



## **DYNETEK REPORTS 2006 NINE MONTHS AND THIRD QUARTER RESULTS**

- **Record nine month revenues of \$26.3 million – up 32% from the first nine months of 2005**
- **Record third quarter revenues of \$8.7 million – up 45% from the third quarter of 2005**
- **Contribution margins increased from 22% in the second quarter to 23% in the third quarter**

**Calgary, Alberta, Canada – November 8, 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 nine months ended September 30, 2006. Conference call information is provided below.

### **Financial Highlights**

- Total revenues for the nine months ended September 30, 2006 of \$26.3 million increased \$6.3 million or 32% from the same period of 2005.
- Total revenues for the three months ended September 30, 2006 of \$8.7 million increased \$2.7 million or 45% from the comparative third quarter of 2005.
- Cylinder and system sales for the nine months ended September 30, 2006 of \$24.6 million increased \$6.9 million or 39% compared with the nine months ended September 30, 2005.
- Cylinder and system sales for the three months ended September 30, 2006 of \$8.3 million increased \$2.7 million or 48% from the comparative third quarter of 2005.
- Contribution margins increased from 22% in the second quarter to 23% in the third quarter.
- Eleventh consecutive quarter of positive EBITDA<sup>1</sup> including \$0.3 million for the three months ended September 30, 2006.
- Confirmed order book in excess of \$17 million the majority to be delivered in the fourth quarter of 2006 and the first quarter of 2007.

Robb Thompson, President and Chief Executive Officer, said the third quarter results reflect Dynetek's commitment of continuing to focus on CNG cylinder and system sales to our target market of bus and truck manufacturers predominantly in Europe and to new international market opportunities for our bulk hauling solutions.

"Our focused strategy of achieving near term revenue increases in CNG and industrial gas storage markets, along with our leadership position in the emerging hydrogen industrial and automotive storage market, has positioned Dynetek for both short and long term growth in the alternative energy market on a global basis," commented Mr. Thompson. "Our third quarter cylinder and system sales were a record 48% higher than the third quarter of 2005 and our nine months cylinder and system sales were 39% higher than the nine months reported in 2005."

"As reported in our second quarter 2006 report, our increases in cylinder and system sales during our second quarter were negatively offset by reduced contribution margins related to expediting European customer shipments on a more costly basis, due to delivery issues from a key material supplier," said Mr. Thompson. "In the third quarter we were able to increase our contribution margins to 23% from 22% compared to the second quarter by working closely with our supplier to overcome past delivery issues."

*(1) (1) Earnings before interest, income taxes, non-cash foreign exchange, depreciation and amortization, stock based compensation and impairment of other assets (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 nine months ended September 30, 2006 Dynetek reported a net loss of (\$0.2) million compared to a loss of (\$1.8) million for the same period of 2005. For the three months ended September 30, 2006 Dynetek reported a net loss of (\$0.3) million compared to a loss of (\$1.3) million for the same period of 2005. In the first nine months of 2006, Dynetek achieved total revenues of \$26.3 million compared to \$20.0 million for the same period of 2005. Cylinder and system sales for the nine months ended September 30, 2006 were \$24.6 million compared to \$17.7 million for the same period of 2005. In the third quarter of 2006, Dynetek achieved total revenues of \$8.7 million (2005 - \$6.0 million) with cylinder and system sales of \$8.3 million (2005 - \$5.6 million) included in these third 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 deficiency from operations of (\$0.8) million for the nine months ended September 30, 2006, compared to cash flow from operations of \$0.7 million for the same period of 2005. Cash flow deficiency from operations for the three months ended September 30, 2006 was (\$2.1) million compared to (\$1.6) million for the same period of 2005. The Company continues to have positive EBITDA<sup>1</sup> and reported \$1.7 million for the nine months ended September 30, 2006 and positive EBITDA<sup>1</sup> of \$0.3 million for the three months ended September 30, 2006 representing the eleventh consecutive quarter.

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 requirements and the price differential of natural gas compared to diesel. In the first nine months of 2006, Dynetek's European operations achieved record cylinder and system sales of \$15.0 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 nine months ended September 30, 2006 were \$9.6 million, an increase of 48% when compared to the comparable period of 2005.

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

On October 4, 2006 Heinz Portmann, Chairman of the Board of Directors of Dynetek Industries Ltd., announced that the Board of Directors had reluctantly accepted the resignation of Robb Thompson, President and CEO effective December 31, 2006. Christian Rasche, Executive Director, Dynetek Europe GmbH, was appointed by the Board of Directors as the new President and CEO effective January 1, 2007. Mr. Thompson agreed to stay on as a director after December 31, 2006.

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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 nine months ended September 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 September 30		Nine months ended September 30	
	2006	2005	2006	2005
<b>Revenue</b>				
Cylinder and system sales	8,275	5,631	24,598	17,663
Research and development income	376	362	1,638	2,238
Investment and other income	13	12	70	80
	<b>8,664</b>	6,005	<b>26,306</b>	19,981
Net loss	(311)	(1,297)	(244)	(1,846)
Net loss per common share (basic and fully diluted)	(0.02)	(0.06)	(0.01)	(0.09)
EBITDA <sup>1</sup>	295	144	1,681	940
Capital expenditures	1,113	423	1,943	1,233
Cash and cash equivalents	1,202	2,555	1,202	2,555
Non-cash working capital <sup>2</sup>	12,405	13,711	12,405	13,711
Cash flow (deficiency) from operations	(2,144)	(1,642)	(822)	657
Total assets	47,108	43,696	47,108	43,696
Operating line of credit	2,175	-	2,175	-
Long-term debt	1,478	1,645	1,478	1,645
Common shares outstanding	20,940,451	20,939,701	20,940,451	20,939,701
Weighted average common shares outstanding	20,940,103	20,741,994	20,940,103	20,741,994

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

**Cylinder and system sales** for the nine months ended September 30, 2006 were \$24.6 million, up 39% from \$17.7 million for the same period of 2005. Cylinder and system sales for the three months ended September 30, 2006 were \$8.3 million, up \$2.7 million or 48% for the same period in 2005. The Canadian dollar to US dollar exchange rate averaged \$1.13 during the first nine months of 2006 compared to \$1.23 for the same period of 2005. Had the U.S. dollar to Canadian dollar exchange rate achieved the levels of the first nine months of 2005 in the first nine months of 2006, revenues would have been \$0.8 million higher. The Canadian dollar to Euro exchange rate averaged \$1.41 during the first nine months of 2006 compared to \$1.44 for the same period of 2005. Had the Euro to Canadian dollar exchange rate achieved the levels of the first nine months of 2005 in the first nine months of 2006, revenues would have been \$0.3 million higher.

During the third 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), and Crane Carrier (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 nine months ended September 30, 2006 was \$1.6 million, down 27% or \$0.6 million from the same period in 2005. Research and development income for the third quarter was \$0.4 million, which is comparable to the same period of 2005. During the first nine 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 the first nine months of 2006, Dynetek received non-repayable cost shared monies of \$0.5 million from NRCan for the development and testing of a 700bar (10000psi) complete fueling system.

**Investment and other income** for the nine months ended September 30, 2006 was \$0.1 million, comparable to the same period in 2005. In the third quarter of 2006, investment and other income was \$13,000 compared to \$12,000 for the same period of 2005.

**Cost of goods sold** was \$18.9 million for nine months ended September 30, 2006 compared to \$13.1 million for the same period in 2005. Cost of goods sold was \$6.4 million for three months ended September 30, 2006 compared to \$4.1 million for the same period in 2005. Corresponding contribution margins for the nine months ended September 30, 2006 were \$5.7 million, or 23% of sales compared to \$4.6 million or 26% of sales for the same period of 2005. Corresponding contribution margins for three months ended September 30, 2006 were \$1.9 million, or 23% of sales compared to \$1.5 million or 27% of sales for the same period of 2005. The reduction in the contribution margin for both the nine and three month periods is reflective of the increase in carbon fibre pricing over the last year and increased freight charges for expedited deliveries to European customers in the second and third quarter of 2006.

**General and administrative expense** was \$2.8 million for the nine months ended September 30, 2006, \$0.3 million higher than the \$2.5 million for the same period of 2005. General and administrative expense was \$0.9 million for the three months ended September 30, 2006, \$0.1 million higher than \$0.8 million for the same period of 2005. Overall general and administration costs decreased as a percentage of revenue from 13% in the first nine months of 2005 to 11% in the first nine months of 2006. Overall general and administration costs decreased as a percentage of revenue from 13% in the third quarter of 2005 to 10% in the third quarter of 2006.

**Research and product development expense** was \$1.6 million for the nine months ended September 30, 2006 compared to \$2.3 million for the same period in 2005. Research and product development expense was \$0.6 million for the quarter ended September 30, 2006 which is comparable to 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 are 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 \$1.4 million for the nine months ended September 30, 2006, an increase of \$0.2 million from \$1.2 million for the same period of 2005. Marketing expense was \$0.5 million for the three months ended September 30, 2006, an increase of \$0.2 million from \$0.3 million for the same period of 2005. Overall marketing expense was 5% of sales for the nine months ended September 30, 2006 compared to 6% of sales for the same period of 2005. Overall marketing expense was 6% of sales for the three months ended September 30, 2006 compared to 5% of sales for the same period of 2005. The increase in the marketing expense is a result of an increase in commissions paid to outside agents.

**Interest expense** was \$22,000 for the nine months ended September 30, 2006, compared to \$nil for the same period of 2005. Interest expense was \$22,000 for the three months ended September 30, 2006, compared to \$nil for the same period of 2005. At September 30, 2006 the Company had drawn down \$2.2 million on its operating line of credit compared to a \$nil balance for the same period of 2005.

**Depreciation** was \$1.1 million for the nine months ended September 30, 2006, \$0.2 million higher than the \$0.9 million for the same period of 2005. Depreciation was \$0.4 million for the three months ended September 30, 2006, \$0.1 million higher than the \$0.3 million for the same period of 2005.

**Amortization** was \$0.5 million for the nine months ended September 30, 2006, which was \$0.2 million higher than the same period of 2005. Amortization was \$0.2 million for the three months ended September 30, 2006, which is \$0.1 million than the \$0.1 million for the same period of 2005. Items included in amortization expense include certification costs, patents and deferred start-up costs for the European operation.

**Foreign exchange** for nine months ended September 30, 2006 was a loss of (\$0.2) million compared to a loss of (\$0.7) million in the same period of 2005. Foreign exchange for three months ended September 30, 2006 was a loss of (\$6,000) compared to a loss of (\$0.4) million for the same period of 2005. Dynetek's Canadian operation 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 nine 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 in the first quarter of 2006 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 \$57,000 for the nine months ended September 30, 2006.

**Impairment of other assets** for nine months ended September 30, 2006 was \$nil compared to a loss of (\$0.5) million in the same period of 2005. Impairment of other assets for three months ended September 30, 2006 was \$nil compared to a loss of (\$0.5) million for the same period of 2005. Other long-term assets represented amounts receivable from a customer for which the Company agreed to revise the terms of repayment. As of September 30, 2005 based on current financial information provided by the customer during the third quarter of 2005, management believed the full amount of the receivable had been impaired and collection of the receivable was not likely to occur. This impairment resulted in the one time charge of \$0.5 million being expensed in the income statement.

**Net Loss** for the nine months ended September 30, 2006 was (\$0.2) million or (\$0.01) per common share compared to a loss of (\$1.8) million or (\$0.09) per common share for the comparable period of 2005. Net loss for the three months ended September 30, 2006 was (\$0.3) million or (\$0.02) per common share compared to (\$1.3) million or (\$0.06) per common share for the same period of 2005. The reduction in the net loss for nine months ended September 30, 2006 is substantially the result of an increase in cylinder and system sales, a reduction of stock based compensation, no impairment of other assets and a decrease in the foreign exchange loss. The reduction in the net loss for the three months ended September 30, 2006 is substantially the result of an increase in cylinder and system sales, a reduction of stock based compensation, no impairment of other assets and a decrease in the foreign exchange loss, offset partially by a reduction of the contribution margin compared to the third quarter of 2005 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 nine 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 nine months ended September 30, 2006 Dynetek Germany generated \$15.0 million of revenue compared to \$11.2 million in the same period of 2005. In the quarter ended September 30, 2006 the subsidiary generated \$5.5 million of revenue compared to \$2.9 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 September 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)	Sept. 30 2004	Dec. 31 2004	Mar. 31 2005	June 30 2005	Sept. 30 2005	Dec. 31 2005	Mar. 31 2006	June 30 2006	Sept 30 2006
<b>Revenues</b>									
Cylinder and system sales	5,270	8,177	5,676	6,356	5,631	5,858	8,233	8,090	8,275
Research & development income	723	576	1,193	683	362	603	618	644	376
Investment & other income	10	29	57	11	12	317	19	38	13
	6,003	8,782	6,926	7,050	6,005	6,778	8,870	8,772	8,664
<b>Operating expenses</b>									
Cost of goods sold	3,893	6,090	4,175	4,796	4,139	4,538	6,241	6,307	6,393
Marketing & general and admin. & interest expense	1,239	1,479	1,154	1,347	1,118	1,548	1,331	1,384	1,387
Research & product development	490	860	1,063	645	604	461	478	515	567
	5,622	8,429	6,392	6,788	5,861	6,547	8,050	8,206	8,347
<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>	381	353	534	262	144	231	820	566	317
Interest	-	-	-	-	-	-	-	-	22
Foreign exchange (gain) loss	226	71	241	127	357	258	70	146	6
Depreciation & amortization	430	447	373	411	449	466	486	518	546
Stock based compensation	88	144	95	99	100	106	48	51	54
Impairment of other assets	-	-	-	-	535	-	-	-	-
Income taxes	7	4	-	-	-	-	-	-	-
	751	666	709	637	1,441	829	604	715	628
<b>Net Income (loss)</b>	(370)	(313)	(175)	(375)	(1,297)	(598)	216	(149)	(311)
<b>Earnings (loss) per share</b>									
Basic and fully diluted	(0.02)	(0.02)	(0.01)	(0.02)	(0.06)	(0.03)	0.01	(0.01)	(0.02)

(1) Earnings before interest, income taxes, non-cash foreign exchange, depreciation and amortization, stock based compensation and impairment of other assets (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 September 30		Nine months ended September 30	
	2006	2005	2006	2005
Patents	23	34	45	292
Certification costs	285	233	913	610
Deferred Costs	23	-	67	-
	<b>331</b>	267	<b>1,025</b>	902

Intangible asset expenditures for the nine months ended September 30, 2006 were \$1.0 million compared to \$0.9 million for the same period of 2005. Intangible asset expenditures for the three months ended September 30, 2006 were comparable to the same period in 2005. The additions for the three and nine months ended September 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 September 30		Nine months ended September 30	
	2006	2005	2006	2005
Building and leaseholds	15	31	38	379
Manufacturing equipment	333	685	684	3,473
Office furniture and other equipment	40	52	59	52
Computer hardware and software	30	38	48	45
Manufacturing equipment under construction	695	(383)	1,114	(2,716)
	<b>1,113</b>	423	<b>1,943</b>	1,233

Capital expenditures for the nine months ended September 30, 2006 were \$1.9 million compared to \$1.2 million for the same period in 2005. Capital expenditures for the three months ended September 30, 2006 were \$1.1 million compared to \$0.4 million for the same period in 2005. The increase in capital expenditures is due to plant expansion in Germany to meet the growing CNG demand for bus applications.

The Company's capital resource requirements consist of capital expenditures to maintain, expand 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 September 30, 2006 Dynetek had cash and cash equivalents of \$1.2 million, compared to \$2.6 million at June 30, 2006 and \$2.8 million at December 31, 2005. Dynetek had a cash flow deficiency from operations of (\$0.8) million for the nine months ended September 30, 2006 and (\$2.1) million for the three months ended September 30, 2006. Dynetek's working capital level was \$13.6 million at September 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 \$2.6 million to \$13 million at September 30, 2006 from December 31, 2005. Work-in-progress represented by confirmed orders increased by \$1.4 million to \$4.0 million from December 31, 2005. Raw material levels increased by \$1.9 million from December 31, 2005 to \$5.0 million as a result of carbon fiber deliveries received at the end of September 2006. Finished goods inventory decreased by \$0.7 million to \$4.0 million from the December 31, 2005 levels.

At September 30, 2006 accounts receivable were \$7.4 million, an increase of \$0.9 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 September 30, 2006 were \$6.0 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 \$0.2 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 September 30, 2006, the Company had drawn down \$2.2 million of a \$5.0 million operating line of credit facility with a major chartered bank.

### Transactions with Related Parties

For the nine months ended September 30, 2006, the Company purchased under normal terms and conditions \$7.6 million (2005 -\$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	Amount (thousands of dollars)
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 September 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.

	September 30 2006	December 31 2005
<b>Securities convertible into common shares:</b>		
Stock options	<b>1,154,000</b>	1,180,500
Warrants	<b>756,738</b>	1,174,294

As at October 31, 2006 Common shares outstanding were 20,940,451, options outstanding of 1,149,000 and warrants outstanding of 756,738.

### 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 OEM compressed hydrogen development programs.

Research and development income is directly related to the Company's 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 invested approximately \$1.1 million in production expansion for the European operations. The Company believes with these expenditures in manufacturing assets and additional production 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.

On November 2, 2006, the Company announced the signing of a letter of intent with Delphi Automotive Systems Do Brazil LTDA. ("Delphi SA"). Delphi SA is a wholly owned subsidiary of Delphi Corp., of Troy, Michigan. The letter of intent records the intention of Dynetek and Delphi SA to negotiate a commercial agreement to establish an exclusive distributorship arrangement and the prospect for a manufacturing plant in Brazil for South America. The initial phase of the project provides for determining the market potential of Dynetek CNG cylinders and systems in Brazil. Delphi SA will introduce Dynetek CNG cylinders into Brazil for bus and passenger car applications.

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 Company's 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 Thursday, November 9, 2006 at 7:00 a.m. MST (9:00 a.m. EST) to discuss its Third Quarter 2006 financial and operating results and to provide an update on developments at 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 1-800-528-0631 or 44-870-001-3131.

Digital replay of the call will be available approximately one hour after the call is completed and until November 23, 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 21307647. 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, except as required by law.*

For further information, please contact:

Robb D. Thompson, President and Chief Executive Officer

Dynetek Industries Ltd.

4410-46 Avenue S.E.

Calgary, Alberta T2B 3N7

Tel: 403-720-0262

Toll-free: 1-888-396-3835

Fax: 403-720-0263

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

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

(thousands of Canadian dollars)  
(unaudited)

	September 30 2006	December 31 2005
<b>ASSETS</b>		
Current assets		
Cash and cash equivalents	1,202	2,809
Accounts receivable	7,370	6,516
Inventory (note 3)	13,009	10,392
Prepaid expenses	334	719
	<b>21,915</b>	20,436
<b>Intangible assets and deferred costs</b>	<b>5,588</b>	5,054
<b>Capital assets</b>	<b>17,100</b>	16,216
<b>Future income tax</b>	<b>2,505</b>	2,505
	<b>47,108</b>	44,211
<b>LIABILITIES</b>		
Current liabilities		
Operating line of credit (note 4)	2,175	-
Accounts payable and accrued liabilities	5,957	5,145
Current portion of long-term debt	176	137
	<b>8,308</b>	5,282
<b>Long-term debt</b>	<b>1,302</b>	1,341
<b>SHAREHOLDERS' EQUITY</b>		
Share capital (note 5)	52,433	52,432
Contributed surplus (note 6)	2,335	2,182
Deficit	(17,270)	(17,026)
	<b>37,498</b>	37,588
	<b>47,108</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		Nine months ended	
	September 30		September 30	
	2006	2005	2006	2005
<b>REVENUE</b>				
Sales	8,275	5,631	24,598	17,663
Research and development	376	362	1,638	2,238
Investment and other income	13	12	70	80
	<b>8,664</b>	6,005	<b>26,306</b>	19,981
<b>EXPENSES</b>				
Cost of goods sold	6,393	4,139	18,941	13,110
General and administrative	868	771	2,752	2,462
Research and product development	567	604	1,560	2,312
Marketing	519	347	1,350	1,157
Interest expense	22	-	22	-
Depreciation	371	327	1,059	895
Amortization of intangible assets and deferred costs	175	122	491	337
Foreign exchange loss	6	357	222	725
Stock based compensation (note 5)	54	100	153	294
Impairment of other assets	-	535	-	535
	<b>8,975</b>	7,302	<b>26,550</b>	21,827
<b>Earnings (loss) before income taxes</b>	<b>(311)</b>	(1,297)	<b>(244)</b>	(1,846)
<b>PROVISION FOR TAXES</b>				
Large corporations tax	-	-	-	-
	-	-	-	-
<b>NET LOSS</b>	<b>(311)</b>	(1,297)	<b>(244)</b>	(1,846)
Deficit, beginning of period	(16,959)	(15,130)	(17,026)	(14,581)
<b>DEFICIT, END OF PERIOD</b>	<b>(17,270)</b>	(16,427)	<b>(17,270)</b>	(16,427)
<b>Per Share Information</b>				
Net loss per share (basic and diluted)	(0.02)	(0.06)	(0.01)	(0.09)
Weighted average number of common shares outstanding	20,940,103	20,741,994	20,940,103	20,741,994

See accompanying notes to the unaudited consolidated financial statements



## CONSOLIDATED STATEMENT OF CASH FLOWS

(thousands of Canadian dollars)  
(unaudited)

	Three months ended		Nine months ended	
	September 30		September 30	
	2006	2005	2006	2005
<b>Cash flows provided by (used for) operating activities</b>				
<b>NET LOSS</b>	<b>(311)</b>	<b>(1,297)</b>	<b>(244)</b>	<b>(1,846)</b>
Items not involving cash				
Depreciation	371	327	1,059	895
Amortization of intangible assets and deferred costs	175	122	491	337
Stock based compensation	54	100	153	294
Impairment of other assets	-	535	-	535
Unrealized foreign exchange loss (gain)	19	277	(88)	677
	<b>308</b>	<b>64</b>	<b>1,371</b>	<b>892</b>
<b>Changes in non-cash working capital</b>				
Accounts receivable	(1,347)	59	(854)	1,250
Inventory	(1,424)	(56)	(2,617)	(692)
Prepaid expenses	108	114	385	278
Accounts payable and accrued liabilities	226	(1,526)	812	(549)
Unrealized foreign exchange gain (loss) in non-cash working capital	(15)	(297)	81	(522)
Cash flow (deficiency) from operations	<b>(2,144)</b>	<b>(1,642)</b>	<b>(822)</b>	<b>657</b>
<b>INVESTING ACTIVITIES</b>				
Additions to intangible assets and deferred costs	(331)	(267)	(1,025)	(902)
Additions to capital assets	(1,113)	(423)	(1,943)	(1,233)
Unrealized foreign exchange gain (loss) in investing activities	-	19	-	19
	<b>(1,444)</b>	<b>(671)</b>	<b>(2,968)</b>	<b>(2,116)</b>
<b>FINANCING ACTIVITIES</b>				
Operating line of credit	2,175	-	2,175	-
Exercise of options	-	-	1	30
	<b>2,175</b>	<b>-</b>	<b>2,176</b>	<b>30</b>
Foreign exchange gain (loss) on cash held in a foreign currency	(4)	30	7	(155)
<b>Increase (decrease) in cash and cash equivalents</b>	<b>(1,417)</b>	<b>(2,288)</b>	<b>(1,607)</b>	<b>(1,584)</b>
<b>Cash and cash equivalents, beginning of period</b>	<b>2,619</b>	<b>4,838</b>	<b>2,809</b>	<b>4,139</b>
<b>Cash and cash equivalents, end of period</b>	<b>1,202</b>	<b>2,555</b>	<b>1,202</b>	<b>2,555</b>

Interest income received during the period ended September 30, 2006 was \$32,000 (2005 - \$49,000) and interest paid during the period ended September 30, 2006 was \$ 22,000 (2005 - \$ nil).

See accompanying notes to the unaudited consolidated financial statements

# SELECTED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the three and nine months ended September 30, 2006 and 2005 and as at September 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 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

	September 30 2006	December 31 2005
Raw materials	5,035	3,105
Work-in-progress	3,995	2,633
Finished goods	3,979	4,654
	<b>13,009</b>	10,392

## 4. OPERATING LINE OF CREDIT

During 2004, the Company negotiated a \$5.0 million line of credit with a major Canadian Chartered Bank, which is payable on demand and bears interest at the bank prime rate plus 1.25% per annum. The bank line is secured by an assignment of book debts, inventory and a collateral mortgage. The credit agreement requires the Company to meet specified tangible net worth ratios and working capital ratios. At September 30, 2006, the Company was in compliance with all bank covenants.

## 5. SHARE CAPITAL

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

<b>Issued and outstanding:</b>	<b>Number of Shares</b>	<b>Amount</b>
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 September 30, 2006</b>	<b>20,940,451</b>	<b>52,433</b>

	<b>September 30 2006</b>	December 31 2005
<b>Securities convertible into common shares:</b>		
Stock options	<b>1,154,000</b>	1,180,500
Warrants	<b>756,738</b>	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>Nine months ended September 30</b>	
	<b>2006</b>	2005
Weighted average risk-free interest rate	<b>2.5</b>	1.75
Weighted average expected life	<b>5 Years</b>	5 Years
Estimated volatility in the market price of the common shares	<b>80%</b>	85%
Dividend yield	<b>0%</b>	0%

The weighted average fair value per option is \$1.55 (2005 - \$2.08). 21,000 options were issued to employees during the third quarter of 2006.

## 6. CONTRIBUTED SURPLUS

The following table summarizes information about contributed surplus.

Balance at December 31, 2005	2,182
Stock based compensation expense	153
<b>Balance at September 30, 2006</b>	<b>2,335</b>

## 7. TRANSACTIONS WITH RELATED PARTIES

For the nine months ended September 30, 2006, the Company purchased under normal terms and conditions \$7.6 million (2005 -\$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 September 30, 2006. Revenues attributed to foreign countries are based on the location of the customer.

	Three months ended		Nine months ended	
	September 30		September 30	
	2006	2005	2006	2005
Cylinder and system sales				
Canada	97	321	272	685
United States	2,389	1,744	3,536	4,122
Asia	312	722	1,188	1,541
European Union	5,458	2,840	14,976	11,286
Australia	19	-	4,626	-
Other	-	4	-	29
	<b>8,275</b>	<b>5,631</b>	<b>24,598</b>	<b>17,663</b>

# 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  
Calgary, Alberta, Canada  
T2B 3N7  
Tel (403) 720 0262  
Fax (403) 720 0263  
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:

**Robb D. Thompson**  
Dynetek Industries Ltd.  
Investor Relations  
4410 – 46<sup>th</sup> Avenue SE  
Calgary, Alberta, Canada  
T2B 3N7  
Tel (403) 720 0262  
Fax (403) 720 0263  
Email: [invest@dynetek.com](mailto:invest@dynetek.com)



**Dynetek Industries Ltd.**