

## Dynetek Industries Ltd. Reports First Quarter 2011 Results

**Calgary, Alberta, Canada – June 9, 2011** – Dynetek Industries Ltd. (“Dynetek”), reported today its results for the three months ended March 31, 2011. The full unaudited condensed consolidated financial statements and MD&A have been filed on SEDAR at [www.sedar.com](http://www.sedar.com) and on Dynetek’s website at [www.dynetek.com](http://www.dynetek.com).

### OPERATIONAL HIGHLIGHTS

- Best first quarter cylinder and system revenue for North American operations since 2007. North American operations continue to establish new strategic alliances with major North American customers.
- Increased research and development project revenue including record sales of hydrogen valves during the first quarter.

### Financial Highlights

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

	<b>Three months ended March 31</b>	
	<b>2011</b>	<b>2010</b>
Cylinder and system sales	<b>3,084</b>	3,949
Research and development income	<b>1,251</b>	380
Interest and other income	<b>543</b>	1
Total revenue	<b>4,878</b>	4,330
EBITDA <sup>1</sup>	<b>(452)</b>	(436)
Net loss	<b>(878)</b>	(1,627)
Net loss per common share (basic and fully diluted)	<b>(0.04)</b>	(0.08)
Cash	<b>451</b>	265
Non-cash working capital <sup>1</sup>	<b>8,455</b>	11,043
Working capital <sup>1</sup>	<b>9,314</b>	11,716
Total assets	<b>32,713</b>	34,785
Long-term borrowings and finance leases	<b>4,463</b>	6,396
P,P&E and intangible expenditures	<b>213</b>	254
Cash flow deficiency from operations	<b>(1,190)</b>	(608)
Weighted average number of common shares outstanding	<b>20,959,500</b>	20,956,500

<sup>(1)</sup> EBITDA, non-cash working capital and working capital are non-GAAP financial measures and defined on page 11 and 12 in the section “Reconciliation of non-GAAP Financial Measures” of the MD&A.

Cylinder and system sales for the three months ended March 31, 2011 were \$3.1 million, a decrease of 22%, from \$3.9 million for the first quarter of 2010. The decrease was the result of

lower cylinder and system orders from European bus manufacturers, major customers of the European operations. Since the fourth quarter of 2010, the European bus manufacturers have experienced lower capital expenditures from European customers including European municipalities.

(thousands of Canadian dollars)  
(unaudited)

	<b>Three months ended March 31</b>	
	<u>2011</u>	<u>2010</u>
<b>Cylinder and system sales</b>		
European operations	<b>1,237</b>	3,262
North American operations	<b>1,847</b>	687
	<u><b>3,084</b></u>	<u>3,949</u>

The North American operations increased its first quarter sales from \$0.7 million in 2010, to \$1.9 million in 2011, an increase of \$1.2 million. The North American operations continue to implement its revised sales focus that was developed in 2010 which has resulted in establishing new strategic alliances with major customers and increased revenue since the start of 2010.

Research and development income for the three months ended March 31, 2011 was \$1.3 million, an increase of 229%, from \$0.4 million for the same period in 2010. The 2011 first quarter increase in research and development income, which includes a record for quarterly sales of its hydrogen valves, reflects the milestone billings for research contracts that began during the fourth quarter of 2010 and which will continue through 2011.

Dynetek's research and development team continues to attract significant new hydrogen projects. Projects include agreements to develop and certify a new hydrogen cylinder to be used in pre-production passenger vehicles for both a European based Original Equipment Manufacturer ("OEM") and an Asian OEM. With the increased activity and demand for hydrogen products and services, it is forecasted that Dynetek's research and development revenue for fiscal 2011 will exceed that of 2010 and 2009.

Interest and other income for the period ended March 31, 2011 includes a \$0.5 million settlement of the remaining government contribution agreement. Certain conditions were met by the Company, constituting settlement of long-term borrowing, which was then recognized as other income.

Gross profit was \$0.6 million for the quarter which was comparable to the first quarter of 2010. Corresponding gross profit percentage for the quarter was 2% of sales compared to 14% of sales for the same period of 2010. The decrease was the result of lower margins associated with research and development projects in progress, increased pricing for major raw materials and lower recovery of fixed costs which were partially offset by the settlement of \$0.5 million from the government contribution agreement.

EBITDA for the first quarter of 2011, (\$0.4 million) was comparable to EBITDA for the first quarter of 2010. Net loss for the three months ended March 31, 2011 improved to (\$0.9) million or (\$0.04) per common share compared to the net loss of (\$1.6) million or (\$0.08) per common share from the first quarter of 2010, due to recording a foreign exchange gain in the first quarter of 2011 compared to the a foreign exchange loss in the same quarter of 2010.

Dynetek continues to maintain sufficient levels of liquidity. At March 31, 2011 working capital was \$9.3 million compared to \$11.7 million at March 31, 2010 which allowed Dynetek to increase its operating line of credit availability by \$1.5 million to fund additional working capital requirements for forecasted sales in the third and fourth quarter.

## **OUTLOOK**

Dynetek is focused on generating increased worldwide sales from its commercialized CNG products and continuing to develop opportunities in the long-term hydrogen market through research and development activities with the global OEMs. Dynetek also continues to develop applications for its cylinders in the bulk transportation and stationary storage segments.

Geographic expansion will be the main driver of worldwide sales growth. While Europe and North America continue to provide the majority of near term sales, Dynetek is actively expanding its presence in the Asia-Pacific market through its expanding joint venture relationships.

The Asia-Pacific market represents significant opportunity for revenue growth. Demand for CNG cylinders in Asia-Pacific market is expected to increase materially over the next 5 years. Estimates are by 2015, there will be an additional 7.9 million natural gas vehicle equivalents in Asia-Pacific compared to only 0.8 million additional in Europe and 0.2 million additional in North America.

The Korean joint venture with Sejung Co. Ltd. represents significant progress in accessing this important market. In addition to Korea, Dynetek cylinders are now fully certified in India and a letter of intent with a potential joint venture partner in India has been executed. The Company expects to have the joint venture finalized in 2011 with initial sales coming in the second half of 2011.

Discussions are underway with potential Chinese joint venture partners and it remains the Company's intent to establish a Chinese joint venture by the end of the second half of 2011. Dynetek is continuing to explore additional opportunities to expand its clean technology footprint.

## **ABOUT DYNETEK**

Dynetek Industries Ltd. is a world-leading participant in the global clean technology space and a leader in the design and manufacture of proprietary fuel storage systems. Dynetek designs, produces and markets one of the lightest and most advanced fuel storage and refueling systems for compressed natural gas, low emission vehicles and compressed hydrogen, zero-emission fuel cell vehicles. Dynetek is recognized around the world for its solutions-of-choice to the alternate fuel vehicle sector, evidenced by strategic relationships with major manufacturers around the globe. Dynetek is listed on the Toronto Stock Exchange, symbol: DNK.

## **FORWARD LOOKING STATEMENTS**

*In addition to historical information, this news release contains forward-looking statements and should be read in conjunction with the financial statements and related notes for the year ended December 31, 2010 and quarterly interim financial statements for 2011. Readers are encouraged to review the section in the annual 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.*

*Certain information set forth in this document contains forward-looking statements or information ("forward-looking statements"). Forward-looking statements are not based on historical facts, but rather reflect management's expectations regarding future plans and intentions, growth, results of operations, performance and business prospects and opportunities. The use of any of the words "plan", "expect", "project", "intend", "believe", "should", "anticipate", "estimate" or other similar words, or statements that certain events or conditions "may" or "will" occur are typically intended to identify forward-looking statements. Forward-looking statements contained in this document include, without limitation, expectations as to 2011 revenue and cylinder unit sales compared to 2010, timing of major deliverables under hydrogen contract, timing of finalization of Indian and Korean joint ventures, timing of establishment of a Chinese joint venture and commencement of sales and expected increase in demand for cylinders.*

*Forward-looking statements are based on a number of factors and assumptions which have been used to develop such statements but which may prove to be incorrect. Although Dynetek believes that the expectations and assumptions reflected in such forward-looking statements are reasonable, undue reliance should not be placed on forward-looking statements because Dynetek can give no assurance that such expectations and assumptions will prove to be correct. With respect to the forward-looking statements contained in this document assumptions have been made regarding, among other things: (i) industry demand; (ii) expectations regarding technology adoption rates for certain countries; (iii) the impact of governmental regulatory regimes and tax, environmental and other laws; (iv) prices of commodities; and the economic condition in certain countries. Forward-looking statements are based on current expectations, estimates and projections that involve a number of risks and uncertainties, which could cause actual results to differ materially from those anticipated and described in the forward looking statements. Such statements involve known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in such forward-looking statements including, without limitation: (i) changes in general economic, market and business conditions of certain countries; (ii) volatility in commodity prices and exchange rates; (iii) access to capital; (iv) competition for, among other things, capital and skilled personnel; and, (v) actions by governmental or regulatory authorities including changes in environmental legislation. The Company cautions that the foregoing list of assumptions, risks and uncertainties is not exhaustive. Additional information on these and other factors that could affect operations or financial results can be found in the Company's Annual Information Form available on SEDAR at [www.sedar.com](http://www.sedar.com). The Company does not undertake any obligation to publicly update or revise any forward-looking statements except as expressly required by applicable securities law.*

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# **Dynetek Industries Ltd.**

## **Condensed Consolidated Financial Statements**

For the Three Month Period Ended March 31, 2011

Unaudited

**Dynetek Industries Ltd.**  
**Condensed Consolidated Statement of Comprehensive Income**

(Unaudited)

For the three month periods ended March 31

(thousands of Canadian dollars except per share amounts)

	Notes	2011	2010
<b>Revenue</b>	14	4,878	4,330
<b>Cost of sales</b>		(4,247)	(3,740)
Gross profit		631	590
<b>Expenses</b>			
General and administrative		1,218	1,266
Marketing		252	313
Finance costs	15	83	75
Foreign exchange loss (gain)		(95)	527
Share based compensation		51	36
		1,509	2,217
<b>Loss before taxes</b>		(878)	(1,627)
<b>Provision for income taxes</b>		–	–
<b>Net loss for the period</b>		(878)	(1,627)
<b>Other comprehensive income (loss), net of tax</b>			
Exchange gain (loss) on translating foreign operations, net of tax (nil)		230	(498)
<b>Total comprehensive loss</b>		(648)	(2,125)
<b>Net loss per share</b>			
Basic and diluted per share	16	(0.04)	(0.08)

See accompanying notes to the unaudited condensed consolidated financial statements.

**Dynetek Industries Ltd.**  
**Condensed Consolidated Balance Sheet**

(Unaudited)  
(thousands of Canadian dollars)

	Notes	March 31, 2011	December 31, 2010	January 1, 2010
<b>Assets</b>				
<b>Current assets</b>				
Cash		451	962	1,040
Restricted cash	5	408	408	408
Trade receivables and other	6	3,959	3,737	5,628
Inventory	7	11,012	9,843	10,101
Prepaid expenses and other		410	687	442
		16,240	15,637	17,619
<b>Non-current assets</b>				
Property, plant and equipment	8	12,990	13,137	14,079
Intangible assets	9	3,483	3,550	4,418
<b>Total assets</b>		<b>32,713</b>	<b>32,324</b>	<b>36,116</b>
<b>Liabilities</b>				
<b>Current liabilities</b>				
Bank indebtedness	10	1,870	856	–
Trade payables and other		4,349	3,651	2,915
Deferred revenue		345	483	429
Current portion of borrowings and finance leases	11	362	304	863
		6,926	5,294	4,207
<b>Non-current</b>				
Long term borrowings and finance leases	11	4,463	5,109	6,548
<b>Total liabilities</b>		<b>11,389</b>	<b>10,403</b>	<b>10,755</b>
<b>Shareholders' equity</b>				
Share capital	12.1	52,423	52,423	52,422
Contributed surplus		3,136	3,085	2,910
Foreign currency translation reserve		(434)	(664)	–
Deficiency		(33,801)	(32,923)	(29,971)
		21,324	21,921	25,361
<b>Total liabilities and shareholders' equity</b>		<b>32,713</b>	<b>32,324</b>	<b>36,116</b>

See accompanying notes to the unaudited condensed consolidated financial statements.

## Dynetek Industries Ltd.

### Condensed Consolidated Statement of Changes in Equity

(Unaudited)

For the three month periods ended March 31 and the year ended December 31, 2010

(thousands of Canadian dollars, except share amounts)

	Share Capital		Contributed Surplus <sup>(a)</sup>	Foreign Currency Translation Reserve	Deficiency	Total equity
	Number of Shares issued and outstanding	Amount				
Balance at January 1, 2010	20,956,500	52,422	2,910	—	(29,971)	25,361
Net loss for the period					(1,627)	(1,627)
Other comprehensive loss, net of tax (nil)				(498)		(498)
Share based compensation expense			36			36
Balance at March 31, 2010	20,956,500	52,422	2,946	(498)	(31,598)	23,272
Net loss for the period					(1,325)	(1,325)
Other comprehensive loss, net of tax (nil)				(166)		(166)
Exercise of share options for common shares	3,000	1				1
Share based compensation expense			139			139
Balance at December 31, 2010	20,959,500	52,423	3,085	(664)	(32,923)	21,921
Net loss for the period					(878)	(878)
Other comprehensive gain, net of tax (nil)				230		230
Share based compensation expense			51			51
Balance at March 31, 2011	20,959,500	52,423	3,136	(434)	(33,801)	21,324

<sup>(a)</sup> Contributed surplus represents equity settled employee benefits which relates entirely to share options vested.

See accompanying notes to the unaudited condensed consolidated financial statements.

## Dynetek Industries Ltd.

### Condensed Consolidated Statement of Cash Flows

(Unaudited)

For the three month periods ended March 31  
(thousands of Canadian dollars)

	Notes	2011	2010
<b>Cash flows from operating activities</b>			
Loss before taxes		(878)	(1,627)
Adjustments for:			
Share based compensation expense		51	36
Depreciation from general and administrative	8	44	124
Depreciation from cost of sales	8	86	169
Amortization from general and administrative	9	163	166
Amortization from cost of sales	9	94	94
Contribution agreement settled	14	(537)	–
Interest income		(7)	(1)
Interest income received		7	1
Finance costs		83	75
Unrealized foreign exchange (gain) loss		(14)	44
		(908)	(919)
Changes in non-cash working capital:			
Trade receivables and other		(222)	871
Inventory		(1,056)	(962)
Prepaid expenses and other		277	102
Trade payables and other		698	495
Deferred revenue		(138)	77
Unrealized foreign exchange relating to non-cash working capital		159	(272)
<b>Cash from operating activities</b>		<b>(1,190)</b>	<b>(608)</b>
<b>Investing activities</b>			
Additions to property, plant and equipment		(33)	(161)
Additions to intangible assets		(180)	(93)
<b>Cash used in investing activities</b>		<b>(213)</b>	<b>(254)</b>
<b>Financing activities</b>			
Repayment of borrowings and finance leases		(61)	(116)
Finance costs paid		(83)	(75)
<b>Cash used in financing activities</b>		<b>(144)</b>	<b>(191)</b>
Unrealized foreign exchange gain (loss) on cash held in foreign currencies		22	(65)
<b>Decrease in cash (bank indebtedness)</b>		<b>(1,525)</b>	<b>(1,118)</b>
<b>Cash (bank indebtedness), beginning of period</b>		<b>106</b>	<b>1,040</b>
<b>Cash (bank indebtedness), end of period</b>		<b>(1,419)</b>	<b>(78)</b>

See accompanying notes to the unaudited condensed consolidated financial statements.

# **Dynetek Industries Ltd.**

## **Notes to the Condensed Consolidated Financial Statements**

### **For the three month periods ended March 31, 2011 and 2010**

(Unaudited)

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

#### **1. General information**

Dynetek Industries Ltd. (the “Company”), which includes its wholly-owned subsidiary Dynetek Europe GmbH (“Dynetek Germany”), designs, manufactures, and markets complete lightweight compressed gas fuel storage systems for alternative fuel technologies and industrial gas suppliers. The Company’s principal customers are Original Equipment Manufacturers (“OEM”).

The Company was incorporated under the Company Act (British Columbia) on January 18, 1990 under the name “Island Packaging Supplies Ltd.” On December 13, 1990, the Company changed its name to “Dynetek Industries Ltd.” and on June 29, 1998, the Company was continued under the Business Corporations Act (Alberta, Canada).

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

Dynetek Europe GmbH (“Dynetek Germany”) was established on December 7, 2000 and is registered with the country court of Dusseldorf, Germany under HRB 44318. The head office of Dynetek Germany is located at Breitscheider Web 117 B in Ratingen, Germany.

#### **2. Statement of Compliance**

The unaudited condensed consolidated financial statements (“financial statements”) of the Company as at March 31, 2011 and for the three month periods ended March 31, 2011 and 2010 are unaudited. In the opinion of management, all adjustments necessary to present fairly the results of these periods have been included. The adjustments made were of a normal recurring nature. Interim results may not necessarily be indicative of results for the year.

The financial statements for the three months ended March 31, 2011 and 2010, have been prepared in accordance with International Accounting Standard (IAS) 34 *Interim Financial Reporting* using the accounting policies described herein that the Company expects to adopt in its consolidated financial statements for the year ending December 31, 2011.

These are the Company’s first financial statements reported under IFRS including IFRS 1 *First Time Adoption of IFRS* (“IFRS 1”). The financial statements should be read in conjunction with the Company’s audited financial statements for the year ended December 31, 2010, which were prepared in accordance with Canadian Generally Accepted Accounting Principles (“GAAP”).

An explanation of how the transition from Canadian GAAP to IFRS as at January 1, 2010, (the “transition date”) has affected the reported balance sheet position, financial performance and cash flows of the Company, including the effects of mandatory exceptions and optional exemptions under IFRS 1 is provided in Note 20.

The financial statements were authorized for issuance by the Company’s Board of Directors on June 3, 2011.

#### **3. Significant accounting policies**

##### **3.1 Basis of preparation**

The financial statements were prepared on a historical cost basis except for certain financial instruments which are valued at fair value through profit or loss. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

The financial statements are presented in Canadian dollars.

# **Dynetek Industries Ltd.**

## **Notes to the Condensed Consolidated Financial Statements**

### **For the three month periods ended March 31, 2011 and 2010**

(Unaudited)

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

The accounting policies set out below have been applied consistently in the preparation of the financial statements for all periods presented, including the presentation of the opening balance sheet as at January 1, 2010, except for certain mandatory exceptions and optional exemptions taken pursuant to IFRS 1 as described in Note 20. Standards and interpretations not effective in the current reporting period are described in Note 4 below.

#### ***3.2 Basis of consolidation***

The financial statements include the accounts of the Company and its wholly-owned subsidiary in accordance with IAS 27 *Consolidated and Separate Financial Statements*. The Company does not have any non-controlling interest in its subsidiary. All inter-company accounts and transactions are eliminated upon consolidation.

#### ***3.3 Key sources of estimation uncertainty***

The preparation of financial statements in conformity with IFRS requires the Company's management to make estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Estimates and assumptions are reviewed on a continuous basis and are based on management's historical experience, knowledge of current conditions and other factors believed to be reasonable under the circumstances. By nature, asset valuations are subjective and do not necessarily result in precise determinations. Actual results could differ from those estimates.

Significant estimates made by the Company included net realizable value of inventory, amortization periods and useful lives of property, plant and equipment and intangible assets, net recoverable amounts of property, plant and equipment and intangible assets, valuation allowance for deferred income taxes, and assumptions regarding the going concern assessment.

#### ***3.4 Cash and cash equivalents***

Cash and cash equivalents consists of cash on deposit and highly liquid short-term interest bearing securities with maturities of 90 days or less. At March 31, 2011 and December 31, 2010, the Company had no cash equivalents, other than as described in Note 5. Cash equivalents are designated at fair value through profit or loss.

#### ***3.5 Inventory***

Inventory, which contains raw materials and supplies, work-in-progress, and finished products, are carried at the lower of cost and net realizable value. Cost is determined using the weighted average cost method and includes the cost of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. Net realizable value is determined as the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale. The cost of work-in-process and finished product inventories include the cost of materials, the cost of direct labour, and a systematic allocation of manufacturing overheads based on a normal range of capacity for each production facility.

Inventories are written down to net realizable value when the cost of inventories is estimated to be unrecoverable due to obsolescence, damage or declining selling prices. When circumstances that previously caused inventories to be written down below cost no longer exist or when there is clear evidence of an increase in selling prices, the amount of write-down previously recorded is reversed.

# Dynetek Industries Ltd.

## Notes to the Condensed Consolidated Financial Statements

### For the three month periods ended March 31, 2011 and 2010

(Unaudited)

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

#### 3.6 Intangible assets

Intangible assets are comprised of patents, certification and project costs. Intangible assets are carried at cost less accumulated amortization and any impairment losses. The Company assesses each intangible asset for legal, regulatory, contractual, competitive or other factors to determine if the expected useful life is finite. Intangible assets with a finite life are amortized over the estimated useful lives of the related assets' on a straight line basis. All intangible assets held by the Company have finite lives.

<b>Intangible asset</b>	<b>Estimated Useful Lives</b>
Patents	17 years
Certifications	5 years
Project costs	Over the life of each project

Certification costs are costs associated with obtaining product certification, whereas project costs represent capitalized project development costs that meet certain technical, financial and other requirements and are amortized over their respective periods of benefit. Research costs are expensed as incurred.

The amortization period and estimated useful lives are reviewed at least annually with any changes in estimate being accounted for on a prospective basis.

An intangible asset is derecognized on disposal, or when no future economic benefits are expected from use or disposal. Any gain or loss arising from de-recognition of an intangible asset is measured as the difference between the net disposal proceeds and the carrying amount of the asset, and is recognized in profit or loss when the asset is derecognized.

#### 3.7 Property, plant and equipment ("PP&E")

PP&E, including equipment under finance leases, are carried at cost less accumulated depreciated and any impairment losses.

Depreciation commences when the assets are available for use as intended by management and is recognized in accordance with the schedule below, to depreciate the capitalized cost of assets to their estimated residual values over their estimated useful lives. When significant parts of an asset have different expected useful lives, they are accounted for as separate components of the asset and depreciated over their estimated useful lives and depreciation method.

Land	Indefinite life and not depreciated
Building	Declining balance 4%
Leasehold improvements	Straight-line 5 years
Manufacturing equipment	Declining balance 15% and/or unit of production
Manufacturing equipment – finance lease	Straight-line 10 years
Office furniture and other equipment	Declining balance 4% to 30%
Computer software and hardware	Declining balance 25% to 30%
Manufacturing equipment under construction	Depreciation commences when the asset is available for use

**Dynetek Industries Ltd.**  
**Notes to the Condensed Consolidated Financial Statements**  
**For the three month periods ended March 31, 2011 and 2010**

(Unaudited)

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

Manufacturing equipment held under finance lease is initially recognized as an asset of the Company at its fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments using the interest rate implicit in the lease. The corresponding liability to the lessor is included in the condensed consolidated balance sheet as a finance lease obligation.

An item of PP&E is de-recognized on disposal or when no economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the de-recognition of an item of PP&E measured as the difference between the net sales proceeds and the carrying amount of the asset, is recognized in profit or loss.

**3.8 Impairment of long-lived assets**

At the end of each reporting period, the Company reviews the carrying amounts of its property, plant and equipment and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, or at least annually, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit ("CGU") to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

The recoverable amount of an asset or CGU is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted. If the recoverable amount of an asset or CGU is estimated to be less than its carrying amount, the carrying amount of the asset or CGU is reduced to its recoverable amount. An impairment loss is recognized immediately in the condensed consolidated statement of comprehensive income. Where an impairment loss subsequently reverses, the carrying value of the asset or CGU is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying value amount that would have been determined had no impairment loss been recognized for the asset or CGU in prior years. A reversal in impairment loss is recognized immediately in the condensed statement of comprehensive income.

**3.9 Income taxes**

Income tax expense represents the sum of the income tax currently payable and deferred income taxes.

Current income tax expense is the expected tax payable on taxable income for the period using tax rates that have been substantively enacted at the reporting date.

Deferred income tax assets and liabilities are determined for temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable income. Such deferred income tax assets and liabilities are not recognized if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

A deferred income tax asset is recognized for unused tax losses and credits to the extent that it is probable that future taxable income will be available against which they can be utilized. Deferred income tax assets are reviewed at the

# **Dynetek Industries Ltd.**

## **Notes to the Condensed Consolidated Financial Statements**

### **For the three month periods ended March 31, 2011 and 2010**

(Unaudited)

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

end of each reporting period and are reduced to the extent that it is no longer that the related tax benefit will be utilized.

Deferred income tax liabilities are generally recognized for all taxable temporary differences. Deferred income tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, except where the Company is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The Company is subject to taxation in various jurisdictions. There are many transactions and calculations during the course of business for which the ultimate tax determination is uncertain. The Company maintains provisions for uncertain tax positions that it believes appropriately reflect its risk. These provisions are made using the best estimate of the amount expected to be paid based on a qualitative assessment of all relevant factors. The Company reviews the adequacy of these provisions at the end of the reporting period. However, it is possible that at some future date, liabilities in excess of the Company's provisions could result from audits by, or litigation with, tax authorities. Where the final outcome of these tax-related matters is different from the amounts that were initially recorded, such differences will affect the tax provisions in the period in which such determination is made.

Current and deferred income taxes relating to items recognized directly in equity or other comprehensive income are recognized in equity or other comprehensive income and not in profit or loss. Where current tax or deferred income taxes arise from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

Deferred income tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis. As at March 31, 2011 and 2010, December 31, 2010 and January 1, 2010, no deferred income tax asset has been recognized, as it is not probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

#### ***3.10 Government contribution***

Government contributions received from government agencies are recorded as long-term borrowings (see Note 11). Repayments of the government contributions are based on future sales of products developed from the government contributions. The measurement of the amount of future sales from products developed from the government contributions cannot be reasonably measured.

When the government agency and the Company agree that certain conditions are met under each contribution agreement or if the agreement has expired, the remaining borrowing balance may be recognized as settled and recorded as revenue (see Note 14).

#### ***3.11 Revenue recognition***

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated amounts attributable to customer returns and other similar allowances, if any.

#### **Sale of cylinders and systems**

Revenue from the sale of cylinders and systems is recognized when all the following conditions are satisfied:

- the significant risks and rewards of ownership has transferred to the buyer;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the entity; and
- costs incurred or to be incurred in respect of the transaction can be measured reliably.

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#### **Research and development**

Research and development revenue is generated by projects co-funded with OEMs and sales of hydrogen valves. Revenue from projects co-funded with OEMs are classified as deferred revenue on the condensed consolidated balance sheet until such time the contractual deliverables, which are based on milestones, are met and can be reliably measured and collection is reasonably assured. Timing differences can occur between when costs are incurred and when revenue is earned.

#### **Interest and other income**

Interest and other income consists of settlement of government agency contribution agreements resulting in the reduction of long term borrowings, interest from short term interest bearing investment certificates and other miscellaneous and insignificant amounts.

#### ***3.12 Provisions***

Provisions are recognized when the Company has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows. The Company's provisions are not significant and are included in trade payables and other.

#### ***3.13 Borrowing costs***

Borrowing costs attributable to the acquisition, construction or production of qualifying asset(s) are added to the cost of those assets for periods which precede the dates the asset(s) are available for their intended use. All other borrowing costs are recognized as interest expense in the period in which they are incurred. No borrowing costs have been capitalized in property, plant and equipment.

#### ***3.14 Translation of foreign currencies***

Management has determined that the Company's functional currency is Canadian dollars and the functional currency of its wholly owned subsidiary, Dynetek Germany, is Euros. The presentation currency used for the Company's financial statements is Canadian dollars.

In preparing the financial statements of each subsidiary of the Company, transactions in currencies other than the subsidiary's functional currency (foreign currencies) are recognized at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates of exchange prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates of exchange prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences on monetary items are recognized as profit or loss in the period in which they arise except for exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is

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neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation), which are recognized initially in other comprehensive income and reclassified from equity to profit or loss on repayment of the monetary items.

For the purposes of presenting the financial statements of the Company, the assets and liabilities of Dynetek Germany are translated into Canadian dollars using exchange rates prevailing at the end of each reporting period. Equity balance sheet amounts denominated in Euros are translated using historical exchange rates. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are recognized in a foreign currency translation reserve and accumulated in equity.

#### ***3.15 Net loss per common share***

Net loss per common share is determined by dividing loss by the weighted average number of common shares outstanding during the period. Diluted loss per share amounts reflect the potential dilution that could occur if share options to purchase common shares were exercised. The treasury stock method is used to determine the dilutive effect of share options, whereby any proceeds obtained on exercise of share options are assumed to be used by the Company, to purchase common shares at the average market price during the period. The weighted average number of common shares outstanding is then adjusted by the net change.

The average market value of the Company's shares for the purposes of calculating the dilutive effect of share options is based on quoted market prices for the period during which the options are outstanding.

#### ***3.16 Share based payment arrangements***

The Company has a share option plan for directors, officers and employees. The Company uses the fair value method of accounting for such awards. Under the fair value method, the Company measures compensation cost attributable to all share options at fair value at the grant date and expenses the cost over the vesting period, on a graded vesting basis, with a corresponding increase to contributed surplus (equity). At the end of each reporting period, the Company revises its estimate of the number of options expected to vest. The impact of the revision of the original estimates, if any, is recognized in profit and loss such that the cumulative expense reflects the revised estimate with a corresponding adjustment to contributed surplus (equity). Estimates of forfeitures are determined for each option grant and revised prospectively.

Details regarding the determination of the fair value of equity-settled share-based transactions are set out in Note 12.3. Upon the exercise of share options, the Company records the consideration received, together with amounts previously recognized in contributed surplus, as an increase in share capital.

#### ***3.17 Financial instruments***

Financial assets and liabilities are recognized initially at fair value when the Company or its subsidiary of the Company becomes a party to the contractual provisions of the instrument. Fair values are based on quoted market prices from active markets, where available, otherwise fair values are estimated using valuation methodologies. Subsequent measurement of financial instruments is based on their classification and, except in limited circumstances; the classification of financial instruments is not subsequently changed.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition of the financial assets and liabilities (other than financial assets and liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or liabilities, as

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appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or liabilities at fair value through profit or loss are recognized immediately in net earnings.

Financial instruments are classified into the following specified categories: financial assets “at fair value through profit or loss (“FVTPL”)”, “held-to-maturity”, “available-for-sale (“AFS”)” financial assets, “loans and receivables”, “financial liabilities at FVTPL” and “other financial liabilities”. The classification depends on the nature and purpose of the financial instruments and is determined at the time of initial recognition. All financial instruments categorized as FVTPL are classified as held for trading and no financial instruments have been designated as FVTPL.

**Effective interest method**

The effective interest method is a method of calculating the amortized cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that discounts estimated future cash receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

Income is recognized on an effective interest rate basis for debt instruments other than those financial assets classified as at FVTPL.

**Financial instruments at FVTPL**

Financial assets are classified as at FVTPL when the financial asset is either held for trading or it is designated as at FVTPL.

A financial asset or liability is classified as FVTPL if:

- it has been acquired principally for the purpose of selling it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Company manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial instrument may also be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group’s documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and IAS 39, *Financial Instruments: Recognition and Measurement*, permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on re-measurement recognized in profit or loss. The net gain or loss recognized in profit or loss incorporates any dividends or interest earned on the

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financial asset and is included in selling, general and administrative expense. Fair value is determined in the manner described in Note 18.4.

The Company's cash and restricted cash are classified as FVTPL.

#### **Held-to-maturity financial assets**

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity dates that the Company has the intent and ability to hold to maturity. Subsequent to initial recognition, held-to-maturity investments are measured at amortized cost using the effective interest method less any repayment.

The Company does not have any financial assets classified as held-to-maturity.

#### **AFS financial assets**

AFS financial assets are non-derivatives that are either designated as AFS or are not classified as (a) loans and receivables, (b) held-to-maturity investments, or (c) financial assets at FVTPL.

Subsequent to initial measurement, AFS financial assets are stated at fair value at the end of each reporting period. Changes in the carrying amount of AFS monetary financial assets relating to changes in foreign currency rates, interest income calculated using the effective interest method and dividends on AFS equity investments are recognized in profit or loss. Other changes in the carrying amount of AFS financial assets are recognized in other comprehensive income.

The Company does not have any financial assets classified as AFS.

#### **Loans and receivables financial assets**

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are measured at amortized cost using the effective interest method, less any impairment.

The Company has classified its trade receivables and other as loans and receivables.

#### **Other financial liabilities**

Other financial liabilities are subsequently measured at amortized cost using the effective interest method.

The Company has classified its bank indebtedness, trade payable and others and long term borrowings and finance leases as other financial liabilities.

#### **Impairment of financial assets**

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. For financial assets carried at amortized cost, the amount of the impairment loss, if any, is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate. As previously stated, the Company's financial assets carried at amortized cost consist only of trade receivables and other. Any impairment determined on these financial assets reduces their carrying amount through the use of an allowance account and is recorded when an account is considered

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uncollectible. Subsequent recoveries of amounts previously written off are credited against the allowance. Changes in the carrying amount of the allowance are recognized in selling, general and administrative expenses.

#### **De-recognition of financial instruments**

The Company de-recognizes a financial asset when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. On de-recognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognized in other comprehensive income and accumulated equity is recognized in profit or loss.

The Company de-recognizes a financial liability when the Company's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability de-recognized and the consideration paid and payable is recognized in profit or loss.

#### **3.18 Joint Ventures**

A joint venture is a contractual arrangement whereby the Company and other parties undertake an economic activity that is subject to joint control (i.e. when the strategic financial and operating policy decisions relating to the activities of the joint venture require the unanimous consent of the parties sharing control).

When the Company undertakes its activities under joint venture arrangements directly, the Company's share of jointly controlled assets and any liabilities incurred jointly with other venturers are recognized in the financial statements of the relevant entity and classified according to their nature. Liabilities and expenses incurred directly in respect of interests in jointly controlled assets are accounted for on an accrual basis. Income from the sale or use of the Company's share of the output of jointly controlled assets, and its share of joint venture expenses, are recognized when it is probable that the economic benefits associated with the transactions will flow to/from the Company and their amount can be measured reliably.

Joint venture arrangements that involve the establishment of a separate entity in which each venturer has an interest are referred to as jointly controlled entities.

The Company reports its interests in jointly controlled entities using proportionate consolidation, except when the investment is classified as held for sale, in which case it is accounted for in accordance with IFRS 5, *Non-current Assets Held for Sale and Discontinued Operations*. The Company's share of the assets, liabilities, income and expenses of jointly controlled entities is combined with the equivalent items in the consolidated financial statements on a line-by-line basis.

When the Company transacts with its jointly controlled entity, profits and losses resulting from the transactions with the jointly controlled entity are recognized in the Company's financial statements only to the extent of interests in the jointly controlled entity that are not related to the Company.

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#### 4. Future accounting change

The International Accounting Standards Board (“IASB”) has issued a number of new and revised International Accounting Standards, International Financial Reporting Standards, amendments and related interpretations which are effective for the Company’s financial periods beginning on or after January 1, 2011. The following are new standards that may impact the Company in future periods:

- IFRS 7 (Revised), *Financial Instruments: Disclosures* - Amendments enhancing disclosures about transfers of financial assets (i);
- IFRS 9, *Financial Instrument: Classification and Measurement* - This is the first part of a new standard that will replace IAS 39, *Financial Instruments: Recognition and Measurement*. IFRS 9 has two measurement categories, amortized cost and fair value. All equity instruments are measured at fair value. IFRS 9 also includes guidance on financial liabilities and de-recognition of financial instruments which is similar to the guidance included in IAS 39 (ii); and
- IAS 12 (Revised), *Income Taxes* – Recovery of underlying deferred income tax assets (iii).

The Company has not yet determined what impact adopting these new standards will have on its financial statements.

- (i) Effective for annual periods beginning on or after July 1, 2011;
- (ii) Effective for annual periods beginning on or after January 1, 2013; and
- (iii) Effective for annual periods beginning on or after January 1, 2012.

The Company has not early adopted these standards, amendments and interpretations; however, the Company is currently assessing what impact the application of these standards or amendments will have on the financial statements of the Company.

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#### 5. Restricted cash

The Company has \$408 (December 31, 2010 – \$408; January 1, 2010 – \$408) in restricted cash, invested in a guaranteed investment certificate bearing interest at 0.15% per annum (December 31, 2010 – 0.15%; January 1, 2010 – 0.15%) representing funds used as security for loans between an officer and a director of the Company and a major chartered bank for the exercise of share options to purchase common shares of the Company prior to the initial public offering of the Company.

#### 6. Trade receivables and other

	March 31, 2011	December 31, 2010	January 1, 2010
Trade receivables	3,041	3,098	4,582
Allowance for doubtful accounts	(8)	(14)	–
Other receivables	926	653	1,046
	3,959	3,737	5,628

See Note 18.1 for a discussion of the Company's credit risk.

The aging of trade receivables is set out below:

	March 31, 2011	December 31, 2010	January 1, 2010
Current	1,669	1,465	2,545
Past due 0 - 30 days	1,112	1,034	840
Past due 31 - 60 days	2	343	736
Past due over 60 days	258	256	461
	3,041	3,098	4,582

The Company evaluates the ability to collect each trade receivable by counterparty. At March 31, 2011, a provision for doubtful accounts receivable of \$8 was recorded (December 31, 2010 - \$14; January 1, 2010 - \$nil) and the Company believes a majority of its trade receivables are collectable. Of the trade receivable amounts above not classified as current, \$942 has been collected subsequent to March 31, 2011 and for the period ended May 23, 2011.

Trade receivables are pledged as security for the Company's operating bank line of credit under the general security agreement (see Note 10).

Other receivables consist of goods and services and value added tax receivables and government funding receivables.

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#### 7. Inventory

	March 31, 2011	December 31, 2010	January 1, 2010
Raw materials	2,840	2,675	2,231
Work-in-progress	4,391	3,924	4,356
Finished goods	3,781	3,244	3,514
	11,012	9,843	10,101

The amount of inventory expensed to cost of sales in the three month period ended March 31, 2011 was \$2.1 million (2010 - \$2.7 million).

During the three months ended March 31, 2011, the Company did not write-down inventory to net realizable value (2010 - \$nil) or recognize a reversal of a write-down of inventory previously taken (2010 - \$nil).

Inventory is pledged as security for the Company's operating line under the general security agreement (see Note 10).

#### 8. Property, plant and equipment

	March 31, 2011	December 31, 2010	January 1, 2010
<b>Carrying amounts of:</b>			
Land	514	514	514
Building and leasehold improvements	2,386	2,395	2,537
Manufacturing equipment	8,844	8,871	9,609
Manufacturing equipment – finance leases	498	507	619
Office furniture and other equipment	426	429	500
Computer hardware and software	250	259	280
Manufacturing equipment under construction	72	162	20
	12,990	13,137	14,079

# Dynetek Industries Ltd.

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Cost	Land	Building and Leasehold improvements	Manufacturing equipment	Manufacturing equipment – finance lease	Office furniture and other equipment	Computer hardware and software	Manufacturing equipment under construction	Total
<b>Balance at</b>								
<b>January 1, 2010</b>	514	4,127	19,112	794	1,305	871	20	26,743
Additions	–	9	227	–	45	23	142	446
Effect of foreign currency exchange differences	–	(21)	(256)	(69)	(88)	–	–	(434)
<b>Balance at</b>								
<b>December 31, 2010</b>	514	4,115	19,083	725	1,262	894	162	26,755
Additions	–	4	118	–	1	–	(90)	33
Effect of foreign currency exchange differences	–	6	82	25	29	–	–	142
<b>Balance at</b>								
<b>March 31, 2011</b>	514	4,125	19,283	750	1,292	894	72	26,930
<b>Accumulated Depreciation</b>								
<b>Balance at</b>								
<b>January 1, 2010</b>	–	1,590	9,503	175	805	591	–	12,664
Depreciation expense	–	141	876	64	81	44	–	1,206
Effect of foreign currency exchange differences	–	(11)	(167)	(21)	(53)	–	–	(252)
<b>Balance at</b>								
<b>December 31, 2010</b>	–	1,720	10,212	218	833	635	–	13,618
Depreciation expense	–	15	177	26	17	9	–	244
Effect of foreign currency exchange differences	–	4	50	8	16	–	–	78
<b>Balance at</b>								
<b>March 31, 2011</b>	–	1,739	10,439	252	866	644	–	13,940

Equipment financed under finance leases is included in their respective category. See Note 11 for details of the finance lease obligations.

For the three month period ended March 31, 2011, \$44 (2010 – \$124) of depreciation expense has been recognized as selling, general and administrative expense and \$86 (2010 – \$169) of depreciation expense has been recognized as cost of sales in the condensed consolidated statement of comprehensive income.

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#### 8.1 Property, plant and equipment pledged as security

Property, plant and equipment has been pledged under a general security agreement as security for the Company's operating line of credit (see Note 10). Specific assets from property, plant and equipment have been pledged as security for the Company's mortgage borrowing. The Company is not allowed to pledge these assets as security for other borrowings or to sell them to another entity without the consent of the lenders.

In addition, the Company's obligations under finance leases (see Note 11) are secured by the lessors' title to the leased assets.

### 9. Intangible assets

	March 31, 2011	December 31, 2010	January 1, 2010
<b>Carrying amounts of:</b>			
Patents	1,750	1,793	1,964
Certifications	1,536	1,686	2,439
Projects	197	71	15
	<b>3,483</b>	<b>3,550</b>	<b>4,418</b>

Cost	Patents	Certifications	Projects	Total
<b>Balance at January 1, 2010</b>	3,222	5,388	15	8,625
Additions	–	201	56	257
Effect of foreign currency exchange differences	–	(75)	–	(75)
<b>Balance at December 31, 2010</b>	3,222	5,514	71	8,807
Additions	–	54	126	180
Effect of foreign currency exchange differences	–	22	–	22
<b>Balance at March 31, 2011</b>	3,222	5,590	197	9,009

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<b>Accumulated amortization</b>	<b>Patents</b>	<b>Certifications</b>	<b>Projects</b>	<b>Total</b>
<b>Balance at January 1, 2010</b>	1,258	2,949	–	4,207
Amortization expense	171	907	–	1,078
Effect of foreign currency exchange differences	–	(28)	–	(28)
<b>Balance at December 31, 2010</b>	1,429	3,828	–	5,257
Amortization expense	43	214	–	257
Effect of foreign currency exchange differences	–	12	–	12
<b>Balance at March 31, 2011</b>	1,472	4,054	–	5,526

For the three month period ended March 31, 2011, \$163 (2010 - \$166) of amortization expense has been recognized as selling, general and administrative expense and \$94 (2010 - \$94) of amortization expense has been recognized as cost of sales.

#### 10. Bank indebtedness

	<b>March 31, 2011</b>	<b>December 31, 2010</b>	<b>January 1, 2010</b>
Operating line of credit drawn	2,300	1,750	245
Less: Canadian cash in bank	(430)	(894)	679
Bank indebtedness	1,870	856	–

The Company has a \$4.25 million (December 31, 2010 - \$2.75 million and January 1, 2010 - \$2.75 million) operating line of credit with a major Canadian chartered bank, with which it has cash on deposit. Amounts drawn are payable on demand and bear interest at the bank prime rate plus 2.0% per annum. The operating line of credit is secured by a general security agreement, a guarantee from Dynetek Europe GmbH, a collateral mortgage and an export guarantee program guarantee in the amount of \$1.5 million from Export Development Canada. At March 31, 2011, the Company has drawn \$2.3 million on this facility (December 31, 2010 – \$1.75 million and January 1, 2010 - \$245 thousand). During the three month period ended March 31, 2011, \$24 (2010 - \$8) of interest and standby fees were paid on the operating line of credit.

At March 31, 2011 the credit agreement requires the Company to maintain a working capital ratio above 2.0:1.0, a debt to tangible net worth ratio not to exceed 1.5:1.0 and shareholders' equity in excess of \$19.0 million. Tangible net worth is defined as shareholders' equity less investments in affiliates and the carrying value of intangible assets. All financial covenants under the credit agreement were in compliance at March 31, 2011, December 31, 2010 and January 1, 2010.

On January 5, 2011, the Company negotiated a revised credit agreement with its lender requiring the Company to maintain a working capital ratio above 2.0:1.0 and shareholders' equity in excess of \$19.0 million compared to the former financial covenants at December 31, 2010 where the Company was required to maintain a working capital ratio above 2.5:1.0 and shareholders' equity in excess of \$22.0 million.

## Dynetek Industries Ltd.

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#### 11. Borrowings and finance leases

	March 31, 2011	December 31, 2010	January 1, 2010
Government contribution <sup>(a)</sup>	–	537	2,014
Finance leases <sup>(b)</sup>	299	322	509
Mortgage <sup>(c)</sup>	4,526	4,554	4,888
Total borrowings and finance leases	4,825	5,413	7,411
Less: current portion	362	304	863
	4,463	5,109	6,548

(a) Unsecured, non-interest bearing with repayment based on 3% - 5% of product related sales, payable in the following fiscal period. As such, the Company cannot determine the amount to be paid over the next five years. At March 31, 2011, certain conditions were met under the contribution agreements constituting \$537 (December 31, 2010 - \$1,478; January 1, 2010 - \$nil) as settlement of debt (see Note 14).

(b) The Company has two finance lease obligations related to manufacturing assets and a vehicle. The finance lease obligations bear interest at 7.0% and 7.7 % per annum, are repayable on a monthly basis and have original lease terms of 3 and 6 years. Upon completion of each finance lease, the Company has the option to purchase the assets. During the three month period ended March 31, 2011, \$6 (2010 – \$10) of interest was paid.

The fair value of the finance lease obligations is approximately equal to their carrying amount.

(c) The Company has a \$4.5 million mortgage of its Calgary production facility with the Business Development Bank of Canada. The mortgage has a term of 15 years and bears interest at the bank prime rate plus 2.0% per annum. Principal repayments of the mortgage began in September 2009 and the Company has exercised its option to extend repayment of principal for six months beginning February 2011. During the three month period ended March 31, 2011, \$56 (2010 -\$51) of interest was paid on the mortgage borrowing.

##### 11.1 Leasing arrangements

Finance leases relate manufacturing equipment and a vehicle with lease terms of 3 and 6 years. The Company has options to purchase these finance leases for cumulative \$50 at the conclusion of the lease agreements. The Company's obligations under finance leases are secured by the lessors' title to the leased assets. Interest rates underlying all obligations under finance leases are fixed at the respective contract dates ranging from 7.0% to 7.7%.

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#### 11.2 Finance lease liabilities

Future minimum payments under finance leases along with the balance of the obligations under finance leases are as follows:

	Minimum Lease Payments			Present Value of Minimum Lease Payments		
	March 31, 2011	December 31, 2010	January 1, 2010	March 31, 2011	December 31, 2010	January 1, 2010
Minimum lease payments due:						
Not later than one year	187	186	175	139	137	144
Later than one year and not later than five years	135	164	395	160	185	365
Later than five years	–	–	–	–	–	–
	322	350	570	299	322	509
Less future finance charges	(23)	(28)	(61)	–	–	–
Present value of obligations under finance leases	299	322	509	299	322	509
				<b>March 31, 2011</b>	<b>December 31, 2010</b>	<b>January 1, 2010</b>
Included in:						
Current portion of borrowings and finance leases			139		137	144
Long term borrowings and finance leases			160		185	365
			299		322	509

## 12. Shareholders' equity

### 12.1 Share capital

Authorized	Unlimited voting common shares with no par value Unlimited non-voting preferred shares with no par value and issuable in series
Issued and outstanding	20,959,500 (December 31, 2010 – 20,959,500 and January 1, 2010 – 20,956,500) issued and fully paid common shares Nil (December 31, 2010 – Nil and January 1, 2010 - Nil) preferred shares

### 12.2 Warrants

On August 21, 2000, the Company issued warrants to Ford Motor Company to purchase 1,174,294 common shares. The warrants have an exercise price of \$3.68 per share and vested one third immediately and thereafter in accordance with a formula based on revenue received by the Company. No warrants have been exercised to date. The warrants expire on the date which is the later of five years from the date of issuance and three years from the date such portion of the warrants become vested and provided that no expiration date shall be later than January 31, 2014. At March 31, 2011 there are 592,564 warrants (December 31, 2010 – 592,564; January 1, 2010 – 593,792) outstanding with 581,730 (December 31, 2010 – 581,730; January 1, 2010 - 580,502) having vested. The vested warrants will expire over a period from 2011 through 2014.

## Dynetek Industries Ltd.

### Notes to the Condensed Consolidated Financial Statements

#### For the three month periods ended March 31, 2011 and 2010

(Unaudited)

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

#### 12.3 Share options

The Company has one employee share option plan under which certain employees and directors are eligible to receive grants. Under the share option plan, the granted share options will vest to the holder over a three or four year period and the holder has the right to exercise those share options for a period of 5 to 10 years from the date of grant. Any options that are exercised, expire unexercised, terminated, forfeited or cancelled are available to be re-granted under the plan.

The Company's share option plan was amended on June 16, 2010 subsequent to receiving shareholder approval at the Company's annual and special meeting. The major amendments were to increase the number of common shares that could be granted under the plan and increase the amount of common shares that can be issued to insiders of the Company. The amended maximum number of common shares that can be issued is the "Share Cap" which is defined as the greater of 3,252,622 common shares or 10% of the issued and outstanding common shares at the date of grant. Prior to the amendment, the maximum number of common shares that could be issued was 2,306,625, representing approximately 11% of the 20,959,500 common shares issued. In addition, the amended number of common shares that may be issued to insiders of the Company is the Share Cap.

As at March 31, 2011, 2,883,380 (December 31, 2010 – 2,889,880 and January 1, 2010 – 1,214,500) options to purchase common shares were outstanding. An additional 369,242 (December 31, 2010 - 362,742 and January 1, 2010 – 1,092,125) options may be granted in future years under this plan, excluding those options that are available for re-granting. A summary of the Company's employee stock option plan activity is as follows:

	Number of Options	Weighted Average Price per Option
Balance January 1, 2010	1,214,500	\$0.60
Options granted	1,740,880	\$0.32
Options exercised	(3,000)	(\$0.20)
Options forfeited	(62,500)	(\$1.84)
Balance December 31, 2010	2,889,880	\$0.41
Options granted	–	–
Options exercised	–	–
Options forfeited	(6,500)	(\$0.20)
Balance March 31, 2011	<b>2,883,380</b>	<b>\$0.41</b>

For the three months ended March 31, 2011, no share options (2010 - 775,000) were granted to employees or members of the Board of Directors in accordance with the terms of the stock option plan. A forfeiture rate of 0% was assumed for options issued in the three month period ended March 31, 2010. Share options are valued using the Black-Scholes option pricing model with the following assumptions:

	March 31, 2011	March 31, 2010
Weighted average risk-free interest rate	-	0.43%
Weighted average expected life	-	5 years
Estimated expected volatility in the market price of the common shares	-	124%
Expected dividend yield	-	0%

The weighted average fair value per stock option granted for the three month period ended March 31, 2011 was nil (2010 - \$0.29) as no share options were granted.

# Dynetek Industries Ltd.

## Notes to the Condensed Consolidated Financial Statements

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## 13. Commitments

### 13.1 Leasing arrangements

Operating leases relate to the Company's buildings and certain vehicles with lease terms of between 3 and 8 years. The building lease does not contain a renewal option. During the three month period ended March 31, 2011, the Company recognized \$76 of operating lease payments as expenses (2010 - \$82).

### 13.2 Non-cancellable operating lease commitments

Non-cancellable operating lease commitments are due as follows:

	<b>March 31, 2011</b>	<b>December 31, 2010</b>
Not later than one year	229	295
Later than one year and not later than five years	656	633
Later than five years	—	—
	<b>885</b>	<b>928</b>

## 14. Revenue

Revenue for the three months ended March 31.

	<b>2011</b>	<b>2010</b>
Cylinder and systems	3,084	3,949
Research and development	1,251	380
Interest and other income	543	1
	<b>4,878</b>	<b>4,330</b>

Interest and other income includes the settlement and expiration of government agency contribution agreements which resulted in a reduction of long-term borrowings. When the contribution agreements are received, the Company records the unsecured, non-interest bearing contribution agreements as long-term borrowings. The contribution amounts are repayable annually based on 3% - 5% of related product sales. Certain conditions of the one remaining contribution agreement was met which resulted in de-recognition of the amount. A gain of \$537 (2010 - \$nil) was recorded upon de-recognition during the three month period ended March 31, 2011.

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### Notes to the Condensed Consolidated Financial Statements For the three month periods ended March 31, 2011 and 2010

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#### 15. Finance costs

Finance costs for the three months ended March 31.

	2011	2010
Interest on bank indebtedness	24	8
Interest on long term borrowing	56	51
Interest on finance leases	6	10
Other interest expense	(3)	6
	83	75

#### 16. Net loss per share

Basic and diluted net loss per share for the three months ended March 31 is as follows:

	2011	2010
Basic net loss per share	(0.04)	(0.08)
Diluted net loss per share	(0.04)	(0.08)

For the three month period ended March 31, 2011, 152,594 share options were anti-dilutive (2010 - 111,552) and were excluded from the calculation of diluted loss per share.

	2011	2010
Net loss used in the calculation of basic and diluted net loss per share	(878)	(1,627)

##### 16.1 Weighted average number of outstanding common shares

The weighted average numbers of common shares used in the calculation of basic and diluted net loss per share for the three month periods ended March 31 are as follows:

	2011	2010
Weighted average number of common shares used in the calculation of basic earnings per share	20,959,500	20,956,500
Common shares assumed issued on exercise of share options	612,387	284,500
Common shares repurchased from proceeds of exercise of share options	(459,793)	(172,948)
Anti-dilutive share options	(152,594)	(111,552)
	20,959,500	20,956,500

At March 31, 2011, 961,500 share options (December 31, 2010 - 175,000) had an exercise price in excess of the period ending closing share price of \$0.30 (December 31, 2010 - \$0.33).

# Dynetek Industries Ltd.

## Notes to the Condensed Consolidated Financial Statements For the three month periods ended March 31, 2011 and 2010

(Unaudited)

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### 17. Segment information

#### 17.1 Products and services from which reportable segments derive their revenues

Information reported to the Company's chief operating decision maker is for the purposes of resource allocation and assessment of segment performance. Information is specifically focused on the types of cylinders and systems sold and research and development projects contracted with various OEMs. The Company has one reportable segment and all information related to the reportable segment has been disclosed as part of these financial statements.

The accounting policies of its reportable segment are the same as the Company's accounting policies described in Note 3.

#### 17.1 Geographical information

The Company operates in two principal geographical areas - North America and European Union

The Company's revenue from external customers and information about its non-current assets by geographical location are detailed below for the three months ended March 31.

	Revenue from external customers		Non-current assets	
	March 31, 2011	March 31, 2010	March 31, 2011	March 31, 2010
North America	1,729	511	14,311	15,573
European Union	2,487	3,728	2,162	2,379
Other	662	91	–	–
	4,878	4,330	16,473	17,952

#### 17.2 Information about major customers

Included in revenues for the three month period ended March 31, 2011 are revenues of \$601 (2010 -\$1,243) which arose from sales to the Company's largest customer. No other customer contributed 10% or more of the Company's revenue for the three month periods ended March 31, 2011. One customer contributed 10% or more of the Company's revenue for the three month period ended March 31, 2010.

# **Dynetek Industries Ltd.**

## **Notes to the Condensed Consolidated Financial Statements**

### **For the three month periods ended March 31, 2011 and 2010**

(Unaudited)

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## **18. Financial risk management and financial instruments**

### ***Significant accounting policies***

Details of the significant accounting policies and methods adopted (including the criteria for recognition, the bases of measurement, and the bases for recognition of income and expenses), for each class of financial asset, financial liability and equity instrument are disclosed in Note 3 to the financial statements.

The Company's financial instruments are composed of cash, restricted cash, trade receivables and other, bank indebtedness, trade payables and other and long-term borrowings and finance leases, whose fair values approximate their carrying values as at March 31, 2011 due to their short-term maturities or to floating interest rates or current interest rates for financial instruments with fixed rates. Through these financial assets and liabilities, the Company is exposed to credit risk, market risk and liquidity risk. The following analysis provides a measurement of these risks as at the balance sheet date of March 31, 2011.

The objective of the Company's financial risk management practices is to reduce volatility in cash flow and earnings. The Company does not use derivative financial instruments to manage its risks.

### ***18.1 Credit risk***

The Company is exposed to credit risk through: the possibility that certain customers may default on their financial obligations; concentration of transactions with the same party; or concentration of financial obligations which have similar economic characteristics which can be similarly affected by changes in economic conditions.

The Company is exposed to credit risk of its trade receivables through the possibility that certain customers may default on their financial obligations and concentration of transactions with the same party. Customers are granted unsecured credit subject to the Company's credit approval requirements prior to acceptance of a purchase order by the Company. Credit terms vary from cash on delivery to 90 days depending on the credit risk of each customer as assessed by management. Each customer has a credit limit established by management and once the customer reaches the credit limit, shipments are halted until payments are made. The Company can request collateral such as a guarantee or letter of credit, before acceptance of a purchase order. In addition, certain trade receivables are insured through Export Development Canada. Management believes its concentration of credit risk with respect to accounts receivable is limited due to the credit quality of its customers.

At March 31, 2011, the Company's cash and restricted cash are on deposit with a Canadian chartered bank and two German financial institutions. Trade receivables are normally from OEMs, the majority being bus manufacturers. As at March 31, 2011, the Company has trade receivables outstanding from two customers (December 31, 2010 - three customers; January 1, 2010 - three customers) each greater than 10% of the Company's outstanding trade receivable balance. The maximum exposure to credit risk for cash, restricted cash and accounts receivable is represented by the carrying amount on the balance sheet.

The Company assesses whether there has been any impairment of financial assets at the end of each reporting period. As at March 31, 2011, December 31, 2010 and January 1, 2010, management determined there was no impairment of any of the financial assets of the Company, other than as reflected in Notes 6 and 7.

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## **Notes to the Condensed Consolidated Financial Statements**

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#### ***18.2 Market risk***

Market risk represents the potential losses that the Company may incur as result of unfavourable fluctuations in the value of financial instruments arising from variations in the parameters underlying their evaluation, such as interest rates and foreign currency exchange rates.

#### ***Interest rate risk***

The Company's exposures to interest rates on financial assets and financial liabilities are detailed in the liquidity risk management section of this note.

Interest rate risk refers to the risk that cash flows associated with a financial instrument will fluctuate due to changes in market interest rates. The Company is exposed to interest rate cash flow risk on floating interest rate bank debt due to fluctuations in market interest rates.

At March 31, 2011, the Company has a \$4.25 million (December 31, 2010 - \$2.75 million and January 1, 2010 - \$2.75 million) line of credit with a major Canadian chartered bank. Amounts drawn on the operating bank line are payable on demand and bear interest at the bank's prime rate plus 2.0% per annum. The Company has drawn \$2.3 million on this credit facility at March 31, 2011 (December 31, 2010 - \$1.75 million and January 1, 2010 - \$245 thousand). The credit agreement requires the Company to be below a specified tangible net worth ratio, and above a specified working capital ratio and maintain shareholders' equity above \$19.0 million. On January 5, 2011, the Company negotiated a revised credit agreement with its lender reducing the former working capital ratio and maintaining shareholders' equity in excess of \$19.0 million (see Note 10).

The Company has a \$4.5 million mortgage on its Calgary production facility (see Note 11). The mortgage has a term of 15 years and bears interest at the bank's prime rate plus 2.0% per annum. Repayment of principal began in September 2009 and an option to extend repayment of principal for an additional six months was elected in February 2011. Another option to extend repayment of principal for an additional six months is available under the agreement.

The remainder of the Company's financial assets and liabilities are not exposed to interest rate risk. The Company currently does not use interest rate hedges or fixed interest rate contracts to manage the Company's exposure to interest rate fluctuations.

#### ***Interest rate sensitivity analysis***

The operating line of credit and mortgage borrowing are exposed to fluctuations in interest rates. Based on the outstanding amounts as at March 31, 2011, a 0.25% change in the interest rate would have changed the net loss of the Company during the three month period ended March 31, 2011 by \$4 (2010 - \$3) before tax effect. A sensitivity of 0.25% was selected, as this is considered reasonable given the current lending rates available.

#### ***Foreign currency risk***

The Company is exposed to foreign currency risk arising from operations and sales outside of Canada. A significant portion of the Company's revenues and expenses are denominated in United States ("US") dollars and Euros. The Company's cash flow from sales will therefore be impacted by fluctuations in foreign exchange rates.

The Company did not use foreign exchange rate hedges or fixed foreign exchange contracts to manage the Company's exposure to foreign exchange rate fluctuations for the three month periods ended March 31, 2011 and 2010.

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Based on foreign denominated financial instruments outstanding as at March 31, 2011, a \$0.05 increase or decrease in the CAD / Euro exchange rate would have changed the foreign currency translation reserve of the Company by \$236 (2010 - \$202) before tax effect and the net loss of the Company by \$146 for the three month period ended March 31, 2011 (2010 - \$203). A sensitivity of five percent was selected, as this is considered reasonable given the current level of the Canadian to Euro exchange rate and market expectations for future movements.

Based on foreign denominated financial instruments outstanding as at March 31, 2011, a \$0.05 increase or decrease in the CAD / USD exchange rate would have changed the net loss of the Company by \$78 (2010 - \$23) before tax effect. A sensitivity of five percent was selected, as this is considered reasonable given the current level of the Canadian to US dollar exchange rate and market expectations for future movements.

#### 18.3 Liquidity risk

Liquidity risk includes the risk that, as a result of the Company's operational liquidity requirements:

- The Company will not have sufficient funds to settle a transaction on the due date;
- The Company will be forced to sell financial assets at a value which is less than what they are worth; or
- The Company may be unable to settle or recover a financial asset at all.

The Company's meets its liquidity requirements by preparing and monitoring detailed forecasts of cash flows from operations and analyzing its investing and financing requirements. Operating cash requirements can fluctuate due to amounts projected to complete its existing capital expenditure program and adjustments to input variables. These input variables include but are not limited to: available bank lines, order backlog from existing customers, ability of the Company to develop new customers, raw material pricing, competitors entering the market. As these variables change, liquidity risks may necessitate the need for the Company to conduct equity issues or obtain project debt financing.

As described in Note 10, the Company has a short-term operating bank line in place to meet short-term fluctuations in cash requirements.

The following table provides Dynetek's mortgage, finance lease obligations and operating leases based on their maturity dates, including interest, at March 31, 2011 for each of the next five years and thereafter.

	<b>Total</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>Thereafter</b>
Finance leases	322	121	147	54	–	–	–
Mortgage	6,143	308	546	529	512	496	3,752
Operating leases	885	229	305	302	49	–	–
Total contractual obligations	7,350	658	998	885	561	496	3,752

#### 18.4 Fair values of financial instruments

The Company's financial instruments include cash and restricted cash, accounts receivable, accounts payable and accrued liabilities, bank indebtedness, finance leases and long-term borrowings. All financial instruments are measured at amortized cost except for cash and restricted cash which are measured at fair value. The carrying value and fair value of these financial instruments as at March 31, 2011 is disclosed below by financial instrument category.

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	Mar 31, 2011 Carrying Value	Mar 31, 2011 Fair Value	Dec 31, 2010 Carrying Value	Dec 31, 2010 Fair Value	Jan 1, 2010 Carrying Value	Jan 1, 2010 Fair Value
<b>FVTPL</b>						
Cash and restricted cash	859	859	1,370	1,370	1,448	1,448
<b>Loans and Receivables</b>						
Trade receivables and other	3,959	3,959	3,737	3,737	5,628	5,628
<b>Other Liabilities</b>						
Trade payables and other	4,349	4,349	3,651	3,651	2,915	2,915
Bank indebtedness	1,870	1,870	856	856	-	-
Contribution agreements <sup>(a)</sup>	-	-	537	406	2,014	1,372
Mortgage	4,526	4,526	4,554	4,554	4,888	4,888
Finance leases <sup>(b)</sup>	299	307	322	333	509	530

<sup>(a)</sup> The fair value of the contribution agreements is measured at amortized cost using the effective interest method. At March 31, 2011, December 31, 2010 and January 1, 2010, the cost of borrowing for equipment was 4.25 % per annum.

<sup>(b)</sup> The fair value of the finance leases is measured using the Company's cost of borrowing for equipment. At March 31, 2011, December 31, 2010 and January 1, 2010, the cost of borrowing for equipment was Euribor plus 3% per annum.

The three levels of the fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value are described below:

Level 1: Fair values based on unadjusted quoted prices in active markets that are accessible at the measurement date for identical assets or liabilities.

Level 2: Fair values based on quoted prices in markets that are not active or model inputs that are observable either directly or indirectly for substantially the full term of the asset or liability.

Level 3: Fair values based on prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement.

The following table presents the Company's fair value hierarchy for those assets and liabilities measured at fair value on a recurring basis as at March 31, 2011.

	Level 1	Level 2	Level 3	Total
<b>Financial assets at FVTPL</b>				
Cash and restricted cash	859	-	-	859

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The Company's fair value hierarchy for those assets and liabilities measured at fair value on a recurring basis as at December 31, 2010.

	Level 1	Level 2	Level 3	Total
Financial assets at FVTPL				
Cash and restricted cash	1,370	-	-	1,370

The Company's fair value hierarchy for those assets and liabilities measured at fair value on a recurring basis as at January 1, 2010.

	Level 1	Level 2	Level 3	Total
Financial assets at FVTPL				
Cash and restricted cash	1,448	-	-	1,448

#### *18.5 Supplier risk*

The Company currently relies on one supplier for certain sizes of aluminum pipe. Suppliers are chosen carefully and the Company prefers entering into strategic alliances with suppliers who provide the raw materials. The loss of any supplier, including an inability to supply raw materials, and pricing structure could have a material adverse effect on the operations and financial position of the Company.

#### *18.6 Capital risk management*

The Company's objective when managing capital is to safeguard its accumulated capital in order to maintain its ability to continue as a going concern and to provide returns to shareholders and benefits to other stakeholders. The capital structure of the Company consists of equity, long term borrowings and finance leases less cash and is summarized in the table below:

	March 31, 2011	December 31, 2010	January 1, 2010
Shareholders' equity	21,324	21,921	25,361
Borrowings and finance leases (current and long-term)	4,825	5,413	7,411
Cash	(451)	(962)	(1,040)
Total capital	25,698	26,372	31,732

The Company manages its capital structure and makes adjustments to it in light of economic conditions. The Company, upon approval from its Board of Directors, will balance its overall capital structure through new share or debt issuances or by undertaking other activities as deemed appropriate under the specific circumstances.

The Company is not subject to externally imposed capital requirements other than financial covenant ratios in the operating line of credit agreement, which requires the Company to meet three financial covenants (see Note 10). The Company's overall strategy with respect to capital risk management for the three month period ended March 31, 2011 remained unchanged from the year ended December 31, 2010.

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#### ***18.7 Other price risks***

The Company is exposed to market price risks for carbon fibre and aluminum, two of its key raw materials. The price of carbon fibre and aluminum is subject to unpredictable market factors. The Company does not currently hedge this price exposure.

A 5% increase or decrease in pricing for carbon fibre and aluminum would have changed the net loss of the Company for the three month period ended March 31, 2011 by \$54 (2010 - \$48).

#### **19. Related party transactions**

Balances and transactions between the Company and its subsidiaries, which are related parties of the Company, have been eliminated on consolidation and are not disclosed in this note. Details of transactions between the Company and other related parties are disclosed below.

- (a) For the three month period ended March 31, 2011, the Company purchased under normal terms and conditions \$632, (2010 - \$438) of material used in the production of lightweight fuel storage systems from Mitsubishi Rayon Corporation, a shareholder of the Company. Amounts due to this related party are not secured and are to be settled in cash. These amounts are included in the financial statements under trade payables and others.
- (b) During 2009, the Company's Board of Directors agreed to contract the services of its Chairman to provide financial consulting and strategic planning services to the Company. The agreement for the services was effective from August 2009 through January 2010. Under this contract, the Company paid \$29 thousand to a company controlled by the Chairman in 2010. The Company recognized this amount as a selling, general and administrative expense. Beginning February 5, 2010, the Company has employed its Chairman as Executive Chairman.

All related party transactions were in the normal course of business and have been measured at the exchange amount.

#### **20. First time adoption of IFRS (IFRS 1)**

The policies set out in the Summary of Significant Accounting Policies section have been applied in preparing the unaudited condensed consolidated financial statements for the three month period ended March 31, 2011, the comparative information presented in these condensed consolidated financial statements as at and for the three month period ended March 31, 2010, the preparation of an opening IFRS consolidated balance sheet at January 1, 2010 ("Transition Date") and the preparation of a condensed consolidated financial statements as at and for the year ended December 31, 2010.

In preparing these unaudited condensed consolidated financial statements, the Company applied the following optional exemptions and mandatory exceptions from full retrospective application of IFRS.

#### ***Applicable exemptions elected***

##### **a) Property, plant and equipment**

IFRS 1 provides the option to measure property, plant and equipment at its fair value at the date of transition and using those amounts as deemed cost or using the historical valuation as if IFRS would

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always have been applied (retrospectively). The Company has elected to apply the historical valuation cost model for property, plant and equipment.

**b) Cumulative translation differences**

IFRS 1 permits the cumulative translation account to be reset to zero at the transition date. This provides relief from determining cumulative transition differences in accordance with IAS 21, from the date a subsidiary was acquired. The Company has elected to reset the foreign currency translation reserve account to zero at the Transition Date.

#### **Exceptions that are mandated by IFRS-1**

**a) Estimates** - IFRS-1 prohibits use of hindsight to create or revise previous estimates. The estimates the Company previously made under Canadian GAAP have not been revised for application of IFRS. In preparing its opening condensed consolidated IFRS balance sheet, the Company has not adjusted amounts reported previously in financial statements prepared in accordance with Canadian GAAP.

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#### Reconciliation of Canadian GAAP to IFRS

An explanation of how the transition from Canadian GAAP to IFRS has affected the Company's financial position, financial performance and cash flows is set out in the following tables.

The consolidated balance sheets at January 1, 2010 and March 31, 2010 have been reconciled to IFRS as follows:

	Note	Canadian GAAP	Effect of transition to IFRS	IFRS	Canadian GAAP	Effect of transition to IFRS	IFRS
		January 1, 2010			March 31, 2010		
<b>Assets</b>							
<b>Current assets</b>							
Cash		1,040		1,040	265		265
Restricted cash		408		408	408		408
Trade receivables and other		5,628		5,628	4,757		4,757
Inventory	a	10,393	(292)	10,101	11,826	(763)	11,063
Prepaid expenses and other		442		442	340		340
		17,911		17,619	17,596		16,833
<b>Non-current assets</b>							
Intangible assets	a	4,452	(34)	4,418	4,285	(65)	4,220
Property, plant and equipment	a,c	14,017	62	14,079	13,885	(153)	13,732
<b>Total assets</b>		<b>36,380</b>		<b>36,116</b>	<b>35,766</b>		<b>34,785</b>
<b>Liabilities</b>							
<b>Current liabilities</b>							
Bank indebtedness		—		—	343		343
Trade payables and other		2,915		2,915	3,410		3,410
Deferred revenue		429		429	506		506
Current portion of long term borrowing and finance leases	c	841	22	863	838	20	858
		4,185		4,207	5,097		5,117
<b>Non-current</b>							
Long term borrowing and finance leases	c	6,491	57	6,548	6,348	48	6,396
<b>Total liabilities</b>		<b>10,676</b>	<b>79</b>	<b>10,755</b>	<b>11,445</b>	<b>68</b>	<b>11,513</b>
<b>Shareholders' equity</b>							
Share capital		52,422		52,422	52,422		52,422
Contributed surplus	b	2,830	80	2,910	2,866	80	2,946
Foreign currency translation reserve		—		—	—	(498)	(498)
Deficiency	a,b	(29,548)	(423)	(29,971)	(30,967)	(631)	(31,598)
		25,704		25,361	24,321		23,272
<b>Total liabilities and shareholders' equity</b>		<b>36,380</b>		<b>36,116</b>	<b>35,766</b>		<b>34,785</b>

# Dynetek Industries Ltd.

## Notes to the Condensed Consolidated Financial Statements

### For the three month periods ended March 31, 2011 and 2010

(Unaudited)

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

The consolidated balance sheet at December 31, 2010 has been reconciled to IFRS as follows:

	Note	Canadian GAAP	Effect of transition to IFRS	IFRS
<b>Assets</b>				
<b>Current assets</b>				
Cash		962		962
Restricted cash		408		408
Trade receivables and other		3,737		3,737
Inventory	a	10,593	(750)	9,843
Prepaid expenses and other		687		687
		16,387		15,637
<b>Non-current assets</b>				
Intangible assets	a	3,610	(60)	3,550
Property, plant and equipment	a,c	13,270	(133)	13,137
<b>Total assets</b>		<b>33,267</b>		<b>32,324</b>
<b>Liabilities</b>				
<b>Current liabilities</b>				
Bank indebtedness		856		856
Trade payables and other		3,651		3,651
Deferred revenue		483		483
Current portion of long term borrowing and finance leases	c	284	20	304
		5,274		5,294
<b>Non-current</b>				
Long term borrowing and finance leases	c	5,078	31	5,109
<b>Total liabilities</b>		<b>10,352</b>	<b>51</b>	<b>10,403</b>
<b>Shareholders' equity</b>				
Share capital		52,423		52,423
Contributed surplus	b	3,005	80	3,085
Foreign currency translation reserve		–	(664)	(664)
Deficiency	a,b,	(32,513)	(410)	(32,923)
		22,915		21,921
<b>Total liabilities and shareholders' equity</b>		<b>33,267</b>		<b>32,324</b>

# Dynetek Industries Ltd.

## Notes to the Condensed Consolidated Financial Statements

### For the three month periods ended March 31, 2011 and 2010

(Unaudited)

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

The consolidated statement of comprehensive income at March 31, 2010 has been reconciled to IFRS as follows:

	Note	Canadian GAAP	Effect of transition to IFRS	IFRS
<b>Revenue</b>		4,330		4,330
<b>Cost of sales</b>	d,e	(3,477)	263	(3,740)
Gross profit		853		590
<b>Expenses</b>				
General and administrative	d,e	1,535	(269)	1,266
Marketing		313		313
Finance costs	c	74	1	75
Foreign exchange loss	a	314	213	527
Share based compensation		36		36
		2,272		2,217
<b>Loss before taxes</b>		(1,419)		(1,627)
<b>Provision for income taxes</b>		–		–
<b>Net loss for the period</b>		(1,419)		(1,627)
<b>Other comprehensive income (loss), net of tax</b>				
Exchange loss on translating foreign operations, net of tax (nil)	a	–	(498)	(498)
<b>Total comprehensive loss</b>		(1,419)		(2,125)
Net loss per share				
Basic and diluted per share		(0.07)		(0.08)

# Dynetek Industries Ltd.

## Notes to the Condensed Consolidated Financial Statements

### For the three month periods ended March 31, 2011 and 2010

(Unaudited)

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

The consolidated statement of comprehensive income for the year ended December 31, 2010 has been reconciled to IFRS as follows:

	Note	Canadian GAAP	Effect of transition to IFRS	IFRS
<b>Revenue</b>		26,827		26,827
<b>Cost of sales</b>	d,e	(20,342)	(1,041)	(21,383)
Gross profit		6,485		5,444
<b>Expenses</b>				
General and administrative	c,d,e	6,917	(1,076)	5,841
Marketing		1,383		1,383
Finance costs	c	350	3	353
Loss on disposal of property, plant and equipment		2		2
Foreign exchange loss	a	623	19	642
Share based compensation		175		175
		9,450		8,396
<b>Loss before taxes</b>		(2,965)		(2,952)
<b>Provision for income taxes</b>		–		–
<b>Net loss for the period</b>		(2,965)		(2,952)
<b>Other comprehensive income, net of tax</b>				
Exchange loss on translating foreign operations, net of tax (nil)	a	–	(664)	(664)
<b>Total comprehensive loss</b>		(2,965)		(3,616)
<b>Net loss per share</b>				
Basic and diluted per share		(0.14)		(0.14)

# Dynetek Industries Ltd.

## Notes to the Condensed Consolidated Financial Statements

### For the three month periods ended March 31, 2011 and 2010

(Unaudited)

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

The consolidated statement of cash flows for the three month period ended March 31, 2010 has been reconciled to IFRS as follows:

	Notes	Canadian GAAP	Effect of transition to IFRS	IFRS
<b>Cash flows from operating activities</b>				
Loss before taxes		(1,419)	(208)	(1,627)
Adjustment for:				
Share based compensation expense		36		36
Depreciation expense		293		293
Amortization expense		260		260
Finance costs		–	75	75
Unrealized foreign exchange loss	a	266	(222)	44
		(564)		(919)
Change in non-cash working capital				
Trade receivables and other		871		871
Inventory	a	(1,433)	471	(962)
Prepaid expenses and other		102		102
Trade payables and other		495		495
Deferred revenue		77		77
Unrealized non-cash working capital foreign exchange	a	(236)	(36)	(272)
<b>Cash from operations</b>		<b>(688)</b>		<b>(608)</b>
<b>Investing activities</b>				
Additions to property, plant and equipment		(161)		(161)
Additions to intangibles		(93)		(93)
<b>Cash used in investing activities</b>		<b>(254)</b>		<b>(254)</b>
<b>Financing activities</b>				
Repayment of borrowings and finance leases	c	(111)	(5)	(116)
Financing costs paid		–	(75)	(75)
<b>Cash used in financing activities</b>		<b>(111)</b>		<b>(191)</b>
Unrealized foreign exchange gain (loss) on cash held in foreign currency		(65)		(65)
<b>Decrease in cash (bank indebtedness)</b>		<b>(1,118)</b>		<b>(1,118)</b>
<b>Cash (bank indebtedness), beginning of period</b>		<b>1,040</b>		<b>1,040</b>
<b>Cash (bank indebtedness), end of period</b>		<b>(78)</b>		<b>(78)</b>

# Dynetek Industries Ltd.

## Notes to the Condensed Consolidated Financial Statements

### For the three month periods ended March 31, 2011 and 2010

(Unaudited)

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

The consolidated statement of cash flows for the year ended December 31, 2010 has been reconciled to IFRS as follows:

	Note	Canadian GAAP	Effect of transition to IFRS	IFRS
<b>Cash flows from operating activities</b>				
Loss before taxes		(2,965)	13	(2,952)
Adjustment for:				
Share based compensation expense		175		175
Depreciation expense	c	1,194	8	1,202
Amortization expense	a	1,099	(21)	1,078
Contribution agreements settled		(1,478)		(1,478)
Loss on equipment disposal		2		2
Net inventory write-down		68		68
Finance costs		–	353	353
Unrealized foreign exchange loss	a	274	(54)	220
		(1,631)		(1,332)
Change in non-cash working capital				
Trade receivables and other		1,891		1,891
Inventory	a	(268)	458	190
Prepaid expenses and other		(245)		(245)
Trade payables and other		736		736
Deferred revenue		54		54
Unrealized non-cash working capital foreign exchange	a	(149)	(382)	(531)
<b>Cash from operations</b>		<b>388</b>		<b>763</b>
<b>Investing activities</b>				
Additions to property, plant and equipment		(449)		(449)
Additions to intangibles		(257)		(257)
<b>Cash used in investing activities</b>		<b>(706)</b>		<b>(706)</b>
<b>Financing activities</b>				
Repayment of borrowings and finance leases	c	(445)	(22)	(467)
Financing costs paid		–	(353)	(353)
Cash received on exercise of stock options		1		1
<b>Cash used in financing activities</b>		<b>(444)</b>		<b>(819)</b>
Unrealized foreign exchange loss on cash held in foreign currency		(172)		(172)
<b>Decrease in cash (bank indebtedness)</b>		<b>(934)</b>		<b>(934)</b>
<b>Cash (bank indebtedness), beginning of period</b>		<b>1,040</b>		<b>1,040</b>
<b>Cash (bank indebtedness), end of year</b>		<b>106</b>		<b>106</b>

# **Dynetek Industries Ltd.**

## **Notes to the Condensed Consolidated Financial Statements**

### **For the three month periods ended March 31, 2011 and 2010**

(Unaudited)

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

#### **Notes to the IFRS reconciliation above:**

##### ***Consolidated Balance sheet as at January 1, 2010:***

###### **(a) Foreign Currency Translation Effect on Intangibles, PP&E, Inventory and Deficiency**

Upon adopting IAS 21 *The effects of changes in foreign exchange*, the carrying amounts of intangible assets held in the Company's foreign operations in their functional currency of Euros were translated to the Company's functional currency of Canadian dollars at the closing exchange rate as of January 1, 2010. Under Canadian GAAP, intangible assets cost and accumulated amortization held in foreign operations was translated at historical exchange rates. As a result of these changes, the carrying amount of intangible assets was reduced by \$34. Intangible costs reported in Note 20 for the subsequent reporting periods March 31 and December 31, 2010, reflect the translation to Canadian dollars at the closing exchange rates for those reporting dates.

The carrying amounts of PP&E held in the Company's foreign operations in their functional currency of Euros were translated to the Company's functional currency of Canadian dollars at the closing exchange rate as of January 1, 2010. Under Canadian GAAP, PP&E cost and accumulated depreciation held in foreign operations was translated to Canadian dollars at historical exchange rates. As a result of these changes, the carrying amount of PP&E was reduced by \$31. PP&E reported in Note 20 for the subsequent reporting periods March 31 and December 31, 2010, reflect the translation to Canadian dollars at the closing exchange rates for those reporting dates.

The carrying amounts of inventory held in the Company's foreign operations in their functional currency of Euros were translated to the Company's functional currency of Canadian dollars at the closing exchange rate as of January 1, 2010. Under Canadian GAAP, non-monetary assets held in foreign operations was translated to Canadian dollars at historical exchange rates. As a result of these changes, the carrying amount of inventory was reduced by \$292. Inventory reported in Note 20 for the subsequent reporting periods March 31 and December 31, 2010, reflect the translation to Canadian dollars at the closing exchange rates for those reporting dates.

With the transition from applying the temporal method under previous Canadian GAAP to the adoption of IAS 21, the deficiency account increased by \$694 at January 1, 2010.

IFRS 1 permits the cumulative translation account to be reset to zero at the transition date. The Company elected to reset the foreign currency translation reserve to \$nil at January 1, 2010 which resulted in a decrease to the deficiency account of \$351. The foreign currency translation reserve reported in Note 20 for the subsequent reporting periods March 31 and December 31, 2010, reflect the translation of the wholly-owned subsidiary to Canadian dollars at the closing exchange rates for those reporting dates.

###### **(b) Adjustment for share based payments**

###### **Application of IFRS 2 – Share based payments**

The Company formerly recognized fair value of share based payments on a straight line basis over the vesting period. Forfeitures were recognized as they occurred. At January 1, 2010, the Company adjusted its graded vesting and forfeiture estimates are recognized in the period they are estimated and revised prospectively in future periods. As a result of these changes, the Company's deficiency balance increased by \$80.

## **Dynetek Industries Ltd.**

### **Notes to the Condensed Consolidated Financial Statements**

#### **For the three month periods ended March 31, 2011 and 2010**

(Unaudited)

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

(c) Adjustment for finance lease

The Company reviewed its agreements to determine if such agreements were to be considered financing leases or operating leases from accounting standards under IAS 17 – Leases. The Company identified an additional finance lease asset with a carrying value of \$93 and a financial lease obligation with a carrying value of \$79.

***Consolidated statement of comprehensive income (loss) as at March 31, 2010 (three month period):***

(d) Reclassification of depreciation expense to cost of sales

Under Canadian GAAP, the Company recognized depreciation expense as a separate item on its consolidated statement of operations. Under IFRS, the Company records expenses according to their function. Therefore, the Company records a portion of its depreciation expense related to manufacturing cylinders and systems to Cost of Sales with the remainder as general and administrative expense.

(e) Reclassification of amortization expense to cost of sales

Under Canadian GAAP, the Company recognized amortization expense as a separate item on its consolidated statement of operations. Under IFRS, the Company records expenses according to their function. Therefore, the Company records a portion of its amortization expense related to manufacturing its products to Cost of Sales with the remainder as general and administrative expense.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

*The following sets out management's discussion and analysis of the financial position of Dynetek Industries Ltd. ("Dynetek" or "the Company") as at March 31, 2011 and December 31, 2010 and results of operations for the three months ended March 31, 2011 and 2010 and is based on information available as at May 31, 2011. The interim management's discussion and analysis ("MD&A") updates Dynetek's 2010 annual MD&A, 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 Dynetek's annual MD&A.*

*Effective January 1, 2011, Dynetek has adopted International Financial Reporting Standards ("IFRS") as its basis of financing reporting commencing with the interim financial statements for the three months ended March 31, 2011 and using January 1, 2010 as the IFRS transition date. Note 20 of the March 31, 2011 unaudited condensed consolidated financial statements discloses the impact of the transition to IFRS on Dynetek's reported financial position, operations and cash flows including the nature and effect of changes in accounting policies from those used in Dynetek's Canadian generally accepted accounting principles ("GAAP") for the year ended December 31, 2010. The adoption of IFRS has not had an impact on the Company's reported cash flows; however, there have been material impacts on its consolidated balance sheets and consolidated statement of comprehensive income.*

### Non-GAAP Financial Measures

Dynetek reports its financial results in accordance with Canadian GAAP. It also occasionally uses certain non-GAAP financial measures, such as EBITDA, working capital and non-cash working capital. Dynetek defines EBITDA as earnings before finance costs, taxes, share based compensation, foreign exchange gain or loss, depreciation, and amortization. Dynetek defines non-cash working capital as current assets less cash, restricted cash and current liabilities and working capital as current assets less current liabilities. These non-GAAP financial measures are always clearly indicated. The Company believes that these non-GAAP financial measures provide investors and analysts with useful information so that they can better understand the financial results and perform a better analysis of the Company's growth and profitability potential. Since non-GAAP financial measures do not have a standardized definition, they may differ from the non-GAAP financial measures used by other companies. The Company strongly encourages investors to review its financial statements and other publicly filed reports in their entirety and not rely on a single non-GAAP financial measure. A reconciliation of non-GAAP financial measures from the condensed consolidated balance sheets and condensed consolidated statements of comprehensive income is provided in the section Reconciliation of non-GAAP Financial Measures.

**Financial Highlights**

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

(unaudited)	<b>Three months ended March 31</b>	
	<b>2011</b>	2010
<b>Revenue</b>		
Cylinder and system	<b>3,084</b>	3,949
Research and development	<b>1,251</b>	380
Interest and other income	<b>543</b>	1
<b>Total Revenue</b>	<b>4,878</b>	4,330
Net loss	<b>(878)</b>	(1,627)
Net loss per common share (basic and fully diluted)	<b>(0.04)</b>	(0.08)
EBITDA <sup>1</sup>	<b>(452)</b>	(436)
Cash flow deficiency from operations	<b>(1,190)</b>	(608)
Property, plant and equipment and intangible expenditures	<b>213</b>	254
Cash	<b>451</b>	265
Non-cash working capital <sup>1</sup>	<b>8,455</b>	11,043
Working capital <sup>1</sup>	<b>9,314</b>	11,716
Total assets	<b>32,713</b>	34,785
Long-term borrowings and finance leases	<b>4,463</b>	6,396
Weighted average number of common shares outstanding	<b>20,959,500</b>	20,956,500

<sup>(1)</sup> EBITDA, non-cash working capital and working capital are non-GAAP financial measures that are defined and discussed in the Non-GAAP Financial Measures section of the MD&A.

**Other Highlights**

- Increased research and development project revenue including record sales of hydrogen valves during the first quarter of 2011.
- Best Q1 cylinder and system revenue for North American operations since 2007. North American operations continue to establish new strategic alliances with major North American customers.

**Cylinder and system sales** for the three months ended March 31, 2011 were \$3.1 million, a decrease of 22%, from \$3.9 million for the same period of 2010. North American operations increased its first quarter 2011 cylinder and system revenue compared to the first quarter of 2010 but the European operations experienced a decrease in its first quarter 2011 cylinder and system revenue compared to the same quarter of 2010. The overall decrease was the result of lower cylinder and system orders from European bus manufacturers who are major customers of the European operations. Since the fourth quarter of 2010, the European bus manufacturers have experienced lower capital expenditures from European customers including European municipalities.

 (thousands of Canadian dollars)  
 (unaudited)

	<b>Three months ended March 31</b>	
	<b>2011</b>	2010
<b>Cylinder and system sales</b>		
European operations	<b>1,237</b>	3,262
North American operations	<b>1,847</b>	687
	<b>3,084</b>	3,949

The North American operation increased its first quarter sales from \$0.7 million in 2010, to \$1.9 million in 2011, an increase of \$1.2 million. The increase was in spite of a lower Canadian / US dollar exchange rate as the North American operation invoices the majority of its customers in US dollars. The North American operation continues to implement its revised sales focus that was developed in 2010 which has resulted in establishing new strategic alliances with major customers. The increased North American cylinder revenue from the first quarter continues the trend of increased sales from 2010. The North American operation experienced a 32% increase in cylinder and system revenues in fiscal 2010 compared to fiscal 2009.

**Research and development income** for the three months ended March 31, 2011 was \$1.3 million, an increase of 229%, from \$0.4 million for the same period in 2010. The 2011 first quarter increase in research and development income reflects the milestone billings for research contracts that began during the fourth quarter of 2010 and which will continue through 2011. In addition, Dynetek had record sales of its hydrogen valves during the first quarter of 2011, as the Company continues to complete delivery of its major hydrogen valve purchase orders.

Dynetek's research and development team continues to attract significant new hydrogen projects. Projects include agreements to develop and certify a new hydrogen cylinder to be used in pre-production passenger vehicles for both a European based Original Equipment Manufacturer ("OEM") and an Asian OEM. With the increased activity and demand for hydrogen products and services, including engineering, it is forecasted that Dynetek's research and development revenue for fiscal 2011 will exceed that of 2010 and 2009.

**Interest and other income** for the period ended March 31, 2011 was \$0.5 million compared to a minor amount for the same quarter of 2010. The \$0.5 million increase was the result of the settlement of the remaining government contribution agreement during the first quarter of 2011. The Company originally recorded all its contribution agreements as long-term borrowing and repayable annually based on 3% - 5% of related product sales. Certain conditions were met by the Company, constituting settlement of long-term borrowing, which was then recognized as other income.

**Cost of sales** was \$4.2 million for the three months ended March 31, 2011, compared to \$3.7 million for the same period in 2010. Cost of sales comprises materials, direct labour costs and benefits, indirect labour costs and overhead associated with the production of cylinders and research and development projects. In addition, cost of sales includes a portion of depreciation and amortization expense related from the production of cylinders and research and development projects. The increase in cost of goods sold for the first quarter of 2011 reflects the lower margins associated with research and development projects, increased pricing for major raw materials that began in the fourth quarter of 2010 and lower recovery of fixed costs due to the decrease in revenue and corresponding decrease in production from the European operation.

**Gross profit** was \$0.6 million for the three month period ended March 31, 2011 was comparable to the same period of 2010. Corresponding gross profit percentage for the three months ended March 31, 2011 was 2% of sales compared to 14% of sales for the same period of 2010. Gross profit as a percentage of sales decreased quarter over quarter due to lower margins associated with research and development projects in progress, increased pricing for major raw materials and lower recovery of fixed costs due to decreased European sales and production. The decrease in gross profit during the first quarter of 2011 was mitigated by the settlement of \$0.5 million from the last government contribution agreement.

**General and administrative expense** was \$1.2 million for the three months ended March 31, 2011, which was comparable to the same period of 2010. General and administrative expense includes labour and benefits for corporate staff, professional fees, insurance, travel and statutory expenses associated with being a publically listed company. With the transition to IFRS, general and administrative expense also includes the residual balance of depreciation and amortization expense which has not been classified to cost of sales and inventory. For the period ended March 31, 2011, depreciation and amortization expense classified to general and administrative expense was \$0.2 million compared to \$0.3 million for the same period in 2010. The decrease reflects a greater amount of depreciation which was capitalized to finished good inventory during the first quarter of 2011.

General and administrative expense as a percentage of sales for the three months ended March 31, 2011 was 28% compared to 29% for the same period of 2010. With a larger portion of general and administrative expenses being fixed costs, it is expected that general and administrative expenses as a percentage of sales will decrease as sales increase.

**Marketing expense** was \$0.25 million for the three months ended March 31, 2011 compared to \$0.3 million for the same period of 2010, a decrease of less than \$0.1 million. The decrease was the result of a decrease in European sales subject to commission agreements. Marketing expense decreased to 6% of sales for the three months ended March 31, 2011 compared to 7% for the same period of 2010 as a result of lower marketing expenditures in the first quarter of 2011.

**Financing costs** was \$0.1 million for the three months ended March 31, 2011, which was comparable to the same period of 2010. Interest expense is realized from the Company's floating interest rate debt, its mortgage and operating line of credit, and from its finance lease obligations which have a fixed interest rate.

**Foreign exchange gain** for three months ended March 31, 2011 was \$0.1 million compared to a loss of \$0.5 million for the same period of 2010. Foreign exchange gains and losses are primarily generated from the North American operation. The North American operation invoices the majority of its revenue in US dollars and to a lesser extent, Euro denominated invoices. The North American operation also incurs significant purchases of raw materials that are priced in US dollars and issues US dollar payments as settlement for these purchases.

The Company reports its results in Canadian dollars and at the end of each reporting period, will revalue its monetary items including cash, trade receivables and trade payables at the prevailing foreign exchange rates on the reporting date. The net foreign exchange gain in the first three months of 2011 was due to the strengthening of the Euro against the Canadian dollar which was offset by weakening of the US dollar against the Canadian dollar. At March 31, 2011, the exchange rates for 1 Euro was \$1.38 Canadian and for 1 US dollar was \$0.97 Canadian, compared to exchange rates at December 31, 2010 of 1 Euro worth \$1.33 Canadian and 1 US dollar worth \$0.99 Canadian.

In contrast, the exchange rates for 1 Euro was 1.37 and for 1 US dollar was 1.02 at March 31, 2010, compared to exchange rates at December 31, 2009 of 1 Euro worth \$1.50 Canadian and 1 US dollar worth \$1.05 Canadian. The appreciation of the Canadian dollar against the Euro and US dollar in the first quarter of 2010 resulted in the foreign exchange loss of \$0.5 million.

**Share based compensation** for three months ended March 31, 2011 was \$51 thousand compared to \$36 thousand in the same period of 2010. The Company issued 1.7 million stock options during 2010 of which 0.8 million occurred during the first quarter of 2010.

**Net loss** for the three months ended March 31, 2011 was (\$0.9) million or (\$0.04) per common share compared to a net loss of (\$1.6) million or (\$0.08) per common share for the comparable period of 2010. The decrease in net loss for the three months ended March 31, 2011 is substantially the result of recording a foreign exchange gain in the first quarter of 2011 compared to the foreign exchange loss of \$0.5 million for first quarter of 2010.

**Exchange gain on translating foreign operations** for the three months ended March 31, 2011 was \$0.2 million compared to an exchange loss on translating foreign operations of \$0.5 million for the comparable period of 2010. An exchange gain or loss on translating foreign operations results from the Company's investment in its wholly-owned subsidiary, Dynetek Europe GmbH. As previously stated, at March 31, 2011, the exchange rate for 1 Euro was \$1.38 Canadian compared to the exchange rate at December 31, 2010 of 1 Euro worth \$1.33 Canadian. Due to the strengthening of the Euro against the Canadian dollar, the Company's investment in its subsidiary generated a translation gain of \$0.2 million for the first three months of 2011.

In contrast, the translation loss of \$0.5 million in the first quarter of 2010, was the result of the strengthening of the Canadian dollar against the Euro. At March 31, 2010, the exchange rate for 1 Euro was \$1.33 compared to the exchange rate at December 31, 2009 of 1 Euro worth \$1.50 Canadian.

## Summary of Quarterly Results

The following table shows selected unaudited financial information for the past eight quarters ending March 31, 2011. 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 Company's audited financial statements as at December 31, 2010 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.

	previous Canadian GAAP			IFRS		
	June 30 2009	Sept 30 2009	Dec 31 2009	Mar. 31 2010	Apr 1 – Dec 31, 2010	Mar 31, 2011
(thousands of Canadian dollars except per share data)						
(unaudited)						
<b>Revenues</b>						
Cylinder and system sales	8,258	7,433	4,893	3,949	18,323	3,084
Research & development income	922	920	912	380	2,680	1,251
Investment & other income	3	1	61	1	983	543
	9,183	8,354	5,866	4,330	21,986	4,878
<b>Cost of sales</b>	(7,358)	(6,707)	(5,404)	(3,740)	(17,643)	(4,247)
<b>Gross profit</b>	1,825	1,647	462	590	4,343	631
General and administrative (G&A) plus marketing	(1,418)	(1,348)	(1,042)	(1,579)	(5,645)	(1,470)
Add: depreciation and amortization in cost of sales, G&A and inventory	-	-	-	553	1,726	387
<b>EBITDA<sup>1</sup></b>	407	299	(580)	(436)	424	(452)
Finance costs	(74)	(94)	(98)	(75)	(278)	(83)
Taxes	-	-	-	-	-	-
Share based compensation	(25)	(27)	(26)	(36)	(139)	(51)
Foreign exchange (loss) gain	62	143	(199)	(527)	(115)	95
Depreciation & amortization	(584)	(595)	(823)	(553)	(1,726)	(387)
Loss on equipment disposal	-	-	(299)	-	(2)	-
	(621)	(573)	(1,445)	(1,191)	(2,260)	(426)
<b>Net loss</b>	(214)	(274)	(2,025)	(1,627)	(1,836)	(878)
<b>Net loss per share</b>						
Basic and fully diluted	(0.01)	(0.02)	(0.09)	(0.08)	(0.09)	(0.04)

<sup>1</sup>EBITDA is defined in the Reconciliation of non-GAAP Financial Measures section of the Management's Discussion and Analysis.

During the last eight quarters, the financial results have been impacted by fluctuations in foreign exchange as the North American operations invoices the majority of its revenue in US dollars and has significant raw material purchases denominated in US dollars. The European operations invoices in Euros. The fluctuation of the Euro also impacts the

translation of the European financial results as the Company presents its consolidated financial statements in Canadian dollars.

### **Intangible Assets and Deferred Costs - Expenditures**

(thousands of Canadian dollars - unaudited)

	<b>Three months ended</b>	
	<b>March 31</b>	
	<b>2011</b>	<b>2010</b>
Patents	-	-
Certification costs	<b>55</b>	68
Project costs	<b>125</b>	25
	<b>180</b>	93

Intangible asset expenditures for the three months ended March 31, 2011 were \$0.2 million compared to \$0.1 million for the same period of 2010. The additions for the first quarter of 2011 were due to project costs related to development of the joint ventures in India and Korea.

### **Capital Expenditures**

(thousands of Canadian dollars - unaudited)

	<b>Three months ended</b>	
	<b>March 31</b>	
	<b>2011</b>	<b>2010</b>
Manufacturing equipment	<b>118</b>	75
Building and leasehold improvements	<b>4</b>	-
Office furniture and other equipment	<b>1</b>	7
Computer hardware and software	-	13
Manufacturing equipment under construction	<b>(90)</b>	66
	<b>33</b>	161

Capital expenditures for the three months ended March 31, 2011 were \$33 thousand compared to \$161 thousand for the first quarter of 2010. The additions for the first quarter of 2011 and 2010 were primarily due to upgrades to manufacturing equipment. In the first quarter of 2011, the upgrades were placed into service and therefore also reducing the balance in manufacturing equipment under construction. The same additions in the first quarter in 2011 were started in the first quarter of 2010 and classified as manufacturing equipment under construction.

### **Financial Resources and Liquidity**

The Company's principle source of liquidity is cash generated from operations. The Company's principal liquidity requirements relate to the increase in working capital required to maintain our production, sales and research and development projects. Actual funding requirements and financing alternatives could vary depending on a number of factors, including CNG system sales on a global basis, the progress of research and development projects, the Company's ability to improve controllable costs and the development of additional relationships with strategic partners.

As at March 31, 2011, the Company had cash of \$0.5 million and had a cash flow deficiency from operations of (\$1.2) million for the period ended March 31, 2011 compared to cash of \$0.3 million and a cash flow deficiency of (\$0.6) million for the three months ended March 31, 2010. The majority of the first quarter cash flow deficiency in 2011 and 2010 was the result of increased levels of inventory as the trend is for the Company to realize greater sales after the first quarter of each year.

The Company has a \$4.25 million line of credit with a Canadian major chartered bank and the ability to fund liquidity requirements through the line of credit facility. On March 28, 2011, the borrowing limit for the operating line of credit was

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increased from \$2.75 million, to enable the Company to fund additional working capital requirements for forecasted sales in the third and fourth quarter of 2011. The borrowing limit will be reduced to \$3.5 million on September 30, 2011.

At March 31, 2011, \$2.3 million has been drawn on this credit facility, compared to \$1.75 million at December 31, 2010. The Company was in compliance with all financial covenants under the credit agreement at March 31, 2011.

The following table provides additional information on its working capital balances at March 31, 2011 as compared to December 31, 2010.

(thousands of Canadian dollars)	<b>March 31, 2011</b>	December 31, 2010	Change in working capital
Cash and restricted cash	<b>859</b>	1,370	(511)
Trade receivables and other	<b>3,959</b>	3,737	222
Inventory	<b>11,012</b>	9,843	1,169
Prepaid expenses and other	<b>410</b>	687	(277)
Bank indebtedness	<b>(1,870)</b>	(856)	(1,014)
Trade payables and other	<b>(4,349)</b>	(3,651)	(698)
Deferred revenue	<b>(345)</b>	(483)	138
Current portion of borrowings and finance leases	<b>(362)</b>	(304)	(58)
	<b>9,314</b>	10,343	(1,029)

At March 31, 2011, trade receivables and other were \$4.0 million representing an increase of \$0.2 million when compared to December 31, 2010. This minor increase is representative of the increase in research and development activities in the first quarter of March 2011 compared to the fourth quarter of 2010.

The Company's investment in inventory increased by \$1.2 million, to \$11.0 million at March 31, 2011 from \$9.8 million at December 31, 2010. The increase was the result of the North American operations increasing inventory levels to fulfill deliveries to major customers in the second quarter. The following table summarizes the inventory balance at March 31, 2011 compared to December 31, 2010.

(thousands of Canadian dollars)	<b>March 31 2011</b>	December 31 2010	Change
Raw materials	<b>2,840</b>	2,675	165
Work-in-progress	<b>4,391</b>	3,924	467
Finished goods	<b>3,781</b>	3,244	537
	<b>11,012</b>	9,843	1,169

Finished goods, substantially represented by confirmed orders to be delivered, increased by \$0.5 million to \$3.8 million. The Company forecasts greater cylinder and system revenue in the remaining quarters. Additional hydrogen cylinders have been manufactured in advance, to facilitate the remaining hydrogen fuel storage systems that must be built in 2011 to fulfill a major research and development contract. Raw materials increased by \$0.2 million to \$2.8 million as a result of increases of carbon fibre and aluminum pipe being held for production. Work-in-progress inventory increased to \$4.4 million from \$3.9 million at December 31, 2010 as more North American production jobs were in progress and will be converted to finished goods during the second quarter.

Trade payables and other at March 31, 2011 were \$4.4 million, compared to \$3.7 million as at December 31, 2010. This increase is representative of the increase in materials required to produce additional inventory in the first quarter of 2011 and the increase in research and development expenditures to support the start-up of projects.

The current portion of borrowings and finance leases relates to a \$4.5 million mortgage with the Business Development Bank of Canada ("BDC") and two finance lease obligations with a carrying value of \$0.3 million. The finance lease

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obligations relate to production equipment and a vehicle at the European operation. The Company will repay \$0.2 million against the BDC mortgage principal over the next twelve months. In January 2011, the Company exercised its option to

extend repayment of principal for six months beginning February 2011. Another option to extend repayment of principal for an additional six months is available under the mortgage agreement.

## Contractual Obligations and Commitments

The following table provides the Company's contractual obligations at March 31, 2011 for each of the next five years and thereafter. The table also includes interest from the Company's long-term borrowings and finance lease repayments.

	<b>Total</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>Thereafter</b>
Finance leases	322	121	147	54	-	-	-
Mortgage	6,143	308	546	529	512	496	3,752
Operating leases	885	229	305	302	49	-	-
<b>Total contractual obligations</b>	<b>7,350</b>	<b>658</b>	<b>998</b>	<b>885</b>	<b>561</b>	<b>496</b>	<b>3,752</b>

## Financial Risk Management and Financial Instruments

The Company has identified financial assets and liabilities that qualify for recognition under IFRS. For information on the Company's financial risk management and financial instruments, see note 18 of the audited consolidated financial statements for the year ended December 31, 2010 as well as note 18 of the unaudited condensed consolidated financial statements for the period ended March 31, 2011.

## Transactions with Related Parties

Through March 31, 2011, there was one transaction with a related party which was completed in the normal course of business.

For the three months ended March 31, 2011, the Company purchased under normal terms and conditions \$0.6 million of material used in the production of lightweight fuel storage systems from Mitsubishi Rayon Corporation, a shareholder of the Company compared to \$0.2 million for the same period of 2010.

During the three month period ended March 31, 2010, the Company had an agreement with its chairman of the board where the Company received financial consulting and strategic planning services. The agreement for the services was effective from August 2009 through January 2010. For the three month period ended March 31, 2010, the Company paid \$29 thousand to a company controlled by the chairman. Beginning February 5, 2010, the Company has employed its chairman of the board as executive chairman.

## Outstanding Share Data

### Issued and outstanding:

	Number of Shares	Dollar Amount (in thousands)
<b>Balance at December 31, 2010 and March 31, 2011</b>	<b>20,959,500</b>	<b>52,423</b>
	<b>March 31 2011</b>	December 31 2010
<b>Securities convertible into common shares:</b>		
Stock options	<b>2,883,380</b>	2,889,880
Warrants	<b>592,564</b>	592,564

As at May 31, 2011, common shares outstanding were 20,959,500, stock options outstanding were 2,883,380 and warrants outstanding were 592,564.

## Internal Control Over Financial Reporting ("ICFR")

The Management of the Company, including the Certifying Officers have evaluated whether there were any changes in the Company's internal control over financial reporting during the interim period ended March 31, 2011. No material changes in the Company's internal controls and procedures have occurred during the Company's most recent interim period, which have materially affected, or are reasonably likely to materially affect, the Company's IFCR.

As reported in the Company's 2010 annual MD&A, the Company concluded that, similar to other small companies, certain inherent weaknesses in the Company's ICFR exist due to its small size and its inability to segregate incompatible functions. The risk associated with these weaknesses is associated with the Company's ability to safeguard assets.

These weaknesses in ICFR result in a more than remote likelihood that a material misstatement would not be prevented or detected on a timely basis. The existence of these weaknesses is being compensated for by Senior Management review and involvement to mitigate the risk of material misstatement. However, these mitigating procedures are not considered sufficient to reduce the likelihood that a material misstatement would not be prevented or detected. The Company currently has no plans to fully remediate these weaknesses, as Management believes that it is not currently economically feasible to achieve complete segregation of incompatible duties. As the Company grows, there would be plans to expand the number of individuals to segregate incompatible functions. It should be noted that a control system, no matter how well conceived or operated can only provide reasonable assurance, not absolute assurance, that the objectives of the control system are met.

## International Financial Reporting Standards

The unaudited condensed consolidated financial statements for the three months ended March 31, 2011 and 2010, have been prepared in accordance with International Accounting Standard ("IAS") 34 *Interim Financial Reporting* using the accounting policies that the Company expects to adopt in its consolidated financial statements for the year ending December 31, 2011. The Company's significant accounting policies are described in Note 3 of the unaudited condensed consolidated financial statements as at March 31, 2011.

The unaudited condensed consolidated financial statements as at March 31, 2011 are the Company's first unaudited condensed consolidated financial statements reported under IFRS including IFRS 1 *First Time Adoption of IFRS* ("IFRS 1"). The unaudited condensed consolidated financial statements should be read in conjunction with the Company's audited financial statements for the year ended December 31, 2010, which were prepared in accordance with previous Canadian Generally Accepted Accounting Principles.

An explanation of how the transition from Canadian GAAP to IFRS as at January 1, 2010, (the "transition date") has affected the reported balance sheet position, financial performance and cash flows of the Company, including the effects of mandatory exceptions and optional exemptions under IFRS 1 is provided in Note 20 of the condensed consolidated financial statements as at March 31, 2011.

### **Adoption of IFRS**

The January 1, 2010 and December 31, 2010 consolidated balance sheets were adjusted to reflect the following:

#### **(a) Foreign Currency Translation Effect on Intangibles, PP&E, Inventory and Deficiency**

Upon adopting IAS 21, *The effects of changes in foreign exchange*, the carrying amounts of intangible assets, property, plant and equipment and inventory, held in the Company's foreign operations in their functional currency of Euros were translated to the Company's functional currency of Canadian dollars at the closing exchange rate as of January 1, 2010. The adjustments impacted the deficiency balance. Under previous Canadian GAAP, the carrying value of intangible assets, net book value of property, plant and equipment and inventory, held in foreign operations was translated at historical exchange rates.

Under IFRS 1, the foreign currency translation reserve can be elected to be reset to zero at the transition date. The Company elected to reset its foreign currency translation reserve to zero which resulted in a decrease to the deficiency account.

#### **(b) Adjustment for share based payments – application of IFRS 2 – Share based payments**

The Company formerly recognized fair value of Share based payments on a straight line basis over the vesting period. Forfeitures were recognized as they occurred. At January 1, 2010, the Company adjusted its graded vesting and forfeiture estimates are recognized in the period they are estimated and revised prospectively in future periods.

#### **(c) Adjustment for finance lease**

The Company reviewed its agreements to determine if such agreements were to be considered financing leases or operating leases from accounting standards under IAS 17 – Leases. The Company identified an additional finance lease asset and a financial lease obligation. The financial lease asset and financial lease obligation also resulted in a minor impact to the Net loss reported in the consolidated statement of comprehensive income at December 31, 2010.

The March 31, 2010 and December 31, 2010 consolidated statement of comprehensive income were adjusted to reflect the following:

#### **(d) Reclassification of depreciation and amortization expense to cost of sales**

Under previous Canadian GAAP, the Company recognized depreciation expense as a separate item on its Consolidated Statement of Operations. Under IFRS, the Company records expenses according to their function. Therefore, the Company records a portion of its depreciation and amortization expense related to manufacturing cylinders and systems to Cost of Sales with the remainder as general and administrative expense.

## Outlook

Dynetek is focused on generating increased worldwide sales from its commercialized CNG products and continuing to develop opportunities in the long-term hydrogen market through research and development activities with the global OEMs. Dynetek also continues to develop applications for its cylinders in the bulk transportation and stationary storage segments.

Geographic expansion will be the main driver of worldwide sales growth. While Europe and North America continue to provide the majority of near term sales, Dynetek is actively expanding its presence in the Asia-Pacific market through its expanding joint venture relationships.

The Asia-Pacific market represents significant opportunity for revenue growth. Demand for CNG cylinders in Asia-Pacific market is expected to increase materially over the next 5 years. The International Gas Union issued its report, "Report on Study Group 5.3 – Natural Gas Vehicles" at the IGU World Gas Conference in October 2009, which estimated that by 2015, there will be an additional 7.9 million natural gas vehicle equivalents in Asia-Pacific compared to only 0.8 million additional in Europe and 0.2 million additional in North America.

The Korean joint venture with Sejung Co. Ltd. represents significant progress in accessing this important market. In addition to Korea, Dynetek cylinders are now fully certified in India and a letter of intent with a potential joint venture partner in India has been executed. The Company expects to have the joint venture finalized in 2011 with initial sales coming in the second half of 2011.

Discussions are underway with potential Chinese joint venture partners and it remains the Company's intent to establish a Chinese joint venture by the end of the second half of 2011. Dynetek is continuing to explore additional opportunities to expand its clean technology footprint.

## Reconciliation of non-GAAP Financial Measures

### EBITDA

GAAP Measures from Consolidated Statement of Comprehensive Income	Three months ended	
	March 31	
(thousands of Canadian dollars – unaudited)	2011	2010
Net loss for the period	(878)	(1,627)
Provision for income taxes	-	-
Share based compensation	51	36
Foreign exchange loss (gain)	(95)	527
Depreciation and amortization in general & administrative	208	290
Depreciation and amortization in cost of sales	179	263
Finance costs	83	75
<b>Non-GAAP measure - EBITDA</b>	<b>(452)</b>	<b>(436)</b>

**Working Capital and Non-Cash Working Capital**

GAAP Measures from Consolidated Balance Sheets	March 31, 2011	March 31, 2010
(thousands of Canadian dollars – unaudited)		
Trade receivables and other	<b>3,959</b>	4,757
Inventory	<b>11,012</b>	11,063
Prepaid expenses and other	<b>410</b>	340
Bank indebtedness	<b>(1,870)</b>	(343)
Trade payables and other	<b>(4,349)</b>	(3,410)
Deferred revenue	<b>(345)</b>	(506)
Current portion of borrowings and finance leases	<b>(362)</b>	(858)
<b>Non-GAAP measure – Non-Cash Working Capital</b>	<b>8,455</b>	11,043
Add: Cash and restricted cash	<b>859</b>	673
<b>Non-GAAP measure - Working Capital</b>	<b>9,314</b>	11,716

Management believes that presentation of these non-GAAP financial measures provides useful information for investors and shareholders.

**Additional information relating to Dynetek**

Additional information concerning Dynetek, including the Company's Annual Information Form, is available on SEDAR at [www.sedar.com](http://www.sedar.com) under Dynetek Industries Ltd. and the Company's website [www.dynetek.com](http://www.dynetek.com).

**FORWARD LOOKING STATEMENTS**

In addition to historical information, this MD&A contains forward-looking statements and should be read in conjunction with the financial statements and related notes for the quarterly interim financial statement for the period ended March 31, 2011, the year ended December 31, 2010 and quarterly interim financial statements for 2010. Readers are encouraged to review the section in the annual 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.

Certain information set forth in this document contains forward-looking statements or information ("forward-looking statements"). Forward-looking statements are not based on historical facts, but rather reflect management's expectations regarding future plans and intentions, growth, results of operations, performance and business prospects and opportunities. The use of any of the words "plan", "expect", "project", "intend", "believe", "should", "anticipate", "estimate" or other similar words, or statements that certain events or conditions "may" or "will" occur are typically intended to identify forward-looking statements. Forward-looking statements contained in this document include, without limitation, statements regarding: management's growth and development strategies; the number of compressed natural gas ("CNG") buses operated in foreign markets; the number of CNG buses manufactured; incentives relating to CNG applications implemented by foreign governments; foreign market trends; and demand for CNG and hydrogen cylinders.

Forward-looking statements are based on a number of factors and assumptions which have been used to develop such statements but which may prove to be incorrect. Although Dynetek believes that the expectations and assumptions reflected in such forward-looking statements are reasonable, undue reliance should not be placed on forward-looking statements because Dynetek can give no assurance that such expectations and assumptions will prove to be correct. With respect to the forward-looking statements contained in this document assumptions have been made regarding, among other things: (i) industry demand; (ii) expectations regarding technology adoption rates for certain countries; (iii) the impact of governmental regulatory regimes and tax, environmental and other laws; (iv) prices of commodities; and the economic

condition in certain countries. Forward-looking statements are based on current expectations, estimates and projections that involve a number of risks and uncertainties, which could cause actual results to differ materially from those anticipated and described in the forward looking statements. Such statements involve known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in such forward-looking statements including, without limitation: (i) changes in general economic, market and business conditions of certain countries; (ii) volatility in commodity prices and exchange rates; (iii) access to capital; (iv) competition for, among other things, capital and skilled personnel; and, (v) actions by governmental or regulatory authorities including changes in environmental legislation. The Company cautions that the foregoing list of assumptions, risks and uncertainties is not exhaustive. Additional information on these and other factors that could affect operations or financial results can be found in the Company's Annual Information Form available on SEDAR at [www.sedar.com](http://www.sedar.com). The Company does not undertake any obligation to publicly update or revise any forward-looking statements except as expressly required by applicable securities law.