



# **Dynetek** Industries Ltd.

## **Annual Information Form**

**For the Fiscal Year Ended December 31, 2010**

**March 28, 2011**

## TABLE OF CONTENTS

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS.....	2
CONVENTIONS.....	3
GLOSSARY OF TERMS.....	3
DATE OF INFORMATION.....	4
CORPORATE STRUCTURE.....	4
GENERAL DEVELOPMENT OF THE BUSINESS.....	4
DESCRIPTION OF THE BUSINESS AND OPERATIONS.....	6
DIVIDENDS.....	9
DESCRIPTION OF CAPITAL STRUCTURE.....	10
MARKET FOR SECURITIES AND PRIOR SALES.....	10
DIRECTORS AND EXECUTIVE OFFICERS OF THE CORPORATION.....	11
AUDIT COMMITTEE INFORMATION.....	13
RISK FACTORS.....	15
LEGAL PROCEEDINGS AND REGULATORY ACTIONS.....	20
INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS.....	20
AUDITORS, TRANSFER AGENT AND REGISTRAR.....	21
MATERIAL CONTRACTS.....	21
INTEREST OF EXPERTS.....	21
ADDITIONAL INFORMATION.....	21

SCHEDULE "A" –AUDIT COMMITTEE CHARTER

## SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This AIF contains forward-looking statements. Statements other than statements of historical fact contained in this AIF may be forward-looking statements, including, without limitation: management's expectations, intentions and beliefs concerning the growth, results of operations, performance and business prospects and opportunities of Dynetek; the Corporation's marketing initiatives and product development strategies; the general economy; the future financial position or results of the Corporation; business strategy, proposed acquisitions, growth opportunities, budgets, litigation, projected costs and plans and objectives of or involving Dynetek or the Finance Group Members. Many of these statements can be identified by looking for words such as "believe", "expects", "will", "intends", "projects", "anticipates", "estimates", "continues" or similar words or the negative thereof. In addition to other factors and assumptions which may be identified in this AIF, assumptions have been made in respect of such forward-looking statements and information regarding, among other things: the impact of increasing competition; the general stability of the economic and political environment in which the Corporation operates; the timely receipt of any required regulatory approvals; the ability of the Corporation to obtain qualified staff and services in a timely and cost efficient manner; and the ability of the Corporation to obtain financing on acceptable terms. Although the Corporation believes that the expectations reflected in such forward-looking statements or information are reasonable, undue reliance should not be placed on forward-looking statements and information as the Corporation can give no assurance that such expectations will prove to be correct. Forward-looking statements are subject to risks, uncertainties and assumptions and should not be read as guarantees or assurances of future performance. Accordingly, readers are cautioned not to place undue reliance on any forward-looking information contained or incorporated by reference in this AIF. Statements containing forward-looking information reflect Management's current beliefs and assumptions based on information in its possession on the date of this AIF and although Dynetek believes the intentions and expectations reflected in such forward-looking statements and information are reasonable, no assurance can be given that these intentions and expectations will prove to be correct.

Statements containing forward-looking information by their nature involve numerous assumptions and significant known and unknown facts and uncertainties of both a general and a specific nature. The actual results of the Corporation could differ materially from those anticipated in the forward-looking statements contained herein as a result of the following risk factors, and those contained elsewhere in this AIF: reliance on key personnel; general economic conditions; failure to complete or realize the anticipated benefits of acquisitions; management of future growth; availability of future financing; competition; government regulation; leverage and restrictive covenants under credit facilities; unpredictability and potential volatility of the trading price of the Common Shares; income tax related risks; future sales of Common Shares by significant shareholders; conflicts of interest; dilution; and liquidity of Common Shares. The information contained in this AIF, including the information set forth under "*Risk Factors*", identifies additional factors that could affect the operating results and performance of the Corporation.

Readers are cautioned that the foregoing lists of factors are not exhaustive. The forward-looking statements contained herein are expressly qualified in their entirety by this cautionary statement. The forward-looking statements included in this AIF are made as of the date of this AIF and Dynetek does not undertake or assume any obligation to update or revise such statements to reflect new events or circumstances except as expressly required by applicable securities legislation.

## CONVENTIONS

Unless otherwise indicated, references herein to "\$" or "dollars" are to Canadian dollars.

## GLOSSARY OF TERMS

In this AIF, unless the context otherwise requires, the following words and phrases shall have the meanings set forth below:

"**ABCA**" means the *Business Corporations Act* (Alberta), as amended, including the regulations promulgated thereunder.

"**affiliate**" has the meaning ascribed thereto in the *Securities Act* (Alberta).

"**AIF**" means this annual information form of the Corporation.

"**associate**" has the meaning ascribed thereto in the *Securities Act* (Alberta).

"**Bar**" means 100 kilopascals (14.5038 pounds per square inch).

"**business day**" means a day when banks are generally open for the transaction of business in Toronto, Ontario, other than a Saturday, Sunday or statutory or civic holiday.

"**Common Shares**" means the common shares in the capital of the Corporation.

"**CNG**" means compressed natural gas.

"**Dynetek**" or the "**Corporation**" means Dynetek Industries Ltd., a corporation continued under the ABCA.

"**EBITDA**" means earnings before interest, taxes, depreciation, amortization, foreign exchange gain or loss, stock based compensation and gain or loss on disposal of assets.

"**Magna Steyr Contract**" means the contract for compressed hydrogen systems with Magna Steyr

"**Management**" means senior management of the Corporation.

"**NI 51-102**" means National Instrument 51-102 – *Continuous Disclosure Obligations*.

"**OEMs**" means original equipment manufacturers.

"**SEDAR**" means the System for Electronic Document Analysis and Retrieval, accessible at [www.sedar.com](http://www.sedar.com).

"**Shareholders**" means the holders of Common Shares from time to time.

"**subsidiary**" has the meaning set out in the *Securities Act* (Alberta) and includes a partnership or other entity.

"**TSX**" means the Toronto Stock Exchange.

"**Type I**" means all-metal construction, generally steel.

"**Type II**" means metal liner, mostly steel or aluminum with some fibre overwrap in the hoop direction.

"**Type III**" means metal liner, generally aluminum with full carbon fibre overwrap.

"**Type IV**" means all-composite polymer liner with full carbon fibre or hybrid carbon / glass composite overwrap.

## DATE OF INFORMATION

Unless otherwise specified, information in this AIF is as of December 31, 2010.

## CORPORATE STRUCTURE

Dynetek Industries Ltd. (the "**Corporation**") was incorporated under the *Company Act* (British Columbia) on January 18, 1990 under the name "Island Packaging Supplies Ltd.". On December 13, 1990, the Corporation changed its name to "Dynetek Industries Ltd." and on June 29, 1998, the Corporation was continued under the ABCA. On August 14, 2000, the Articles of Incorporation of the Corporation were amended to increase the minimum number of directors to three (3), to remove the private company restrictions and to give effect to a reorganization of share capital pursuant to which each outstanding common share was split into four (4) Common Shares.

The head office of the Corporation is located at 4410 – 46 Avenue S.E., Calgary, Alberta T2B 3N7, and its registered office is located at 1400, 350 – 7th Avenue S.W., Calgary, Alberta T2P 3N9.

The Corporation has one wholly-owned subsidiary, Dynetek Europe GmbH ("**Dynetek GmbH**"), a corporation incorporated under the laws of Germany. The Corporation has no other subsidiaries.

## GENERAL DEVELOPMENT OF THE BUSINESS

### Three-Year History

The following is a summary of the business operations of the Corporation for the periods shown.

#### **2008**

During 2008, the Corporation experienced decreased sales revenues of 30% from the previous year, as well as a 33% reduction in unit production. These decreases were due to: (i) both cancelled and postponed orders which took effect during the fourth quarter of 2007 and persisted through the first two quarters of 2008; (ii) increased North American competition; and (iii) a reduction in spending in the Corporation's customers' capital expenditure programs.

In March 2008, the Corporation completed a \$5 million mortgage of its Calgary production facility with the Business Development Bank of Canada.

Due to the persistent economic lull in hydrogen market activities, the Corporation reduced production, research and development staff to core levels in the second quarter of 2008. The Corporation also implemented cost saving strategies and focused on cost control and reduction.

In June 2008, Dynetek GmbH received a CNG complete system order from a major European bus manufacturer, which represented revenues of \$10 million. The systems continued to be delivered in 2009 and 2010.

On September 10, 2008, the Corporation announced that it had signed a research and development contract for a new, innovative and light-weight hydrogen storage system for fuel cell vehicles. Two large international vehicle OEMs agreed to fund 50% of the costs of the project for total contributions of USD \$750,000. The contract called for research, prototype establishment, prototype development and design verification testing to be completed by late 2009.

In the fourth quarter of 2008, the Corporation completed its second milestone under the Magna Steyr contract for compressed hydrogen system sales in connection with Daimler's automotive fuel cell program.

The Corporation developed new products, including the Mobile Refueling System trailer for the bulk transport market and redesigned small CNG trailers. Dynetek also began to delivery fully customizable CNG storage systems to be mounted behind the cabs in heavy-duty vehicles.

### **2009**

In 2009, the Corporation experienced increased sales revenue of 23% and an increase of 17% in unit production. This was primarily due to increased orders from European bus manufacturers.

In 2009, the Corporation completed an order to install 20 Dynetek hydrogen fuel storage systems into hydrogen buses, which were operated during the 2010 Winter Olympics in Vancouver, British Columbia. The Corporation also obtained additional contracts to develop hydrogen buses in 2009 and 2010.

On March 19, 2009, the Corporation announced the appointment of Douglas Pigot to the board of directors of the Corporation and on May 5, 2009, the Corporation announced the appointment of Douglas Pigot as Chairman of the board of directors of the Corporation. Heinz Portmann, who served as the Chairman since the Corporation's inception, stepped down as Chairman but remained a director.

The Corporation qualified an additional carbon fibre supplier for its North American and European operations. The North American operations now have two qualified carbon fibre suppliers while the European operations now have three qualified carbon fibre suppliers.

The Corporation successfully received certification approvals for its cylinders and systems from two Asian countries.

In the fourth quarter of 2009, the Corporation completed the third and final milestone in the Magna Steyr Contract for compressed hydrogen system sales in connection with Daimler's automotive fuel cell program. The Magna Steyr Contract involved the development, certification and supply of 700 Bar compressed hydrogen fuel storage systems, including related engineering.

### **2010**

During 2010, the Corporation experienced decreased sales revenue of 16%; however, cylinder production increased by 19%. The decrease in revenue was largely the result of appreciation of the Canadian dollar against the US dollar and the Euro. In addition, the Corporation saw a change in product mix whereby there were more sales of cylinders and fewer sales of systems and associated components.

On February 5, 2010, Dynetek announced the appointment of Douglas Pigot to the position of Executive Chairman and announced that Darren Sentner had been appointed to the position of Chief Financial Officer of the Corporation.

On June 2, 2010, Dynetek announced the formation of Dynetek Korea Co. Ltd. ("DNK Korea"), a Korean joint venture 51% owned by Sejung Co. Ltd. ("Sejung") of Seoul, Korea and 49% owned by Dynetek. The joint venture was established to maximize the Corporation's penetration of the Korean market for lightweight CNG and hydrogen fuel storage cylinders and systems. DNK Korea will initially operate under a sales and marketing agreement with the Corporation whereby the Corporation will manufacture and provide cylinders and systems as required to meet initial demand; (ii) once sales volumes of sufficient economies of scale are achieved by DNK Korea, Sejung will invest in the joint venture to develop a winding and systems assembly plant in Korea; and (iii) once sales volumes of further economies of scale are achieved by DNK Korea, a liner production facility within DNK Korea may be established.

On September 21, 2010, Dynetek announced the execution of a letter of intent to form "Dynetek Cylinders India Pvt. Ltd." ("DNK India"), an Indian joint venture to be 49% owned by Dynetek and 51% owned by S.V. Energy, an Indian partnership. The purpose of the joint venture is to maximize the Corporation's penetration of the Indian market for lightweight compressed natural gas fuel storage cylinders and systems. The potential joint venture is to be executed in three stages: (i) first, Ace Group will market the Corporation's lightweight cylinders and systems on an exclusive basis in India, Pakistan, Nepal, Bangladesh and Sri Lanka, and Dynetek will manufacture and provide

cylinders and systems to Ace Gas as required to meet initial demand; (ii) S.V. Energy will invest in the joint venture to develop a winding and systems assembly plant near Mumbai, India, which is expected to be operational by the end of the second quarter of 2011; and (iii) once sales volumes of sufficient economies of scale are achieved by DNK India, a liner production facility may be established in India.

During the third quarter of 2010, Dynetek commenced discussions with a potential Chinese joint venture partner to access the Chinese market.

On October 25, 2010, Dynetek executed a supply agreement with Timberloch CNG Partners to be their exclusive cylinder supplier of Type III cylinders for future sales to a large bus fleet operator in Istanbul, Turkey.

During the fourth quarter of 2010, Dynetek developed and certified a new hydrogen cylinder to be used in pre-production hydrogen passenger vehicles for an Asian based OEM.

## **DESCRIPTION OF THE BUSINESS AND OPERATIONS**

### **General**

The Corporation is engaged in the design, production and marketing of Advanced Lightweight Fuel Storage Systems™, including lightweight storage cylinders and high pressure components including valves and regulators. The key component of the storage system is the DyneCell® Type III cylinder, capable of storing high pressure gases including compressed natural gas ("CNG"), hydrogen, and various industrial gases. The Corporation's DyneCell cylinder and fuel storage system applications include, but are not limited to: passenger automobiles; light and heavy-duty trucks; transit vehicles and school buses; bulk hauling of compressed gases; and stationary storage or ground storage refuelling applications.

The Corporation's products are designed primarily for fuel storage and fuel delivery of alternative compressed gas in vehicles, fuel cell applications and hydrogen refuelling and stationary storage products. The Corporation offers the following products to enable the development and commercialization of these systems:

- Fuel storage – advanced thin-walled lightweight storage cylinders that provide cost effective storage for CNG, compressed hydrogen and other industrial compressed gases, such as oxygen and helium; and
- Fuel delivery – pressure regulators, valves and other components designed to control the pressure and flow of compressed gas.

In addition to the sale of cylinders and systems comprised of cylinders and related components, the Corporation also undertakes co-funded research and development projects to design and integrate complete fuel storage systems to meet OEM requirements.

During the 2010 financial year, no one client accounted for more than 17% of total consolidated revenue (2009 - 22%) for the financial year.

During 2010, the Corporation saw sales revenue decrease by \$4.1 million or 16%. The decrease was largely the result of the appreciation of the Canadian dollar against the US dollar and Euro. Dynetek's North American sales are primarily transacted in US dollars and virtually all European sales are transacted in Euros. The Canadian dollar appreciated 11% against the US dollar and 16% against the Euro, comparing 2010 foreign exchange rates against 2009 rates.

During 2010, the Corporation saw research and development revenue decrease by \$0.7 million or 20% as a result of delays in the start-up of its major hydrogen projects.

## **Production and Services**

### ***Production***

The production of the DyneCell Type III cylinder begins in our manufacturing facility in Calgary, Alberta. The cylinder may be finished in Calgary or at our manufacturing facility in Ratingen, Germany depending on the location of the customer. Both our Calgary and German manufacturing facilities also provide system assembly which integrates the DyneCell cylinder with additional components, including frames, control units, high pressure valves and regulators. Cylinder or completed systems are installed on vehicles by OEMs at their own manufacturing facilities or at third party equipping sites. Our operations are ISO-9001:2008 certified.

### ***Services***

The Corporation also provides research and development services. Under contract with OEMs, the Corporation provides design, development, validation, certification, manufacture and after sales service support of customized versions of our cylinders and systems to support OEM prototype vehicles and applications. The Corporation is also developing an electronic 700 Bar valve for use in hydrogen applications.

### **Specialized Skill and Knowledge**

The Corporation believes its future success will be based on attracting, motivating and retaining qualified management and employees. Our engineering, research and development and high quality production require qualified personnel. Dynetek believes it will be able to continue to attract the required qualified management and employees to be successful.

### **Competitive Conditions**

The Corporation operates in an industry which is new, rapidly evolving and highly competitive. The level of competition is likely to increase as current competitors improve their products and as new competitors enter the market.

The Corporation believes that it has an advantage over its current competitors. The DyneCell cylinder is lightweight, non-permeable, has excellent corrosion resistance characteristics and limited expansion and contraction under pressure and temperature changes. The Corporation believes that compared to other cylinders, the DyneCell cylinder is one of the lightest and highest quality cylinders currently on the market.

The Corporation also believes that there are barriers for new competitors entering into the field of lightweight fuel storage systems for CNG and compressed hydrogen. The process of bringing a new product to market requires expertise and skills in proof of concept (research, development and demonstration of prototypes), product development, building specialized manufacturing facilities, obtaining certifications and gaining customer confidence and orders. A competitor faces the following challenges:

*Product Design:* In order to design an effective competitive product, a broad range of technical skills and experience is needed. Such skills include drafting, metallurgical engineering, metal forming experience, stress and strain computation and computer supported finite element analysis abilities.

*Production Processes:* Manufacturing processes and production lines must be developed to commercially produce large numbers of product.

*Certification and Approvals:* The certification process for high-pressure fuel storage is highly regulated, rigorous and time consuming. Each country has its own certification standards and procedures. In addition, OEMs independently test and approve product prior to contract purchases.

*Customer Relationships and Confidence:* OEMs have strict criteria for selecting suppliers. Price, quality, reliability, responsiveness along with design, engineering and project management support are key criteria.

*Market Leadership:* The Corporation intends to maintain a leading position in fuel storage systems. Typically a market leader has advantages over competitors that enter the market at a later date.

The Corporation produces a Type III cylinder and competes against other manufacturers of Type III cylinders, and in some markets the Corporation competes directly with Type I, II and IV cylinders. In emerging markets, the Corporation competes against Type II cylinders for CNG storage, which are less advanced but are less expensive than Type III cylinders.

### **New Products**

In 2007, Dynetek obtained U.S. Department Of Transportation certification for its Type III cylinders and frames allowing the cylinders and frames to be used for commercial storage and bulk transportation. This is in addition to the Corporation's previous approvals for the use in automotive vehicles.

In 2008, Dynetek began to deliver the Mobile Refuelling System trailer, for the bulk transport and gas utility markets.

In 2009, Dynetek completed a majority of certification tests regarding development of a 20 foot container for commercial gas transportation.

Dynetek is committed to continually improving existing products by improving the materials used to manufacture the products and improve the technology and processes in designing the products. Dynetek expects to continue to introduce new products primarily targeted for the CNG market.

### **Raw Materials**

The Corporation purchases the majority of its raw materials (primarily aluminum, carbon fibre and components such as brackets, valves and piping) from North American suppliers. Factors such as price, quality, transportation costs and availability of material and timeliness of delivery impact the Corporation's decisions on sourcing from suppliers.

Prior to 2007, the Corporation purchased all of its carbon fibre from a US subsidiary of Mitsubishi Rayon Co. Ltd., provided that the carbon fibre remained superior in quality and price competitive. In 2007, the European operations contracted additional supplies of carbon fibre through potential additional suppliers and qualified one other carbon fibre supplier for use in 2008. During 2009, both the North American and European operations qualified an additional carbon fibre supplier, ensuring a supply of high quality carbon fibre is available to the Corporation at competitive prices.

The Corporation purchases substantially all of its aluminum pipe from Sapa AB through a Calgary based distributor. The Corporation continues to pursue additional suppliers for aluminum pipe as necessary.

### **Intangible Properties**

The Corporation's fuel storage cylinders are marketed under the DyneCell brand name.

It is the Corporation's practice to enter into confidentiality agreements with employees, consultants, contract staff, certain customers and certain potential customers in an attempt to limit access to and distribution of its proprietary rights. The agreements with employees, consultants and contract staff include an assignment to the Corporation of all intellectual property developed in the course of employment.

The Corporation and its products are certified under ISO 11439 International, NGV 2 United States/Japan/Mexico/Argentina, KHK Japan, FMVSS 304 United States, TUV Germany, NFPA 52 National Fire Protection Association, DRIRE France, CSA B51 Canada/Australia/Hungary/ United States, Bureau Veritas Argentina, ECE 79 Europe (hydrogen), ECE R110 Europe (CNG), Transport Canada, Work Cover Authority Australia and the Department of Transport United States. The DyneCell CNG cylinders are currently certified and

sold in over 25 countries around the world. In addition, Dynetek has certification in 28 countries for its 5000 psi lightweight cylinder and four countries for its 10000 psi lightweight cylinder.

### **Cyclical Nature of the Industry**

The Corporation focuses on the bus and truck market for CNG storage opportunities. Manufacturer bids for new bus opportunities occur predominately in the first quarter of each fiscal year for deliveries in the second and third quarter. Therefore, sales revenues for the second and third quarter together can represent 50% to 65% of total annual sales.

Revenues generated from research and development contracts are dependent on the research and investment activities of the major OEMs and are unpredictable year over year. Intra-year revenues are based on milestone activities and can occur at any time in the year.

### **Economic Dependence**

The Corporation's business is not substantially dependent upon any contract, such as a contract to sell the major part of the Corporation's products or services or to purchase the major part of the Corporation's requirements for goods, services or raw materials, or any franchise or license or other agreement to use a patent, formula, trade secret, process or trade name upon which the Corporation's business depends, except as follows:

- The Corporation purchases substantially all of its aluminum from a Sapa AB distributor, provided that such aluminum meets the Corporation's quality, price and delivery requirements. The Corporation continues to pursue additional suppliers for aluminum pipe.

### **Changes to Contracts**

At this time, the Corporation does not reasonably expect that its business will be affected in the current financial year by the renegotiation or termination of any of its current contracts or sub-contracts.

### **Environmental Protection**

The Corporation's production facilities are subject to federal and provincial environmental protection regulations. The Corporation does not believe that compliance with such environmental protection regulations will have a material effect on the capital expenditures, earnings and competitive position of the Corporation in the current financial year or in future years.

### **Employees**

The Corporation had 87 employees as at March 16, 2011.

### **Foreign Operations**

The Corporation's European operations accounted for approximately 56% (2009 – 68%) of total consolidated revenue in 2010. The Corporation does not anticipate any material changes in the distribution of revenue in 2011.

## **DIVIDENDS**

Dynetek has not paid any dividends on outstanding Common Shares to date. It is the present policy of the Board of Directors of the Corporation to retain any earnings to finance the growth and development of the Corporation's business and, therefore, the Corporation does not anticipate paying any dividends in the immediate or foreseeable future. The Board of Directors of the Corporation will determine the actual timing, payment and amount of dividends, if any, that may be paid by the Corporation from time to time based upon, among other things, the cash flow, results of operations and financial condition of the Corporation, the needs for funds to finance ongoing operations and other business considerations as the Board of Directors of the Corporation considers relevant. The

Corporation's operating line of credit with the Bank of Nova Scotia only allows dividends to be paid with their prior written consent.

### DESCRIPTION OF CAPITAL STRUCTURE

The Corporation is authorized to issue an unlimited number of Common Shares and an unlimited number of preferred shares. Each Common Share is entitled to one vote per share at meetings of shareholders of the Corporation and to receive any dividend declared by the Board of Directors and receive remaining property on dissolution.

The preferred shares do not carry the right to vote, except as provided by the ABCA, and are issuable in series with the rights, privileges, restrictions and conditions attaching to each series to be determined by the Board of Directors of the Corporation at the time of issue.

As at the date hereof, there were 20,959,500 Common Shares issued and outstanding and there were no preferred shares issued and outstanding.

### MARKET FOR SECURITIES AND PRIOR SALES

#### Trading Price and Volume

The Common Shares are listed and posted for trading on the TSX under the symbol "DNK". The following table sets forth the price range and trading volume of the Common Shares (as reported by the TSX) for the periods indicated.

	Price Range		Volume
	High (\$/share)	Low (\$/share)	
<b>2010</b>			
January	0.44	0.36	300,011
February	0.36	0.25	148,164
March	0.35	0.25	814,236
April	0.34	0.29	122,020
May	0.37	0.31	95,640
June	0.36	0.32	40,634
July	0.36	0.28	31,850
August	0.35	0.28	76,877
September	0.335	0.24	411,750
October	0.28	0.25	271,412
November	0.26	0.25	444,068
December	0.26	0.23	1,514,515
<b>2011</b>			
January	0.29	0.245	527,585
February	0.29	0.26	85,373
March (1-25)	0.30	0.265	76,700

#### Prior Sales

During the fiscal year ended December 31, 2010, the Corporation issued stock options under its share option plan (the "**Plan**") to acquire an aggregate of 1,740,880 Common Shares at a weighted average exercise price of \$0.32 per Common Share.

During the fiscal year ended December 31, 2010, the Corporation issued an aggregate of 3,000 Common Shares upon the exercise of previously issued stock options under the Plan for aggregate consideration of approximately \$600.

## DIRECTORS AND EXECUTIVE OFFICERS OF THE CORPORATION

The name, province or state, and country of residence of each director and executive officer of Dynetek and their respective positions and offices held with Dynetek and their respective principal occupations during the five (5) preceding years are as follows:

<u>Name and Jurisdiction of Residence</u>	<u>Office Held</u>	<u>Director Since<sup>(3)</sup></u>	<u>Principal Occupation or Employment and Occupation during the Past Five Years</u>
Douglas Pigot Calgary, Alberta Canada	Director (Chairman) and Executive Chairman	March 4, 2009	Executive Chairman of the Corporation since February 5, 2010. Chairman of the Board since May 6, 2009. Prior thereto, President of CanBridge Capital Corporation from June 2009 to February 2010 and President and Chief Executive Officer of DC Energy Services Inc. from July 2004 to January 2008.
John R. Bobenic <sup>(1)(2)</sup> Calgary, Alberta Canada	Director (Vice Chairman)	October 30, 2007	Vice Chairman of the Board since February 5, 2010. President and Chief Executive Officer of Maxim Power Corp., a publicly traded independent power producer, since 2000.
Heinz Portmann Calgary, Alberta Canada	Director	October 30, 1990	Chairman of the Board from 1990 to May 5, 2009. Since May 6, 2009, Mr. Portmann has been an independent businessman.
Dr. Christian Rasche Ratingen, NRW Germany	Director and President and Chief Executive Officer	January 1, 2007	President and Chief Executive Officer of the Corporation since January 2007 and Managing Director of Dynetek Europe GmbH, a wholly-owned subsidiary of the Corporation, since September 2001.
Anthony Roberts <sup>(2)</sup> Lake Elsinore, California, U.S.A.	Director	August 20, 2007	Independent business consultant since 2005, specializing in carbon fibre composites. Prior thereto, Mr. Roberts was Sales and Marketing Director for Grafil Inc. and Newport Adhesives and Composites Inc., both U.S. subsidiaries of Mitsubishi Rayon Co. Ltd., since 1990.
Bradley Turner <sup>(1)(2)</sup> Calgary, Alberta Canada	Director	August 24, 2007	President and director of TMI Consulting Corporation, a private corporate finance consulting company, since 2002. From December 2008 to September 2010, Mr. Turner was President and a director of Britt Land Services. From March 2007 through June 2009, Mr. Turner was President, Chief Executive Officer and a director of Richards Oil & Gas Limited.
G. Howard Kroon <sup>(1)(2)</sup> Calgary, Alberta Canada	Director	October 30, 2007	President and Chief Executive Officer of Palliser Lumber ("Palliser"), a private lumber company, since 2005. From 2003 through 2005 Mr. Kroon was the Chief Operating Officer of Palliser.
Michael D. Portmann Calgary, Alberta Canada	Vice-President, Business Development and General Manager	N/A	Vice-President, Business Development and General Manager of the Corporation since May 2008. Prior thereto, Mr. Portmann was the Vice-President and General Manager of the Corporation from 2000 to May 2008.
E. Manfred Bartram Calgary, Alberta Canada	Vice-President, Operations	N/A	Vice-President, Operations of the Corporation since May 2008. From October 2006 to May 2008, Mr. Bartram was the Corporate Quality Manager of the Corporation. Prior thereto, Mr. Bartram was the Managing Director of Symeg Ltd.

<u>Name and Jurisdiction of Residence</u>	<u>Office Held</u>	<u>Director Since<sup>(3)</sup></u>	<u>Principal Occupation or Employment and Occupation during the Past Five Years</u>
Darren Sentner Calgary, Alberta Canada	Chief Financial Officer	N/A	Chief Financial Officer of the Corporation since February 2010. From January 2009 to January 2010, Mr. Sentner was the Chief Financial Officer of Discovery Drilling Equipment Ltd. Prior thereto, Mr. Sentner was the Chief Financial Officer of DC Energy Services Inc. from July 2004 to October 2008.
Ken Yee Calgary, Alberta Canada	Vice-President, Finance and Administration	N/A	Vice-President, Finance and Administration of the Corporation since July 2009. From September 2008 to July 2009, Mr. Yee provided consulting services to Dynetek. From June 2003 to March 2007, Mr. Yee was Controller of Maxim Power Corp. From September 2007 through May 2008, Mr. Yee provided consulting services to Maxim Power Corp.

**Notes:**

- (1) Member of the Corporation's Audit Committee.
- (2) Member of the Corporation's Compensation and Governance Committee.
- (3) Each director will hold office until the next annual general meeting or until his successor is duly elected or appointed or unless his office is earlier vacated.

As of the date hereof, the directors and executive officers of Dynetek, as a group, beneficially own, control or direct, directly or indirectly, 1,527,400 Common Shares or 7.3% of the issued and outstanding Common Shares.

**Cease Trade Orders**

To the knowledge of the Corporation, no director or executive officer of the Corporation (nor any personal holding company of any of such persons) is, as of the date of this Annual Information Form, or was within 10 years before the date of this Annual Information Form, a director, chief executive officer or chief financial officer of any company (including the Corporation), that: (a) was subject to a cease trade order (including a management cease trade order), an order similar to a cease trade order or an order that denied the relevant company access to any exemption under securities legislation, in each case that was in effect for a period of more than 30 consecutive days (collectively, an "**Order**"), that was issued while the director or executive officer was acting in the capacity as director, chief executive officer or chief financial officer; or (b) was subject to an Order that was issued after the director or executive officer ceased to be a director, chief executive officer or chief financial officer and which resulted from an event that occurred while that person was acting in the capacity as director, chief executive officer or chief financial officer.

### **Bankruptcies**

To the knowledge of the Corporation, no director or executive officer of the Corporation (nor any personal holding company of any of such persons), or shareholder holding a sufficient number of securities of the Corporation to affect materially the control of the Corporation: (a) is, as of the date of this Annual Information Form, or has been within the 10 years before the date of this Annual Information Form, a director or executive officer of any company (including the Corporation) that, while that person was acting in that capacity, or within a year of that person ceasing to act in that capacity, became bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or was subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold its assets; or (b) has, within the 10 years before the date of this Annual Information Form, become bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency, or become subject to or instituted any proceedings, arrangement or compromise with creditors, or had a receiver, receiver manager or trustee appointed to hold the assets of the director, executive officer or shareholder.

### **Penalties or Sanctions**

To the knowledge of the Corporation, no director or executive officer of the Corporation (nor any personal holding company of any of such persons), or shareholder holding a sufficient number of securities of the Corporation to affect materially the control of the Corporation, has been subject to: (a) any penalties or sanctions imposed by a court relating to securities legislation or by a securities regulatory authority or has entered into a settlement agreement with a securities regulatory authority; or (b) any other penalties or sanctions imposed by a court or regulatory body that would likely be considered important to a reasonable investor in making an investment decision.

### **Conflicts of Interest**

Certain officers and directors of the Corporation are also officers and/or directors of other entities engaged in the oil and gas business generally. As a result, situations may arise where the interest of such directors and officers conflict with their interests as directors and officers of other companies. The resolution of such conflicts is governed by applicable corporate laws, which require that directors act honestly, in good faith and with a view to the best interests of the Corporation. Conflicts, if any, will be handled in a manner consistent with the procedures and remedies set forth in the ABCA. The ABCA provides that in the event that a director has an interest in a contract or proposed contract or agreement, the director shall disclose his interest in such contract or agreement and shall refrain from voting on any matter in respect of such contract or agreement unless otherwise provided by the ABCA.

## **AUDIT COMMITTEE INFORMATION**

The Audit Committee of the Board is a committee of the Board established for the purpose of overseeing the accounting and financial reporting process of the company and annual external audits of the consolidated financial statements.

### **The Audit Committee's Mandate**

The Audit Committee has set out its responsibilities and composition requirements in fulfilling its oversight in relation to the company's internal accounting standards and practises, financial information, accounting systems and procedures, which procedures are contained in the Corporation's Audit Committee Charter, the full text of which is set out in Schedule "A" attached hereto.

### **Composition of the Audit Committee**

The Audit Committee currently consists of John Bobenic (Chair), Bradley Turner and G. Howie Kroon.

## Relevant Education and Experience

The following chart sets out the assessment of each Audit Committee member's independence, financial literacy and relevant educational background and experience supporting such financial literacy.

<b>Name and Municipality of Residence</b>	<b>Independent</b>	<b>Financially Literate</b>	<b>Relevant Education and Experience</b>
John R. Bobenic Calgary, Alberta	Y	Y	Mr. Bobenic has been the President and Chief Executive Officer of Maxim Power Corp. since October, 2000. Prior thereto, Mr. Bobenic was the Chief Financial Officer of Enmax Corporation from May, 1999 to July, 2000. Mr. Bobenic was the Gerente General (President) of TransAlta Energy (Chile) S.A., from September, 1995 to February, 1997. From July, 1994 to September, 1995, Mr. Bobenic was the Gerente Finanzas (Chief Financial Officer) of TransAlta Energy (Chile) S.A. Mr. Bobenic was Director, Latin America of Westcoast Energy International Inc. from March, 1997 to July, 1998. Mr. Bobenic has a Bachelor of Commerce from the University of Calgary, is a member of the Canadian Institute of Chartered Accountants and completed his Executive MBA from the University of Calgary.
Bradley Turner Calgary, Alberta	Y	Y	President and Director of TMI Consulting Corporation since 2002. From December 2008 to September 2010, Mr. Turner was President and a Director of Britt Land Services. From March 2007 through June 2009, Mr. Turner was President, Chief Executive Officer and a Director of Richards Oil & Gas Limited. Prior thereto, from December, 1999 to May, 2002, Mr. Turner was the President, Chief Executive Officer and a director of Data Wise Solutions Inc. From 1998 to November, 1999, Mr. Turner was the Chief Operating Officer of Request Seismic Surveys Ltd. In addition, Mr. Turner has a Bachelor of Commerce from the University of Calgary.
G. Howard Kroon	Y	Y	Mr. Kroon has been the Chief Executive Officer of Palliser Lumber since 2005. Prior thereto, from 2003 to 2005, Mr. Kroon was the Chief Operating Officer of Palliser Lumber. From 1989 to 1998, Mr. Kroon was a chartered accountant with Arthur Anderson LLP, Chartered Accountants. Mr. Kroon has a Bachelor and Masters of Arts from the University of Waterloo and is a member of the Canadian Institute of Chartered Accountants.

## Pre-Approval Policies and Procedures

The Audit Committee has not adopted any specific policies and procedures for the engagement of non-audit services. The Audit Committee shall review and pre-approve all non-audit services to be provided to the Corporation by its external auditors.

## External Auditor Service Fees

Nature of Services	Fees Paid to Auditor in Year Ended December 31, 2009	Fees Paid to Auditor in Year Ended December 31, 2010
Audit Fees	\$162,427	\$161,931
Audit Related Fees <sup>(1)</sup>	\$50,880	\$52,470
Tax Fees <sup>(2)</sup>	\$12,000	\$29,607
IFRS Fees	-	\$29,680
All Other Fees	-	\$39,025
Total	<b>\$225,307</b>	<b>\$312,713</b>

### Notes:

- (1) Relates to quarterly review engagements.  
(2) Relates to review of tax returns and tax consulting.

## RISK FACTORS

**Investing in Dynetek involves risks. In addition to the other information contained in this AIF, prospective investors should carefully consider the risk factors set out below in making an investment decision with respect to the Corporation. The following information is a summary only of certain risk factors and is qualified in its entirety by reference to, and must be read in conjunction with, the detailed information appearing elsewhere in this AIF. These risks and uncertainties are not the only ones facing the Corporation. Additional risks and uncertainties not currently known to the Corporation, or that the Corporation currently considers immaterial, may also impair the operations of the Corporation.**

### Global Financial Crisis

Recent market events and conditions, including disruptions in the international credit markets and other financial systems and the deterioration of global economic conditions, have caused significant volatility to commodity prices. These conditions worsened in 2008 and continued in 2009, causing a loss of confidence in the broader U.S. and global credit and financial markets and resulting in the collapse of, and government intervention in, major banks, financial institutions and insurers and creating a climate of greater volatility, less liquidity, widening of credit spreads, a lack of price transparency, increased credit losses and tighter credit conditions. Notwithstanding various actions by governments, concerns about the general condition of the capital markets, financial instruments, banks, investment banks, insurers and other financial institutions caused the broader credit markets to further deteriorate and stock markets to decline substantially. Although economic conditions improved towards the latter portion of 2009 and in 2010, as anticipated, the recovery from the recession has been slow in various jurisdictions including in Europe and the United States and has been impacted by various ongoing factors including sovereign debt levels and high levels of unemployment which continue to impact commodity prices and to result in high volatility in the stock market.

### Development of the Alternative Fuel Industry and Infrastructure

The Corporation's future performance depends upon the development of the alternate fuel industry and the establishment of the necessary infrastructure. While the Corporation believes that the alternate fuel industry will continue to develop and that the necessary infrastructure will be established, Dynetek cannot control if, when and how quickly this will happen. The failure or delay in the development of the alternate fuel industry and the establishment of the necessary infrastructure would have a material adverse effect on the Corporation's operations and financial position.

### Competition in Fuel Storage Industry

The gaseous fuel storage industry is highly competitive. The Corporation produces a Type III cylinder and competes against other manufacturers of Type III cylinders, and in some markets the Corporation will directly compete with Type I, II and IV cylinders. Dynetek endeavours to offer products that are more advanced and that are cost

competitive with its competitors. The Corporation also markets its products globally and endeavours to establish strategic relationships with our principal customers. However, Dynetek's competitors may have greater resources and may develop and introduce competing products that are more advanced and less expensive than our products. In emerging markets, the Corporation competes against Type II cylinders for CNG storage, which are less advanced but are less expensive than Type III cylinders.

### **Dependence upon Transportation OEMs**

The Corporation's principal markets are currently transportation OEMs, including automotive, heavy truck and bus manufacturers. Dynetek depends upon their continuing development of alternate fuel vehicles and their continuing purchase of our products. The Corporation establishes strategic relationships with its principal customers and endeavours to identify new global markets for its products other than transportation OEMs. However, the failure or delay by the transportation OEMs to develop and produce alternate fuel vehicles, or their decision to purchase products from its competitors, would have a material adverse effect on the Corporation's operations and financial position.

### **Technological Changes**

There is significant and rapid technological change in the alternate fuel industry and in the gaseous fuel storage industry. The Corporation depends upon its ability to develop, manufacture and sell new products which meet such changes.

### **Certification**

The Corporation's products must be certified in the countries in which they are sold. Certification requirements are evolving and in some cases have not yet been established. While Dynetek believes that its products will meet these certification requirements, it cannot control if, when and how quickly this happens. The delay or failure to obtain certifications could have a material adverse effect on Dynetek's operations and financial position.

### **Protection of Intellectual Property Rights**

The Corporation depends upon the ownership and protection of its proprietary technology. Dynetek endeavours to protect its intellectual property rights through the registration of patents and the protection of trade secrets. However, the loss or unenforceability of any intellectual property rights could have a material adverse effect on the Corporation's competitive position.

### **Dependence upon Suppliers**

The Corporation depends upon certain key suppliers for the supply of key materials, components and services at competitive prices. Dynetek chooses its key suppliers carefully and endeavors to enter into strategic alliances with them. However, the loss of any key supplier or pricing structure could have a material adverse effect on the Corporation's costs, operations and financial position. The Corporation currently has two major suppliers of carbon fibre at its North American production facility and three major suppliers at its European production facility. The Corporation continues to seek to identify additional sources of carbon fibre that meet the Corporation's quality, certification, delivery and pricing requirements. However, any shortage or delay in obtaining carbon fibre or any significant increases in price for carbon fibre could have a material adverse effect on our operations, costs, contribution margins and financial position. The Corporation currently has only one supplier for certain sizes of aluminum pipe. The Corporation continues to seek to identify additional sources of aluminum that meet the Corporation's quality, delivery and pricing requirements. Any delays in obtaining aluminum pipe or any significant increases in price for aluminum pipe could have a material adverse effect on the Corporation's operations, costs, contribution margins and financial position.

**Contribution Margins**

The Corporation's contribution margin increased from 17% in 2009 to 20% in 2010. The Corporation's ability to continue to generate EBITDA and positive cash flow from operations depends in part upon its ability to increase and maintain its contribution margins.

**Credit Risks**

The Corporation is exposed to credit risk for payments by customers for its products. The Corporation manages this risk by primarily dealing with large, credit worthy customers and governments and by obtaining credit approval before accepting a purchase order. In addition, certain customer accounts of our Germany subsidiary are insured through Export Development Canada. However, a failure to pay by any significant customer could have a material adverse effect on the Corporation's financial position.

**Foreign Exchange**

The Corporation is exposed to US dollar to Canadian dollar exchange rate fluctuations, since a majority of the Corporation's Canadian operations accounts receivable are in US dollars. The Corporation endeavours to manage this risk by matching its US dollar balances to planned purchases in US dollars, and by keeping a minimum of the balance of its cash in US dollars. However, significant fluctuations in US dollar to Canadian dollar exchange rates have had and could continue to have a material adverse effect on Dynetek's financial position. The Corporation is also exposed to Euro to Canadian dollar exchange rate fluctuations, since a majority of our European operation's accounts receivable are in Euros. The Corporation endeavours to manage this risk by ensuring that its European payables are denominated in Euros. However, significant fluctuations in Euro to Canadian dollar exchange rates have had and could continue to have a material adverse effect on Dynetek's financial position. As Dynetek enters into new foreign markets, it may be exposed to additional foreign exchange risk with respect to exchange rate fluctuations.

**Product Liability and Insurance**

The Corporation carries insurance that it considers appropriate, considering the nature of risks and the costs of insurance. However, all such insurance is subject to deductibles and exclusions and is not always available for all risks or at affordable prices. An uninsured or excluded loss could have a material adverse effect on the Corporation's financial position.

**Research and Development**

Dynetek's research and development programs are co-funded with major OEMs. 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 ability of Dynetek to generate EBITDA and positive cash flow from operations for any specific quarter may depend upon whether the research and development revenue exceeds costs incurred in the period.

**Transfer Pricing**

Dynetek has adopted transfer pricing practices for product transfers between its North American and European operations that it believes comply with transfer pricing rules and regulations of the applicable tax authorities. However, any challenge of such transfer pricing practices by tax authorities could have a material adverse effect on Dynetek's tax and financial position.

**Length of Sales Cycle**

The Corporation's current sales cycle is approximately 8 - 12 weeks from the signature of purchase order to the delivery of product to the customer. Any increase in such sales cycle due to delays in obtaining raw materials or

components, manufacturing or shipping could have a material adverse effect on the Corporation's operations, competitive position and financial position.

### **Reliance on Key Personnel**

The success of Dynetek depends on the abilities, experience, efforts and industry knowledge of their respective senior management and other key employees, including their ability to retain and attract skilled management and employees. The loss of the services of any key personnel could have a material adverse effect on the business, financial condition, results of operations or future prospects of Dynetek. In addition, the growth plans of the Corporation described in this AIF may require additional employees, increase the demand on management and produce risks in both productivity and retention levels. Dynetek may not be able to attract and retain additional qualified management and employees as needed in the future. There can be no assurance that Dynetek will be able to effectively manage their growth, and any failure to do so could have a material adverse effect on Dynetek's business, financial condition, results of operations and future prospects.

### **Regulation**

Dynetek is subject to a variety of federal, provincial and local laws, regulations, and guidelines and may become subject to additional laws, regulations and guidelines in the future, particularly as a result of acquisitions. The financial and managerial resources necessary to ensure such compliance could escalate significantly in the future which could have a material adverse effect on Dynetek's business, financial condition, results of operations and cash flows. Such laws and regulations are subject to change. Accordingly, it is impossible for Dynetek to predict the cost or impact of such laws and regulations on their respective future operations.

The development of the alternate fuel industry is driven in part by government laws and regulations concerning the environment, government initiatives concerning greenhouse gases and climate change, and government funding for the alternate fuel industry. Changes in such laws and regulations, initiatives and funding would have a material adverse effect on the alternate fuel industry, which in turn would have a material adverse effect on the Corporation's operations and financial position.

### **Unpredictability and Volatility of Share Price**

The market price for Common Shares may be volatile and subject to wide fluctuations in response to numerous factors, many of which are beyond the Corporation's control, including the following: (i) actual or anticipated fluctuations in the Corporation's quarterly results of operations; (ii) recommendations by securities research analysts; (iii) changes in the economic performance or market valuations of other companies that investors deem comparable to the Corporation; (iv) addition or departure of the Corporation's executive officers and other key personnel; (v) sales or perceived sales of additional Common Shares; (vi) significant acquisitions or business combinations, strategic partnerships, joint ventures or capital commitments by or involving the Corporation or its competitors; and (vii) news reports relating to trends, concerns, technological or competitive developments, regulatory changes and other related issues in the Corporation's industry or target markets.

Financial markets have experienced significant price and volume fluctuations in the last several years that have particularly affected the market prices of equity securities of companies and that have, in many cases, been unrelated to the operating performance, underlying asset values or prospects of such companies. Accordingly, the market price of the Common Shares may decline even if the Corporation's operating results, underlying asset values or prospects have not changed. Additionally, these factors, as well as other related factors, may cause decreases in asset values that are deemed to be other than temporary, which may result in impairment losses. As well, certain institutional investors may base their investment decisions on consideration of the Corporation's environmental, governance and social practices and performance against such institutions' respective investment guidelines and criteria, and failure to meet such criteria may result in a limited or no investment in the Common Shares by those institutions, which could adversely affect the trading price of the Common Shares. There can be no assurance that continuing fluctuations in the price and volume of publicly traded equity securities will not occur. If such increased levels of volatility and market turmoil continue, the Corporation's operations could be adversely impacted and the trading price of the Common Shares may be adversely affected.

### **Tax Related Risks**

The Corporation has various unclaimed non-capital losses, Scientific Research and Experimental Development Expenditure pools and other deductions and credits available to it for Canadian federal income tax purposes and various unclaimed non-capital losses for Germany federal income tax purposes. These unclaimed deductions and credits are subject to assessment and possible downward adjustment by the relevant tax authorities.

### **Risks of Foreign Operations**

The majority of Dynetek's revenues are generated from sales in countries outside of North America. As such, Dynetek's operations may be adversely affected by political, economic, and other uncertainties that arise in such countries, including any changes in legislation or policies affecting foreign trade, taxation, investment or the certification of Dynetek's cylinders and system

### **Conflicts of Interest**

Certain directors of the Corporation are associated with other companies or entities, which may give rise to conflicts of interest. In accordance with the ABCA, directors who have a material interest in any person who is a party to a material contract or proposed material contract with the Corporation are required, subject to certain exceptions, to disclose that interest and abstain from voting on any resolution to approve that contract. In addition, the directors are required to act honestly and in good faith with a view to the best interests of the Corporation. See "*Conflicts of Interest*" and "*Interests of Management and Others in Material Transactions*".

### **Changes to Accounting Policies, including the Implementation of IFRS**

International Financial Reporting Standards ("**IFRS**") replaced Canadian generally accepted accounting principles ("**Canadian GAAP**") in 2011 for Canadian publicly accountable enterprises. While IFRS uses a conceptual framework similar to Canadian GAAP, there are significant differences that must be evaluated. The implementation of IFRS may result in significant adjustments to the Corporation's financial results, which could negatively impact the Corporation's business.

### **The Corporation May Issue Additional Common Shares Diluting Existing Shareholders' Interests**

The Corporation may issue an unlimited number of Common Shares and Non-Voting Shares for such consideration and on such terms and conditions as shall be established by the Corporation without the approval of Shareholders. Any further issuance of Common Shares will dilute the interests of existing Shareholders. The Shareholders will have no pre-emptive rights in connection with such future issuances.

### **Certain Forward-Looking Information May Prove Inaccurate**

Investors are cautioned not to place undue reliance on forward-looking information. By its nature, forward-looking information involves numerous assumptions, known and unknown risks and uncertainties, of both a general and specific nature, that could cause actual results to differ materially from those suggested by the forward-looking information or contribute to the possibility that predictions, forecasts or projections will prove to be materially inaccurate.

### **Dividends**

The Corporation has not paid any dividends on its outstanding shares. Payment of dividends in the future will be dependent on, among other things, the cash flow, results of operations and financial condition of the Corporation, the need for funds to finance ongoing operations and other considerations as the board of directors of the Corporation considers relevant.

### **Internal Controls**

Effective internal controls are necessary for the Corporation to provide reliable financial reports and to help prevent fraud. Although the Corporation undertakes a number of procedures in order to help ensure the reliability of its financial reports, including those imposed on it under Canadian securities laws, the Corporation cannot be certain that such measures will ensure that the Corporation will maintain adequate control over financial processes and reporting. Failure to implement required new or improved controls, or difficulties encountered in their implementation, could harm the Corporation's results of operations or cause it to fail to meet its reporting obligations. If the Corporation or its independent auditors discover a material weakness, the disclosure of that fact, even if quickly remedied, could reduce the market's confidence in the Corporation's consolidated financial statements and adversely affect the trading price of the Common Shares.

### **Litigation Risks**

In the normal course of the Corporation's operations, it may become involved in, named as a party to, or be the subject of, various legal proceedings, including regulatory proceedings, tax proceedings and legal actions, relating to personal injuries, property damage, property taxes, land rights, the environment and contract disputes. The outcome of outstanding, pending or future proceedings cannot be predicted with certainty and may be determined adversely to the Corporation and as a result, could have a material adverse effect on the Corporation's assets, liabilities, business, financial condition and results of operations. Even if the Corporation prevails in any such legal proceeding, the proceedings could be costly and time-consuming and may divert the attention of management and key personnel from the Corporation's business operations, which could adversely affect its financial condition.

## **LEGAL PROCEEDINGS AND REGULATORY ACTIONS**

### **Legal Proceedings**

There are no legal proceedings Dynetek is or was a party to, or that any of its property is or was the subject of, during Dynetek's financial year, nor are any such legal proceedings known to Dynetek to be contemplated, that involves a claim for damages, exclusive of interest and costs, exceeding 10% of the current assets of Dynetek.

### **Regulatory Actions**

There are no:

- (a) penalties or sanctions imposed against Dynetek by a court relating to securities legislation or by a securities regulatory authority during Dynetek's financial year;
- (b) other penalties or sanctions imposed by a court or regulatory body against Dynetek that would likely be considered important to a reasonable investor in making an investment decision; and
- (c) settlement agreements Dynetek entered into before a court relating to securities legislation or with a securities regulatory authority during Dynetek's financial year.

## **INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS**

No director or executive officer of the Corporation, no person or company that beneficially owns, or controls or directs, directly or indirectly, more than 10% of any class or series of the outstanding voting securities and no associate or affiliate of any of these persons or companies, have any material interest, direct or indirect, in any transaction within the three most recently completed financial years or during the current financial year that has materially affected or is reasonably expected to materially affect the Corporation.

## **AUDITORS, TRANSFER AGENT AND REGISTRAR**

The auditors of the Corporation are Deloitte & Touche LLP.

Canadian Stock Transfer Company Inc., at its principal offices in Calgary, Alberta; Toronto, Ontario and Montreal, Quebec, is the registrar and transfer agent for the Common Shares.

## **MATERIAL CONTRACTS**

Except for contracts entered into in the ordinary course of business, the Corporation has not entered into any material contract in the most recently completed financial year or in the current financial year nor does the Corporation have any material contracts entered into before the most recently completed financial year which are still in effect.

## **INTEREST OF EXPERTS**

There is no person or company whose profession or business gives authority to a statement made by such person or company and who is named as having prepared or certified a statement, report, valuation or opinion described or included in a filing, or referred to in a filing, made under NI 51-102 by the Corporation during, or related to, the Corporation's most recently completed financial year other than Deloitte & Touche LLP, the Corporation's auditors. Deloitte & Touche LLP is independent of the Corporation within the meaning of the Rules of Professional Conduct of the Institute of Chartered Accountants of Alberta.

In addition, none of the aforementioned persons or companies, nor any director, officer or employee of any of the aforementioned persons or companies, is or is expected to be elected, appointed or employed as a director, officer or employee of the Corporation or of any associate or affiliate of the Corporation.

## **ADDITIONAL INFORMATION**

Additional information relating to the Corporation can be found on SEDAR at [www.sedar.com](http://www.sedar.com). Additional information, including directors' and officers' remuneration and indebtedness, principal holders of securities and securities authorized for issuance under equity compensation plans, will be contained in the Corporation's information circular for the annual meeting of shareholders expected to be held on or around June 1, 2011. Additional financial information is provided for in the financial statements and management's discussion and analysis for the year ended December 31, 2010.

## **SCHEDULE "A"**

### **DYNETEK INDUSTRIES LTD.**

### **AUDIT COMMITTEE CHARTER**

November 11, 2008

#### **1. PURPOSE**

1.1 The Audit Committee (the "Committee") of the Board of Directors (the "Board") of Dynetek Industries Ltd. (the "Corporation") is established by the Board for the purpose of overseeing the accounting and financial reporting processes of the Corporation and the audits of the financial statements of the Corporation.

#### **2. COMPOSITION**

2.1 The Committee will be composed of a minimum of three (3) members.

2.2 Every member of the Committee must be a director of the Corporation.

2.3 Every member of the Committee must be independent and financially literate within the meaning of, and subject to the limited exceptions contained in, MI 52-110 Audit Committees.

2.4 The members of the Committee will choose one of its members to serve as Chair, who is responsible for chairing all meetings of the Committee and for providing reports to the Board.

#### **3. RESPONSIBILITIES**

3.1 The Corporation will require its external auditor to report directly to the Committee.

3.2 The Committee will recommend to the Board:

(a) the external auditor to be nominated for the purpose of preparing or issuing an auditor's report or performing other audit, review or attest services for the Corporation; and

(b) the compensation of the external auditor.

3.3 The Committee will be directly responsible for overseeing the work of the external auditor engaged for the purpose of preparing or issuing an auditor's report or performing other audit, review or attest services for the Corporation, including the resolution of disagreements between management and the external auditor regarding financial reporting.

3.4 The Committee will pre-approve all non-audit services to be provided to the Corporation or its subsidiary entities by the Corporation's external auditor (provided that the Committee may adopt policies and procedures for the pre-approval of de minimus non-audit services and for the delegation of the pre-approval of non-audit services to one or more members of the Committee, in accordance with MI 52-110 Audit Committees).

3.5 The Committee will review and provide recommendations to the Board for approval of the following:

(a) the interim unaudited and annual audited consolidated financial statements;

- (b) the interim and annual MD&A;
  - (c) the financial information contained in the interim and annual news releases of financial results and reports to shareholders;
  - (d) the financial information and the disclosure of information concerning the Committee contained in the Annual Information Form;
  - (e) the proposed audit plan for the annual audited consolidated financial statements of the Corporation; and
  - (f) the financial statements and other financial information contained in any prospectus or other securities offering document and any other public disclosure document of the Corporation.
- 3.6 The Committee will satisfy itself that adequate procedures are in place for the review of the Corporation's public disclosure of financial information extracted or derived from the Corporation's financial statements, other than the public disclosure referred to in Section 3.5, and will periodically assess the adequacy of those procedure.
- 3.7 The Committee will establish procedures for:
- (a) the receipt, retention and treatment of complaints received by the Corporation regarding accounting, internal accounting controls, or auditing matters; and
  - (b) the confidential, anonymous submission by employees of the Corporation of concerns regarding questionable accounting or auditing matters.
- 3.8 The Committee will review and approve the Corporation's hiring policies regarding partners, employees and former partners and employees of the present and former external auditor of the Corporation.
- 3.9 The Committee will review and approve any earnings guidance and any news release containing financial information based on the Corporation's financial statements prior to their release.
- 3.10 The Committee will routinely request and review management information such as Budget Variances and Cash Flow Forecasts, in order to discharge its responsibilities in assessing areas of significant risk to the Corporation.

#### **4. AUTHORITY**

- 4.1 The Committee has the authority:
- (a) to engage independent counsel and other advisors as it determines necessary to carry out its duties;
  - (b) to set and pay the compensation for any advisors employed by the Committee; and
  - (c) to communicate directly with the internal accounting staff and external auditors.

#### **5. MEETINGS**

- 5.1 The Committee will meet at least four times per year, and additionally as necessary.

- 5.2 With the approval of all Committee members, a meeting of the Committee may be conducted with any or all members of the Committee present by telephone conference call.
- 5.3 A quorum for a meeting of the Committee will be a majority of the members, present either in person or by telephone conference call.
- 5.4 Resolutions of the Committee will be carried by a majority of the votes cast by the members of the Committee at the meeting, present either in person or by telephone.
- 5.5 All members of the Board are free to attend and participate in any meetings of the Committee, but only members of the Committee are entitled to vote.
- 5.6 The Committee may invite such officers and employees of the Corporation to attend such meetings as the Committee sees fit.

**6. REMUNERATION**

- 6.1 The members of the Committee will be entitled to receive such remuneration for acting as members of the Committee as the Board may from time to time determine.