could vary depending on a number of factors, including the increase or decrease 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 is undertaking measures to control spending and to increase activities in other areas to minimize the impact of the slower than expected European Bus market.

As at June 30, 2007 Dynetek had cash and cash equivalents of \$1.6 million, compared to \$1.4 million at March 31, 2007 and \$2.0 million at December 31, 2006. Dynetek was cash flow positive from operations of \$1.0 million for the six months ended June 30, 2007 and a cash flow deficiency from operations of (\$1.1) million for the three months ended June 30, 2007. Dynetek's working capital<sup>1</sup> level was \$12.6 million at June 30, 2007, compared to \$12.5 million at March 31, 2007 and \$12.1 million at December 31, 2006.

The Company's investment in inventory resulted in an increase of \$2.0 million to \$14.0 million at June 30, 2007 from

(1) Working capital is a non-GAAP financial measures that is defined and discussed in the Non-GAAP Financial Measures section of the Management's Discussion and Analysis

December 31, 2006. Work-in-progress represented by confirmed orders increased by \$1.3 million from the December 31, 2006 levels to \$5.4 million. Raw material levels increased by \$0.3 million from the December 31, 2006 levels to \$4.3 million as a result of carbon fiber deliveries received at the end of June. Finished goods inventory increased by \$0.4 million from the December 31, 2006 levels to \$4.2 million from the December 31, 2006 levels.

At June 30, 2007 accounts receivable were \$5.4 million, a reduction of \$2.8 million when compared to December 31, 2006. This decrease is a result of the reduction of cylinder and system sales compared to the fourth quarter of 2006. The Company seeks to manage the collection of receivables, the use of its operating bank line and the payment of payables in a manner that working capital levels will continue to fund ongoing operations. Accounts payable at June 30, 2007 were \$5.0 million, compared to \$7.2 million as at December 31, 2006. This decrease is representative of the decreases in production compared to the fourth quarter of 2006. Deferred revenue was \$1.3 million compared to \$0.7 million at December 31, 2006. The increase is mainly due to an advance payment made by Magna Steyr in connection with DaimlerChrysler's fuel cell program.

At June 30, 2007 the Company had drawn down \$2.3 million of the \$5.0 million operating bank line with a major chartered bank.

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. During the first half of 2007 the Company recorded \$0.3 million of long-term debt relating to the repayable research and development funding supplied by NRCan. The debt is repayable only in the form of royalties based on specific related commercial product sales and is interest free. The Company has \$0.2 million to be repaid in 2007.

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.

### Transactions with Related Parties

For the six months ended June 30, 2007, the Company purchased under normal terms and conditions \$3.7 million (2006 - \$5.1 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	Dollar Amount
Balance at December 31, 2006	20,940,451	52,433
<b>Balance at June 30, 2007</b>	<b>20,940,451</b>	<b>52,433</b>

	June 30 2007	December 31 2006
<b>Securities convertible into common shares:</b>		
Stock options	1,194,500	1,170,500
Warrants	756,738	756,738

As at August 10, 2007 common shares outstanding were 20,940,451, options outstanding of 1,194,500 and warrants outstanding of 756,738.

## **CHANGES IN ACCOUNTING POLICIES**

As required by the Canadian Institute of Chartered Accountants (“CICA”), on January 1, 2007, the Company adopted CICA Handbook section 1530, Comprehensive Income; Section 3251, Equity; Section 3855, Financial Instruments – Recognition and Measurement; Section 3861, Financial Instruments – Disclosure and Presentation; Section 3865, Hedges; and Section 1506, Accounting Changes. See Note 3 to the Consolidated Financial Statements for further details.

## **INTERNAL CONTROL OVER FINANCIAL REPORTING**

There were no changes in the Company’s internal control over financial reporting that occurred during the most recent interim period that materially affected, or is reasonably likely to materially affect, the Company’s internal control over financial reporting.

## **OUTLOOK**

The Company remains committed to its strategic plan it began over six years ago. Dynetek will continue to grow its CNG revenue stream globally through targeted marketing initiatives. As in the past, the Company will create access to new revenue opportunities for storing compressed gases by working closely with customers and partners to deliver storage solutions.

Dynetek will seek new partners and customers, and will adjust its product offerings to maintain and grow revenue streams. Dynetek will evaluate and expand its supplier base to ensure supplier capacity can match the Company’s growth curve. Dynetek will continue to carry out research and development projects to contribute to ongoing growth and profitability.

Major economic and environmental factors contribute to continuing high-growth in natural gas demand and related markets and hence a positive intermediate and longer term outlook for Dynetek.

- The high growth rate in demand for natural gas stems from the comparative advantages of natural gas compared to diesel, gasoline and bio-fuels.
- Natural gas is cleaner with less toxic emissions than diesel or gasoline; and
- A growing natural gas infrastructure. Continuing investment in infrastructure is adding to the number of compressed natural gas refueling centers.

The markets for our products are and will continue to be worldwide. At the local level, customers include fleet-owners as well as OEM’s. Dynetek will review its product portfolio to generate a larger market potential to cover all market requirements.

Dynetek expects to incur a loss in Q3 and Q4 2007 because of a temporary slowdown in the demand for its products, specifically a postponement of public transit bus manufacturing in Europe. Strong economic and environmental forces suggest Dynetek’s growth will resume. When this happens we look forward to profitability achieved through carefully selected capital investments to achieve a high sales growth rate and higher margins along with ongoing rationalizing throughout the organization

## **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.

## **Forward looking statements**

*In addition to historical information, this news release contains forward-looking statements and should be read in conjunction with the financial statements and related notes for the year ended December 31, 2006 and quarterly interim reports for 2007. 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, except where required by law.*

For further information, please contact:

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## CONSOLIDATED BALANCE SHEETS

(thousands of Canadian dollars)  
(unaudited)

	June 30 2007	December 31 2006
<b>ASSETS</b>		
Current assets		
Cash and cash equivalents	1,600	2,030
Accounts receivable	5,389	8,246
Inventory (note 4)	13,907	11,859
Prepays and other	402	696
	<b>21,298</b>	22,831
<b>Intangible assets and deferred costs</b>	<b>5,963</b>	5,917
<b>Capital assets</b>	<b>17,239</b>	17,263
<b>Future income tax (note 9)</b>	-	2,355
	<b>44,500</b>	48,366
<b>LIABILITIES</b>		
Current liabilities		
Operating bank line	2,270	2,650
Accounts payable and accrued liabilities	4,918	7,171
Deferred revenue (note 2)	1,282	720
Current portion of long-term debt	225	185
	<b>8,695</b>	10,726
<b>Long-term debt</b>	<b>1,544</b>	1,293
<b>SHAREHOLDERS' EQUITY</b>		
Share capital (note 5)	52,433	52,433
Contributed surplus (note 6)	2,447	2,391
Deficit	(20,619)	(18,477)
Accumulated other comprehensive income	-	-
	<b>(34,261)</b>	36,347
	<b>44,500</b>	48,366

See accompanying notes to the unaudited interim consolidated financial statements

## CONSOLIDATED STATEMENTS OF NET INCOME (LOSS), COMPREHENSIVE INCOME (LOSS) AND DEFICIT

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

	Three months ended		Six months ended	
	June 30		June 30	
	2007	2006	2007	2006
<b>REVENUE</b>				
Cylinder and system sales	5,838	8,090	15,160	16,323
Research and development income	2,259	644	3,177	1,262
Investment and other income	38	38	308	57
	<b>8,135</b>	<b>8,772</b>	<b>18,645</b>	<b>17,642</b>
<b>EXPENSES</b>				
Cost of goods sold	4,817	6,307	12,447	12,548
General and administrative	967	989	1,943	1,884
Research and product development	1,184	515	1,842	993
Marketing	383	395	719	831
Interest expense	33	-	101	-
Depreciation	397	355	755	688
Amortization of intangible assets and deferred costs	245	163	455	316
Foreign exchange loss	115	146	114	216
Stock based compensation (note 5)	28	51	56	99
	<b>8,169</b>	<b>8,921</b>	<b>18,432</b>	<b>17,575</b>
<b>Net income (loss) before income taxes</b>	<b>(34)</b>	<b>(149)</b>	<b>213</b>	<b>67</b>
<b>PROVISION FOR TAXES</b>				
Future income tax (note 9)	2,275	-	2,355	-
	<b>2,275</b>	<b>-</b>	<b>2,355</b>	<b>-</b>
<b>NET INCOME (LOSS) AND COMPREHENSIVE INCOME (LOSS) (note 3)</b>				
	<b>(2,309)</b>	<b>(149)</b>	<b>(2,142)</b>	<b>67</b>
Deficit, beginning of period	(18,310)	(16,810)	(18,477)	(17,026)
<b>DEFICIT, END OF PERIOD</b>	<b>(20,619)</b>	<b>(16,959)</b>	<b>(20,619)</b>	<b>(16,959)</b>
<b>Per Share Information</b>				
Net income (loss) per share (basic and diluted)	(0.11)	(0.01)	(0.10)	0.00
Weighted average number of common shares outstanding	20,940,451	20,939,911	20,940,451	20,939,911

See accompanying notes to the unaudited interim consolidated financial statements

## CONSOLIDATED STATEMENT OF CASH FLOWS

(thousands of Canadian dollars)  
(unaudited)

	Three months ended		Six months ended	
	June 30		June 30	
	2007	2006	2007	2006
<b>Cash flows provided by (used for) operating activities</b>				
<b>NET INCOME (LOSS)</b>	<b>(2,309)</b>	(149)	<b>(2,142)</b>	67
Items not involving cash				
Depreciation	397	355	755	688
Amortization of intangible assets and deferred costs	245	163	455	316
Stock based compensation	28	51	56	99
Future income tax	2,275	-	2,355	-
Unrealized foreign exchange loss (gain)	84	(179)	94	(99)
	<b>720</b>	241	<b>1,573</b>	1,071
<b>Changes in non-cash working capital</b>				
Accounts receivable	2,705	1,094	2,857	493
Inventory	(1,914)	(542)	(2,048)	(1,193)
Prepaid expenses	86	95	294	277
Accounts payable and accrued liabilities	(501)	(392)	(2,253)	350
Deferred revenue	(2,236)	(314)	562	236
Unrealized foreign exchange gain relating to non-cash working capital	14	198	8	142
Cash flow (deficiency) from operations	<b>(1,126)</b>	380	<b>993</b>	1,376
<b>INVESTING ACTIVITIES</b>				
Additions to intangible assets and deferred costs	(180)	(323)	(501)	(694)
Additions to capital assets	(443)	(385)	(731)	(830)
	<b>(623)</b>	(708)	<b>(1,232)</b>	(1,524)
<b>FINANCING ACTIVITIES</b>				
Operating bank line	1,990	-	(380)	1
Long-term debt	91	-	291	-
Exercise of options	-	-	-	1
	<b>2,081</b>	-	<b>(89)</b>	1
Foreign exchange loss on cash held in a foreign currency	(98)	(19)	(102)	(43)
<b>Increase (decrease) in cash and cash equivalents</b>	<b>234</b>	(347)	<b>(430)</b>	(190)
<b>Cash and cash equivalents, beginning of period</b>	<b>1,366</b>	2,966	<b>2,030</b>	2,809
<b>Cash and cash equivalents, end of period</b>	<b>1,600</b>	2,619	<b>1,600</b>	2,619

Interest income received during the six month period ended June 30, 2007 was \$15,000 (2006 - \$25,000) and the three month period ended June 30, 2007 was \$6,200 (2006 - \$1,200). Interest paid during the six month period ended June 30, 2007 was \$0.1 million (2006 - \$ nil) and the three month period ended June 30, 2007 was \$33,000 (2006 - \$nil).

See accompanying notes to the unaudited interim consolidated financial statements

# SELECTED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the three and six months ended June 30, 2007 and 2006 and as at June 30, 2007 and December 31, 2006

*(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, 2006. 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, 2006.

## 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. Customer billings for services not yet rendered or customer deposits are received and deferred and recognized as revenue when the services are rendered and finished goods are shipped to the customer. Any associated deferred revenue is included in current liabilities.

### b) Research and development costs

Research and development costs are expensed as incurred.

## 3. CHANGES IN ACCOUNTING POLICIES

As required by the Canadian Institute of Chartered Accountants (“CICA”), on January 1, 2007, the Company adopted CICA Handbook section 1530, Comprehensive Income; Section 3251, Equity; Section 3855, Financial Instruments – Recognition and Measurement; Section 3861, Financial Instruments – Disclosure and Presentation; Section 3865, Hedges; and Section 1506, Accounting Changes.

### a) Comprehensive Income and Equity

Upon adoption of Section 1530, the Company revised its “Consolidated Statement of Operations and Deficit” to include the newly required Statement of Comprehensive Income by creating a “Consolidated Statement of Net Income, Comprehensive Income and Deficit”, and added to the Consolidated Balance Sheet “Accumulated Other Comprehensive Income” as a component of Shareholders’ Equity.

### b) Financial Instruments

#### i) Financial assets and financial liabilities

Under the new CICA standards, financial assets and financial liabilities are initially recognized at fair value and are subsequently accounted for based on their classification. The classification depends on the purpose for which the financial instruments were acquired and their characteristics. Except in very limited circumstances, the classification is not changed subsequent to initial recognition.

The new CICA standards require that all financial assets be classified in one of the five categories; 1) loans and receivables, 2) assets held-to-maturity, 3) assets available-for-sale, 4) other financial liabilities, and 5) held-for-trading. Financial instruments classified as held-for-trading or available-for-sale items as a result of initially adopting this section are measured at fair value. Gains or losses on re-measurement of held-for-trading items are recognized as an adjustment to opening retained earnings, while gains and losses on re-measurement of available-for-sale items are recognized as an adjustment to opening Accumulated Other Comprehensive Income.

Financial instruments that are classified as held-for-trading or available-for-sale are re-measured each reporting period at fair value with the resulting gain or loss recognized immediately in net income and other comprehensive income, respectively. All other financial instruments are accounted for at amortized cost with foreign exchange gains and losses recognized immediately in net income. The recognition, de-recognition and measurement policies followed in financial

statements for periods prior to the adoption of this standard are not reversed and, therefore, those financial statements are not restated.

**ii) Classification of financial instruments**

The Company has applied the following classifications to each of its significant categories of financial instruments outstanding as of January 1, 2007:

Cash and cash equivalents	Designated as held-for-trading
Accounts receivable	Loans and receivables
Accounts payable and accrued liabilities	Other liabilities
Operating bank line	Other liabilities
Long-term debt	Other liabilities

**iii) Derivatives**

At June 30, 2007 and December 31, 2006 the Company had no derivatives.

**iv) Embedded derivatives**

Derivatives embedded in other financial instruments or contracts are separated from their host contracts and accounted for as derivatives when their economic characteristics and risks are not closely related to those of the host contract; the terms of the embedded derivative are the same as those of a free standing derivative; and the combined instrument or contract is not measured at fair value, any changes in fair value recognized in the income statement. At June 30, 2007 and December 31, 2006 the Company had no embedded derivatives.

**v) Determination of fair value**

The fair value of a financial instrument on initial recognition is the transaction price, which is the fair value of the consideration given or received. Subsequent to initial recognition, fair value is determined by using valuation techniques which refer to observable market data.

**vi) Transaction Costs**

At June 30, 2007 and December 31, 2006 the Company had no transaction costs.

**c) Hedge accounting**

Section 3865 specifies the criteria that must be satisfied in order for hedge accounting to be applied and the accounting for each of the permitted hedging strategies: fair value hedges and cash flow hedges. Hedge accounting is discontinued prospectively when the derivative no longer qualifies as an effective hedge, or the derivative is terminated or sold, or upon the sale or early termination of the hedged item. The Company did not have any hedging contracts outstanding as at June 30, 2007 and December 31, 2006.

**d) Accounting Changes**

Effective January 1, 2007, the Company also adopted CICA section 1506, "Accounting Changes". Under this standard, voluntary changes to accounting policies are allowed only in situations where they provide financial statements users with more reliable and relevant information. Policy changes are applied retroactively unless it is impractical to determine the period or cumulative impact of the change. Corrections of prior period errors are retroactively applied to the financial statements while changes in accounting estimates are prospectively applied with the changes included in earnings. This section applies to all changes in policies and estimates or corrections of prior period errors in periods beginning on or after January 1, 2007.

**4. INVENTORY**

	<b>June 30</b>	December 31
	<b>2007</b>	2006
Raw materials	<b>4,331</b>	3,957
Work-in-progress	<b>5,384</b>	4,126
Finished goods	<b>4,192</b>	3,776
	<b>13,907</b>	11,859

## 5. 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 at December 31, 2006	20,940,451	52,433
<b>Balance at June 30, 2007</b>	<b>20,940,451</b>	<b>52,433</b>

	June 30 2007	December 31 2006
<b>Securities convertible into common shares:</b>		
Stock options	1,194,500	1,170,500
Warrants	756,738	756,738

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:

	Six months ended June 30	
	2007	2006
Weighted average risk-free interest rate	4.59%	1.75%
Weighted average expected life	5 years	5 years
Estimated volatility in the market price of the common shares	76%	82%
Dividend yield	0%	0%

The weighted average fair value per option was \$1.73 for the six months ended June 30, 2007 and \$2.16 for the comparable period of 2006.

During the first six months of 2007, 56,000 (2006 - 15,000) options were issued to employees.

## 6. CONTRIBUTED SURPLUS

The following table summarizes information about contributed surplus.

Balance at December 31, 2006	2,391
Stock based compensation expense	44
<b>Balance at June 30, 2007</b>	<b>2,435</b>

## 7. TRANSACTIONS WITH RELATED PARTIES

For the six months ended June 30, 2007, the Company purchased under normal terms and conditions \$3.7 million (2006 - \$5.1 million) of material used in the production of lightweight fuel storage systems from Mitsubishi Rayon Corporation, a shareholder of the Company.

## 8. 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, 2007. Revenues attributed to foreign countries are based on the location of the customer.

	Three months ended		Six months ended	
	June 30		June 30	
	2007	2006	2007	2006
Cylinder and system sales				
Canada	840	92	958	175
United States	1,121	262	3,701	1,147
Japan	504	165	1,094	480
European Union	3,152	4,337	8,932	9,518
Australia	-	2,988	-	4,607
Other	221	246	475	396
	<b>5,838</b>	<b>8,090</b>	<b>15,160</b>	<b>16,323</b>

## 9. PROVISION FOR INCOME TAXES

The future income tax asset represented non-capital loss carry forwards that the Company expected to utilize in future periods to offset current taxes payable. Based on the delays in orders received in the European bus market place, the Company determined that for financial statement purposes the asset was impaired and has reduced the value to \$nil. The balance of \$2.3 million was expensed to the income statement. The non-capital loss carry-forwards for income tax have not been affected by the financial statement impairment.

# Corporate Information

## Board of Directors

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

**Peter A. Leust†\***  
Director  
Starlaw Holdings Ltd.  
Montreal, Quebec

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

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

**Robb D. Thompson†√**  
Vice President Finance, and Chief Financial Officer  
Berkana Energy Corp.  
Calgary, Alberta

**Christian W. Rasche**  
President and Chief Executive Officer  
Dynetek Industries Ltd.  
Ratingen, Germany

## Officers and Management

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

**Christian W. Rasche**  
President and Chief Executive Officer

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

**Ulrich Imhof**  
Vice President, Engineering

**Karen Y. Minton**  
Vice President Finance, and  
Chief Financial Officer

Norman E. Hall  
Corporate Secretary

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Fax +44 210230963 10

## 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 either:

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\* Audit Committee member

† Compensation Committee member

√ Corporate Governance Committee member



**Dynetek Industries Ltd.**