

Dynetek Industries Ltd. Posts Second Quarter Profit

Calgary, Alberta, Canada – August 11, 2010 – Dynetek Industries Ltd. (“Dynetek”) reported today its results for the three and six months ended June 30, 2010. The full unaudited consolidated financial statements and MD&A have been filed on SEDAR at www.sedar.com and on Dynetek’s website at www.dynetek.com.

Financial Highlights

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

	Three months ended June 30		Six months ended June 30	
	2010	2009	2010	2009
Cylinder and system sales	9242	8258	13191	14054
Research and development income	696	922	1076	1979
Investment and other income	-	3	1	6
Total revenue	9938	9183	14268	16039
EBITDA ⁽¹⁾	891	407	449	408
Net Income (loss)	117	(214)	(1302)	(1123)
Net Income (loss) per common share (basic and fully diluted)	0.01	(0.01)	(0.06)	(0.05)
Cash	290	99	290	99
Non-cash working capital ⁽¹⁾	12119	14845	12119	14845
Working capital ⁽¹⁾	12817	15352	12817	15352
Total assets	37372	41010	37372	41010
Long-term debt and capital lease	6206	6812	6206	6812
Capital and intangible expenditures	250	15	504	233
Cash flow (deficiency) from operations	359	(626)	(329)	(3447)
Weighted average common shares outstanding	20959203	20936500	20959203	20936500

⁽¹⁾ EBITDA, non-cash working capital and working capital are non-GAAP financial measures. Dynetek defines EBITDA as earnings before interest, taxes, stock 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. Dynetek believes 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 Dynetek’s growth and profitability potential.

OPERATIONAL HIGHLIGHTS

Cylinder and system sales for the six months ended June 30, 2010 were \$13.2 million, a decrease of 6% from \$14.1 million for the same period of 2009. Cylinder and system sales for the three months ended June 30, 2010 were \$9.2 million, an increase of \$1.0 million or 12% from \$8.2 million in 2009. The increase in cylinder and system sales in the second quarter of 2010, compared to the same quarter of 2009, was the result of stronger sales activities from its European bus manufacturer customers and major North American customers. In addition, the deferral of sales from the first quarter of 2010 into the second quarter and specific European sales which were forecasted to be realized in the third quarter of 2010, being realized in the second quarter, also contributed to the increase. The year-to-date decrease in 2010 cylinder sales, compared to 2009, reflects the appreciation of the Canadian dollar against the US dollar and Euro.

(thousands of Canadian dollars)
(unaudited)

	Three months ended June 30		Six months ended June 30	
	2010	2009	2010	2009
Cylinder and system sales				
European operations	7090	7268	10352	12145
North American operations	2152	990	2839	1909
	9242	8258	13191	14054

Dynetek's revised North American sales focus has resulted in increased cylinder unit sales in the first six months of 2010. Dynetek expects 2010 unit sales in North America to exceed 2009 unit sales.

The unit sales from the European operations have increased in the first six months of 2010 compared to the same period of 2009. However, European revenue continues to be negatively impacted by the exchange rate. Dynetek expects 2010 unit sales from its European operations to exceed 2009 European unit sales.

Research and development income for the six months ended June 30, 2010 was \$1.1 million, down 46% or \$0.9 million from the same period in 2009. Research and development income for the three months ended June 30, 2010 was \$0.7 million, down 25% or \$0.2 million from the same period in 2009. During the six months and three months ended June 30, 2010, research and development revenue was lower than the same period in 2009 due to completion of the Magna Steyr contract by December 31, 2009.

Dynetek has secured new hydrogen projects for 2010 with major deliverables to occur in the third and fourth quarter of 2010. The new projects are currently anticipated to generate a higher level of research and development income for fiscal 2010 compared to the twelve months of 2009.

Dynetek continues to maintain significant levels of working capital. At June 30, 2010 working capital was \$12.8 million compared to \$13.7 million at December 31, 2009. Maintaining significant levels of working capital will continue to allow Dynetek to fund hydrogen research and development and develop new regions that demonstrate CNG growth.

OUTLOOK

Dynetek is focused on generating 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.

Current projects underway within the research and development group are expected to result in 2010 research and development revenue exceeding 2009 research and development revenue and are evidence of the commitment on behalf of the OEMs to continue to pursue hydrogen strategies and to continue to see Dynetek as the supplier of choice.

Dynetek will continue to grow its worldwide CNG product sales. European markets will continue to provide the majority of near-term sales however the Company is working to expand sales in the North American and Asia Pacific markets.

Dynetek has refocused its North American sales strategy. The Company continues to market to its base of OEM clients and has expanded its marketing efforts to include companies operating in the dealer and after-market integrator segments. These additional segments represent a material expansion of future demand for Dynetek's products.

The Asia-Pacific market represents significant opportunity for revenue growth. Demand for CNG cylinders in Asia-Pacific markets 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. Our recently announced Korean joint venture with Sejung Co. Ltd. represents significant progress in accessing this important market. In addition to

Korea, our cylinders are now fully certified in India. We continue to evaluate joint venture partners in India with the intent of establishing a joint venture by the end of 2010.

With the expected increase in demand for cylinders over the mid term from North American and Asia Pacific markets, Dynetek has committed additional production resources and will be making near term capital investments in its Calgary production facility to ensure production capacity and reliability are sufficient to meet market demand.

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, 2009 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 CNG buses operated in foreign markets; the number of compressed natural gas ("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. 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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CONSOLIDATED BALANCE SHEETS

(thousands of Canadian dollars)
(unaudited)

	June 30	December 31
	2010	2009
ASSETS		
Current assets		
Cash	290	1,040
Restricted cash (note 2)	408	408
Accounts receivable (note 3)	8,063	5,628
Inventory (note 4)	10,380	10,393
Prepaid expenses and other	366	442
	19,507	17,911
Intangible assets and deferred costs	4,208	4,452
Capital assets	13,657	14,017
	37,372	36,380
LIABILITIES		
Current liabilities		
Bank indebtedness (note 5)	362	–
Accounts payable and accrued liabilities	4,682	2,915
Deferred revenue	793	429
Current portion of long-term debt and capital lease	853	841
	6,690	4,185
Long-term debt and capital lease	6,206	6,491
Commitments (note 9)		
SHAREHOLDERS' EQUITY		
Share capital (note 6)	52,423	52,422
Contributed surplus (note 7)	2,903	2,830
Deficit	(30,850)	(29,548)
Accumulated other comprehensive income	–	–
	24,476	25,704
	37,372	36,380

See accompanying notes to the unaudited interim consolidated financial statements

CONSOLIDATED STATEMENTS OF OPERATIONS, COMPREHENSIVE INCOME (LOSS) AND DEFICIT

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

	Three months ended		Six months ended	
	June 30		June 30	
	2010	2009	2010	2009
REVENUE				
Cylinder and system sales	9,242	8,258	13,191	14,054
Research and development income	696	922	1,076	1,979
Investment and other income	–	3	1	6
	9,938	9,183	14,268	16,039
EXPENSES				
Cost of goods sold	7,770	7,358	11,247	12,900
General and administrative	961	864	1,943	1,774
Marketing	316	554	629	957
Interest	99	74	173	143
Depreciation	295	326	588	657
Amortization	260	258	520	515
Net foreign exchange loss (gain)	83	(62)	397	166
Stock based compensation	37	25	73	50
	9,821	9,397	15,570	17,162
Income (Loss) before taxes	117	(214)	(1,302)	(1,123)
Provision for income taxes	–	–	–	–
NET INCOME (LOSS) AND COMPREHENSIVE INCOME (LOSS)	117	(214)	(1,302)	(1,123)
Deficit, beginning of period	(30,967)	(27,035)	(29,548)	(26,126)
DEFICIT, END OF PERIOD	(30,850)	(27,249)	(30,850)	(27,249)
Per Share Information				
Income (Loss) per share (basic and diluted)	0.01	(0.01)	(0.06)	(0.05)
Weighted average number of common shares outstanding (note 6)	20,959,203	20,936,500	20,959,203	20,936,500

See accompanying notes to the unaudited interim consolidated financial statements

CONSOLIDATED STATEMENTS OF CASH FLOWS

(thousands of Canadian dollars)
(unaudited)

	Three months ended		Six months ended	
	June		June	
	2010	2009	2010	2009
Cash flows provided by (used for) operating activities				
NET INCOME (LOSS)	117	(214)	(1,302)	(1,123)
Items not involving cash				
Depreciation	295	326	588	657
Amortization	260	258	520	515
Stock based compensation	37	25	73	50
Unrealized foreign exchange loss (gain)	(77)	202	189	208
	632	597	68	307
Changes in non-cash working capital				
Accounts receivable	(3,306)	(2,051)	(2,435)	(2,198)
Inventory	1,446	2,244	13	519
Prepaid expenses and other	(26)	77	76	154
Accounts payable and accrued liabilities	1,272	(978)	1,767	(1,191)
Deferred revenue	287	(360)	364	(863)
Unrealized foreign exchange loss (gain) relating to non-cash working capital	54	(155)	(182)	(175)
	359	(626)	(329)	(3,447)
INVESTING ACTIVITIES				
Additions to intangible assets and deferred costs	(183)	(40)	(276)	(202)
Additions to capital assets (net)	(67)	25	(228)	(31)
	(250)	(15)	(504)	(233)
FINANCING ACTIVITIES				
Repayment of long-term debt	(108)	(45)	(219)	(89)
Cash received on exercise of stock options	1	–	1	–
	(107)	(45)	(218)	(89)
Foreign exchange (loss) gain on cash held in a foreign currency	4	(47)	(61)	(33)
Increase (decrease) in cash (bank indebtedness)	6	(733)	(1,112)	(3,802)
Cash (bank indebtedness), beginning of period	(78)	728	1,040	3,797
Cash (bank indebtedness), end of period	(72)	(5)	(72)	(5)

Interest income received during the six-month period ended June 30, 2010 was \$1 thousand (2009 - \$6 thousand) and during the three month period ended June 30, 2010 was \$nil (2009 - \$3 thousand). Interest paid during the six-month period ended June 30, 2010 was \$149 thousand (2009 - \$127 thousand) and for the three-month period ended June 30, 2010 was \$81 thousand (2009 - \$62 thousand). Taxes paid during each of the six and three month period ended June 30, 2010 was \$nil and also \$nil for the same corresponding periods of 2009.

See accompanying notes to the unaudited interim consolidated financial statements

SELECTED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the three and six months ended June 30, 2010 and 2009

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

1. SIGNIFICANT ACCOUNTING POLICIES

The accompanying unaudited interim consolidated financial statements have been prepared by management of Dynetek Industries Ltd. ("Dynetek" or "the Company") in accordance with Canadian generally accepted accounting principles ("GAAP"). These unaudited interim consolidated financial statements do not include all disclosures required for annual financial statements and should be read in conjunction with Dynetek's audited consolidated financial statements and notes as at and for the year ended December 31, 2009. The accounting policies and methods of application used in the preparation of these unaudited interim consolidated financial statements are consistent with the accounting policies used in Dynetek's most recent audited year end consolidated financial statements.

Certain comparative amounts have been reclassified to conform to the current year's presentation.

2. RESTRICTED CASH

At June 30 2010, the Company has \$408 thousand (2009 - \$408 thousand) in restricted cash, invested in a guaranteed investment certificate bearing interest at 0.15% per annum, representing funds used as security for loans between an officer and a director of the Company and a major chartered bank for the purchase of common shares of the Company.

3. ACCOUNTS RECEIVABLE

	June 30 2010	December 31 2009
Accounts receivable – trade	6,841	4,582
Accounts receivable – other	1,222	1,046
Allowance for doubtful accounts	–	–
	8,063	5,628

The aging of trade receivables as at June 30, 2010 is set out below:

Current	4,992
Past Due 0 – 30 days	1,123
Past Due 31 – 60 days	337
Past Due over 60 days	389
	6,841

Accounts receivable - other mainly consist of goods and services and value added tax receivables and government funding receivables. The Company evaluates the ability to collect each receivable by counterparty. At June 30, 2010, the Company believes all receivables are collectable and, therefore, no provision for doubtful accounts has been made. Of the amounts above not classified as current trade receivables, \$0.9 million has been collected subsequent to June 30, 2010.

SELECTED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the three and six months ended June 30, 2010 and 2009

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

(unaudited)

4. INVENTORY

	June 30 2010	December 31 2009
Raw materials	2,834	2,126
Work-in-progress	4,313	4,815
Finished goods	3,233	3,452
	10,380	10,393

The Company measures its inventory at lower of cost and net realizable value. Cost includes the costs associated with delivering the inventory to the manufacturing plant. Work-in-progress and finished goods inventory includes costs associated with direct labour and include an allocation of fixed and variable production overhead associated with converting raw materials into finished goods. Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to realize the sale. The amount of inventory expensed for the six month period ending June 30, 2010 was \$8.7 million (2009 – \$10.2 million) and \$6.0 million (2009 - \$6.5 million) for the three month period ending June 30, 2010.

During the six month period ended June 30, 2010 and 2009, the Company did not write-down any inventory to net realizable value or reverse any write-downs previously taken. Inventory is pledged as security for the Company's operating line of credit (see note 5).

5. BANK INDEBTEDNESS

	June 30 2010	December 31 2009
Canadian cash in bank	1,643	679
Operating line of credit drawn	(2,005)	(245)
Bank indebtedness	(362)	–

The Company has a \$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 bank line is secured by an assignment of book debts, inventory and a collateral mortgage. The credit agreement requires the Company to maintain a working capital ratio above 2.5 : 1.0, shareholders' equity in excess of \$22.0 million and a debt to tangible net worth ratio not to exceed 1.5 : 1.0.

On July 9, 2010, the Company requested and received an additional \$0.85 million operating line of credit facility from the same Canadian chartered bank. The purpose of the additional credit facility is to fund additional working capital required for second and third quarter sales of 2010. Terms and security for the additional credit facility are same as the existing \$2.75 million operating line of credit. The \$0.85 million credit facility will be available to the Company until October 31, 2010.

At June 30, 2010, the Company had drawn \$2.0 million on its operating line of credit (December 31, 2009 - \$245 thousand) and was in compliance with all financial covenants under the credit agreement.

SELECTED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the three and six months ended June 30, 2010 and 2009

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

(unaudited)

6. SHARE CAPITAL

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

Issued and outstanding:

	Number of Shares	Amount
Balance at December 31, 2009	20,956,500	\$ 52,422
Stock options exercised	3,000	1
Balance at June 30, 2010	20,959,500	\$52,423

	June 30 2010	December 31 2009
Securities convertible into common shares:		
Stock options	1,948,000	1,214,500
Warrants	581,730	680,112

During the six month period ended June 30, 2010, 786,500 (2009 – 50,000) stock options were issued to employees and members of the Board of Directors and included 11,500 stock options (2009 – 50,000) issued during the three month period ended June 30, 2010. Stock options cancelled for the six month period ended June 30 2010 were 50,000 (2009 – 300,000), with nil (2009 – nil) cancelled for the three month period ended June 30, 2010.

The Board of Directors, subject to shareholder approval, approved amendments to the Company's stock option on May 11, 2010. Shareholder approval for the stock option plan amendments was received on June 16, 2010. 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. In addition, the amended number of common shares that may be issued to insiders of the Company is the Share Cap.

The weighted average number of shares outstanding for purposes of calculating basic and diluted income per share for the three and six month period ended June 30, 2010 was 20,959,203 (2009 – 20,936,500). The effect of dilutive securities with respect to stock options was anti-dilutive for the six month period ending June 30, 2010 and 2009 resulting in the same weighted average common shares outstanding on both a basic and diluted basis. For the three month period ending June 30, 2010, the dilutive securities had no dilutive effect and was anti-dilutive for the three month period ending June 30, 2009.

SELECTED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the three and six months ended June 30, 2010 and 2009

(tabular amounts in thousands of Canadian dollars, except share capital amounts)
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6. SHARE CAPITAL (continued)

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

	Six months ended June 30	
	2010	2009
Weighted average risk-free interest rate	0.61%	0.56%
Weighted average expected life	5 years	5 years
Estimated volatility in the market price of the common shares	123%	121%
Estimated dividend yield	0%	0%

The weighted average fair value per option was \$0.29 for the six months ended June 30, 2010 and \$0.21 for the comparable period of 2009.

7. CONTRIBUTED SURPLUS

The following table summarizes information about contributed surplus.

Balance at December 31, 2009	2,830
Stock based compensation expense	73
Balance at June 30, 2010	2,903

8. TRANSACTIONS WITH RELATED PARTIES

- (a) For the six and three months ended June 30, 2010, the Company purchased under normal terms and conditions \$0.9 million (2009 - \$2.5 million) and \$0.5 million (2009 - \$0.4 million) respectively, of material used in the production of lightweight fuel storage systems from Mitsubishi Rayon Corporation, a shareholder of the Company.
- (b) 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. For the three months ended March 31, 2010, the Company paid \$29 thousand to a company controlled by the chairman. No payments have been made subsequent to March 31, 2010. The Company recognized this amount as a general and administrative expense.

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

SELECTED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the three and six months ended June 30, 2010 and 2009

*(tabular amounts in thousands of Canadian dollars, except share capital amounts)
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9. COMMITMENTS

The Company has obligations under various German operating leases which requires the following minimum annual payments during the respective fiscal years:

2010	150
2011	300
2012	280
2013	278
2014	139

10. FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

(a) 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.

Customers are granted unsecured credit subject to credit approval prior to acceptance of a purchase order. 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 European customers' accounts 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 June 30, 2010, the Company's cash and restricted cash is on deposit with a Canadian chartered bank and two German financial institutions. Accounts receivable normally include bus manufacturers and Original Equipment Manufacturers ("OEM"). At June 30, 2010, the Company has trade receivables outstanding from three customers (December 31, 2009 – three customers) each greater than 10% of the Company's outstanding trade receivable balance.

The carrying value of the accounts receivable approximates their fair value due to the relatively short periods to maturity of these instruments. The maximum exposure to credit risk for cash, restricted cash and accounts receivable is represented by the carrying amount on the balance sheet. There are no material financial assets that the Company considers past due.

The Company assesses on a quarterly basis whether there has been any impairment of financial assets. As at June 30, 2010, management determined there was no impairment of any of the financial assets.

SELECTED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the three and six months ended June 30, 2010 and 2009

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

(b) Market risk

Interest rate risk

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.

As at June 30, 2010, the Company has a \$2.75 million line of credit with a major Canadian chartered bank. On July 9, 2010, the same lender granted the Company an additional \$0.85 million line of credit facility. The \$0.85 million line of credit facility will be available to the Company until October 31, 2010. Amounts drawn on each bank operating line are payable on demand and bear interest at the bank prime rate plus 2.0% per annum. The Company has drawn \$2.0 million on the \$2.75 million credit facility as of June 30, 2010 (December 31, 2009 - \$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 \$22.0 million (see note 5). The Company is in compliance with all financial covenants at June 30, 2010.

The Company has a \$4.7 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. Repayment of principal began in September 2009 and an option to extend repayment of principal for an additional six months is available.

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.

A 0.25% change in the interest rate would have impacted the net loss of the Company during the period ended June 30, 2010 by approximately \$8 thousand (2009 - \$6 thousand) 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 does not use foreign exchange rate hedges or fixed foreign exchange contracts to manage the Company's exposure to foreign exchange rate fluctuations.

A \$0.05 increase or decrease in the Canadian / EURO exchange rate would have impacted the net loss of the Company for the period ended June 30, 2010 by \$251 thousand before tax effect. 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.

A \$0.05 increase or decrease in the Canadian / US exchange rate would have impacted the net loss of the Company for the period ended June 30, 2010 by \$105 thousand 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.

SELECTED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the three and six months ended June 30, 2010 and 2009

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

(unaudited)

(c) 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 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 back log from existing customers, ability of the Company to develop new customers, raw material pricing and 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 5, 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 and capital lease obligations at June 30, 2010 for each of the next five years and thereafter.

(thousands of Canadian dollars)

	Total	2010 ⁽¹⁾	2011	2012	2013	2014	Thereafter
Capital lease obligation	356	65	130	109	52	-	-
Mortgage obligation	6,147	266	521	507	493	479	3,881
Total contractual obligations	6,503	331	651	616	545	479	3,881

⁽¹⁾ Remaining six months of 2010.

(d) Fair values of financial instruments

The Company's financial instruments are classified as cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, bank indebtedness, capital lease and long-term debt. The carrying value and fair value of these financial instruments at June 30, 2010 is disclosed below by financial instrument category:

SELECTED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the three and six months ended June 30, 2010 and 2009

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

(unaudited)

(d) Fair values of financial instruments (continued)

Financial Instrument	Carrying Value	Fair Value
Assets held for Trading		
Cash and restricted cash	698	698
Loans and Receivables		
Accounts receivables	8,063	8,063
Other Liabilities		
Accounts payable and accrued liabilities	4,682	4,682
Bank indebtedness	362	362
Loans ⁽¹⁾	2,014	1,946
Mortgage	4,721	4,721
Capital lease ⁽²⁾	324	341

⁽¹⁾ The fair values of the loans are measured using the Company's risk-free cost of borrowing at June 30, 2010, which was 0.96% per annum.

⁽²⁾ The fair value of the capital lease is measured using the Company's cost of borrowing for equipment at June 30, 2010, which was Euribor plus 3% per annum.

CICA Handbook Section 3862 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The three levels of the fair value hierarchy are described below:

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

Level 2: 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: 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 of June 30, 2010.

(thousands of Canadian dollars)	Level 1	Level 2	Level 3	Total
Held for trading:				
Cash and restricted cash	698	-	-	698

SELECTED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the three and six months ended June 30, 2010 and 2009

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

11. 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 debt and capital lease less cash and is summarized in the table below;

	June 30 2010	December 31 2009
Shareholders' equity	24,476	25,704
Long-term debt and capital lease, including current portion	7,059	7,332
Cash	(290)	(1,040)
Total Capital	31,245	31,996

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 5). The Company's overall strategy with respect to capital risk management remains unchanged from the year ended December 31, 2009.

12. SEGMENTED INFORMATION

The Company currently operates in one operating segment, which involves the manufacture and sale of lightweight fuel storage systems. The majority of the Company's operations and assets relating to commercial production were located in Canada at June 30, 2010. Revenues attributed to foreign countries are based on the location of the customer.

	Three months ended June 30		Six months ended June 30	
	2010	2009	2010	2009
Cylinder and system sales				
North America	1,696	896	2,207	1,743
Europe ⁽¹⁾	7,112	7,270	10,460	12,023
Other	434	92	524	288
	9,242	8,258	13,191	14,054

⁽¹⁾ 2010 revenue includes three customers who comprise 10% or more (2009- three customers) of revenue from the European Union.

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following sets out management's discussion and analysis of the financial position of Dynetek Industries Ltd. ("Dynetek" or "Company") as at June 30, 2010 and December 31, 2009 and results of operations for the three and six months ended June 30, 2010 and 2009 and is based on information available as at August 10, 2010. The interim management's discussion and analysis ("MD&A") updates Dynetek's 2009 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.

Non-GAAP Financial Measures

Dynetek reports its financial results in accordance with generally accepted accounting principles ("GAAP"). It also occasionally uses certain non-GAAP financial measures, such as EBITDA, working capital and non-cash working capital. Dynetek defines EBITDA as earnings before interest, taxes, stock based compensation, 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 Consolidated Balance Sheets and Consolidated Statements of Operations, Comprehensive Income (Loss) and Deficit 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)	Three months ended June 30		Six months ended June 30	
	2010	2009	2010	2009
Revenue				
Cylinder and system sales	9,242	8,258	13,191	14,054
Research and development income	696	922	1,076	1,979
Investment and other income	-	3	1	6
	9,938	9,183	14,268	16,039
Net Income (Loss)	117	(214)	(1,302)	(1,123)
Net Income (Loss) per common share (basic and fully diluted)	0.01	(0.01)	(0.06)	(0.05)
EBITDA ⁽¹⁾	891	407	449	408
Cash flow (deficiency) from operations	359	(626)	(329)	(3,447)
Capital and intangible expenditures	250	15	504	233
Cash	290	99	290	99
Non-cash working capital ⁽¹⁾	12,119	14,845	12,119	14,845
Working capital ⁽¹⁾	12,817	15,352	12,817	15,352
Total assets	37,372	41,010	37,372	41,010
Long-term debt and capital lease	6,206	6,812	6,206	6,812
Weighted average number of common shares outstanding	20,959,203	20,936,500	20,959,203	20,936,500

⁽¹⁾ 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 Management's Discussion and Analysis.

Cylinder and system sales for the six months ended June 30, 2010 were \$13.2 million, a decrease of 6% from \$14.1 million for the same period of 2009. Cylinder and system sales for the three months ended June 30, 2010 were \$9.2 million, an increase of \$1.0 million or 12% from \$8.2 million in 2009. The increase in cylinder and system sales in the second quarter of 2010, compared to the same quarter of 2009, was the result of stronger sales activities from its European bus manufacturer customers and major North American customers. The deferral of sales from the first quarter of 2010 and specific European sales which were forecasted to be realized in the third quarter of 2010, also contributed to the second quarter increase. The year-to-date decrease in 2010 cylinder sales, compared to 2009, reflects the appreciation of the Canadian dollar against the US dollar and Euro. Dynetek's North American sales are primarily transacted in US dollars and virtually all European sales are transacted in Euros. The Canadian dollar has appreciated 16.5% against the US dollar and 16.8% against the Euro, comparing 2010 year-to-date foreign exchange rates against 2009 rates for the same period.

 (thousands of Canadian dollars)
 (unaudited)

	Three months ended June 30		Six months ended June 30	
	2010	2009	2010	2009
Cylinder and system sales				
European operations	7,090	7,268	10,352	12,145
North American operations	2,152	990	2,839	1,909
	9,242	8,258	13,191	14,054

Dynetek's revised North American sales focus has resulted in increased cylinder unit sales in the first six months of 2010. Dynetek expects 2010 unit sales in North America to exceed 2009 unit sales.

The unit sales from the European operations have increased in the first six months of 2010 compared to the same period of 2009. However, European revenue continues to be negatively impacted by the exchange rate. Dynetek expects 2010 unit sales from its European operations to exceed 2009 European unit sales.

Research and development income for the six months ended June 30, 2010 was \$1.1 million, down 46% or \$0.9 million from the same period in 2009. Research and development income for the three months ended June 30, 2010 was \$0.7 million, down 25% or \$0.2 million from the same period in 2009. During the six months and three months ended June 30, 2010, research and development revenue was lower than the same period in 2009 due to completion of the Magna Steyr contract by December 31, 2009. Dynetek has secured new hydrogen projects for 2010 with major deliverables to occur in the third and fourth quarter of 2010. The new projects are currently anticipated to generate a higher level of research and development income for fiscal 2010 compared to the twelve months of 2009. Dynetek continues to be involved in hydrogen research and development projects with various Original Equipment Manufacturers ("OEMs").

Cost of goods sold was \$11.2 million for the six months ended June 30, 2010 compared to \$12.9 million for the same period in 2009. Corresponding contribution margins for the six months ended June 30, 2010 were \$3.0 million, or 21% of sales compared to \$3.1 million or 20% of sales for the same period of 2009. Cost of goods sold was \$7.8 million for the three months ended June 30, 2010 compared to \$7.4 million for the same period in 2009. Corresponding contribution margins for the three months ended June 30, 2010 were \$2.2 million, or 22% of sales compared to \$1.8 million or 20% of sales for the same period of 2009. The contribution margin and margin percentage for the six months ended June 30, 2010 and 2009 are consistent to the level of sales during the respective six month periods. Contribution margin and margin percentage was greater during the second quarter of 2010 compared to the same quarter of 2009 as a result of the Company negotiating better pricing for its raw materials and having lower fixed costs.

General and administrative expense was \$1.9 million for the six months ended June 30, 2010 which was \$0.2 million higher than the same period of 2009. General and administrative expense was \$1.0 million for the three months ended June 30, 2010, which was \$0.1 million higher than the second quarter of 2009. General and administration expense as a percentage of revenue for the six months ended June 30, 2010 was 14% compared to 11% for the same period of 2009. General and administration expense as a percentage of revenue for the three months ended June 30, 2010 was 10% compared to 9% for the same period of 2009. The minor increases in general and administrative expense for the three and six months ended June 30, 2010 was the result of the additions to management made in February 2010 in order to support penetration into new Asia-Pacific markets and provide additional strategic and financial expertise.

Marketing expense was \$0.6 million for the six months ended June 30, 2010, a decrease of \$0.3 million, compared to the same period of 2009. Marketing expense was \$0.3 million for the three months ended June 30, 2010, a decrease of \$0.2 million compared to the same period of 2009. Marketing expense decreased to 4% of revenue for the six months ended June 30, 2010 compared to 6% for the same period of 2009. Marketing expense decreased to 3% of revenue for the three months ended June 30, 2010 compared to 6% for the same period of 2009. The three and six month decreases in marketing expense as a percentage of revenue reflects the lower European commissions and greater efficiencies in marketing Dynetek products.

Interest expense of \$173 thousand for the six months ended June 30, 2010 was higher compared to interest expense of \$143 thousand for the same period of 2009. Interest expense for the second quarter of 2010 was \$99 thousand compared to \$74 thousand for the same quarter of 2009. The increase in interest expense for the six and three month period was due to greater utilization of its \$2.75 million line of credit as the Company had greater working capital requirements as a result of its increased cylinder production in 2010.

Depreciation was \$0.6 million for the six months ended June 30, 2010, which was slightly lower by \$0.1 million when compared to \$0.7 million for the same period of 2009. Depreciation was \$0.3 million for the three months ended June 30, 2010, which was comparable to the three months ended June 30, 2009. The decreases were due to lower amounts of capital expenditures by Dynetek since the third quarter of 2008.

Amortization was \$0.5 million for the six months ended June 30, 2010, which is comparable to the same period of 2009. Amortization was \$0.3 million for the three months ended June 30, 2010, also comparable to the same period of 2009.

Items included in amortization expense include process and development costs, patent and certification costs related to the development new products.

Foreign exchange loss for the six months ended June 30, 2010 was a loss of \$0.4 million compared to a loss of \$0.2 million in the same period of 2009. Foreign exchange for three months ended June 30, 2010 was a loss under \$0.1 million compared to a gain less than \$0.1 million for the same quarter of 2009. Dynetek's North American operation invoices the majority of its revenue in US dollars and the European operation invoices in Euros. The Company reports its results in Canadian dollars but the revenues are generated in US dollars and Euros. The foreign exchange loss in the first six months of 2010 is primarily a result of a weakening of the Euro against the Canadian dollar, resulting in a negative impact on the Euro denominated accounts receivable and cash when translating into Canadian dollars and settlement of accounts receivable transactions during the period. At June 30, 2010 the exchange rate for 1 Euro was \$1.30 Canadian compared to exchange rates at December 31, 2009 of 1 Euro worth \$1.50 Canadian. The US dollar experienced less fluctuation in 2010. At June 30, 2010 the exchange rate for 1 US dollar was \$1.06 Canadian compared to an exchange rate of 1 US dollar worth \$1.05 Canadian at December 31, 2009.

Stock based compensation for six months ended June 30, 2010 was \$73 thousand compared to \$50 thousand in the same period of 2009 and stock based compensation for three months ended June 30, 2010 was \$37 thousand compared to \$25 thousand in the same period of 2009. The minor increases for each of the three and six month periods of 2010 was related to the Company issuing 786,500 stock options during the first half of 2010 compared to the Company issuing 50,000 stock options during the first half of 2009.

Net Loss for the six months ended June 30, 2010 was (\$1.3) million or (\$0.06) per common share compared to the net loss of (\$1.1) million or (\$0.05) per common share for the comparable period of 2009. Net income for the three months ended June 30, 2010 was \$117 thousand or \$0.01 per common share compared to the net loss of (\$214 thousand) or (\$0.01) per common share for the comparable period of 2009. The increase in net loss for the six months ended June 30, 2010 compared to the first six months of 2009 is substantially the result of foreign exchange losses as a result of the weakening Euro against the Canadian dollar. The net income in the second quarter of 2010 compared to the net loss in the same quarter of 2009 was the result of \$0.8 million of increased sales during the second quarter of 2010.

Summary of Quarterly Results

The following table shows selected unaudited financial information for the past eight quarters ending June 30, 2010. The information has been obtained from the Company's 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, 2009, and include all adjustments necessary for the fair presentation of the results of the interim periods. We expect our operating results to vary significantly from quarter to quarter and they should not be relied upon to predict future information.

(thousands of Canadian dollars except per share data)	Sept 30 2008	Dec 31 2008	Mar 31 2009	June 30 2009	Sept 30 2009	Dec 31 2009	Mar 31 2010	June 30 2010
(unaudited)								
Revenues								
Cylinder and system sales	5,484	6,771	5,796	8,284	7,469	5,178	3,949	9,242
Research & development income	1,399	1,277	1,057	896	884	627	380	696
Investment & other income	122	69	3	3	1	61	1	-
	7,005	8,117	6,856	9,183	8,354	5,866	4,330	9,938
Operating expenses								
Cost of goods sold	5,128	6,537	5,542	7,358	6,707	5,404	3,477	7,770
Marketing plus general and administration	1,221	1,295	1,313	1,418	1,348	1,042	1,295	1,277
	6,349	7,832	6,855	8,776	8,055	6,446	4,772	9,047
EBITDA ¹	656	285	1	407	299	(580)	(442)	891
Interest	106	113	69	74	94	98	74	99
Taxes	-	-	-	-	-	-	-	-
Stock based compensation	21	26	25	25	27	26	36	37
Foreign exchange loss (gain)	(64)	(263)	228	(62)	(143)	199	314	83
Depreciation & amortization	629	775	588	584	595	823	553	555
Loss on equipment disposal	-	-	-	-	-	299	-	-
	692	651	910	621	573	1,445	977	774
Net Income (Loss)	(36)	(366)	(909)	(214)	(274)	(2,025)	(1,419)	117
Net Income (Loss) per share								
Basic and fully diluted	(0.00)	(0.02)	(0.04)	(0.01)	(0.02)	(0.09)	(0.07)	0.01

¹ EBITDA is defined in the Reconciliation of non-GAAP Financial Measures of the Managements' Discussion and Analysis.

Intangible Assets and Deferred Costs - Expenditures

(thousands of Canadian dollars)
(unaudited)

	Three months ended June 30		Six months ended June 30	
	2010	2009	2010	2009
Patents	-	-	-	2
Certification costs	105	40	173	198
Deferred Costs	78	-	103	2
	183	40	276	202

Intangible asset and deferred cost expenditures for the six months ended June 30, 2010 were \$0.3 million compared to \$0.2 million for the same period of 2009. Intangible asset and deferred cost expenditures for the three months ended June 30, 2010 were \$0.2 million compared to less than \$0.1 million for the same period of 2009. The increase in intangible and deferred cost expenditures in 2010 were due to costs incurred in obtaining new product certifications in North America and Asia and costs related to establishing the Korean joint venture which the Company previously announced in June 2010.

Capital Expenditures

(thousands of Canadian dollars)
(unaudited)

	Three months ended June 30		Six months ended June 30	
	2010	2009	2010	2009
Building and leaseholds	-	-	-	-
Manufacturing equipment	40	(39)	115	54
Office furniture and other equipment	-	(5)	7	-
Computer hardware and software	-	-	13	-
Manufacturing equipment under construction	27	19	93	19
	67	(25)	228	73

Capital expenditures for the six months ended June 30, 2010 were \$0.2 million, an increase of \$0.1 million from the same period in 2009. Capital expenditures for the three months ended June 30, 2010 were less than \$0.1 million compared to a minor gain in the second quarter of 2009 as a result of minor capital asset dispositions.

The Company's capital resource requirements currently consist of capital expenditures to maintain the existing production line and are classified as Manufacturing equipment under construction until placed into service.

Financial Resources and Liquidity

The Company's principal source of liquidity is cash generated from operations. The principal liquidity requirements relate to the increase in working capital required to maintain its production, sales and research and development projects. The Company's 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 June 30, 2010, Dynetek had cash of \$0.3 million, compared to \$1.0 million at December 31, 2009. Dynetek had a cash flow deficiency from operations of (\$0.3) million for the period ended June 30, 2010 compared to a cash flow deficiency from operations of (\$3.4) million for the six months ended June 30, 2009. The cash flow deficiency in the first

half of 2010 and 2009 is indicative of the cash cycle required to purchase an inventory of raw materials, manufacture orders from the customer and collect the accounts receivable from the customer.

The Company has a \$2.75 million line of credit with a Canadian major chartered bank and the ability to fund liquidity requirements through its line of credit facility. At June 30, 2010, \$2.0 million was drawn against this credit facility compared to \$245 thousand at December 31, 2009. On July 9, 2010, the Company was granted an additional \$0.85 million line of credit facility from the same lender. The purpose of the additional credit facility is to fund additional working capital required for second and third quarter sales. Terms and security for the additional credit facility are same as the existing \$2.75 million operating line of credit. The additional line of credit facility will be available to the Company through October 31, 2010.

Actively managing working capital is key to ensuring cash is available to support funding of the Company's ongoing operations. The following table provides additional information on its working capital balances at June 30, 2010 as compared to December 31, 2009.

(thousands of Canadian dollars)	June 30 2010	December 31 2009	Change in working capital
Cash and restricted cash	698	1,448	(750)
Accounts receivable	8,063	5,628	2,435
Inventory	10,380	10,393	(13)
Prepays and other	366	442	(76)
Bank indebtedness	(362)	-	(362)
Accounts payable and accrued liabilities	(4,682)	(2,915)	(1,767)
Deferred revenue	(793)	(429)	(364)
Current portion of long-term debt and capital lease	(853)	(841)	(12)
	12,817	13,726	(909)

At June 30, 2010 accounts receivable were \$8.1 million, representing an increase of \$2.4 million when compared to December 31, 2009. This increase is primarily the result of increased cylinder and system sales from the North American and German operations in the second quarter of 2010. Inventory remained constant at \$10.4 million at June 30, 2010 when compared to December 31, 2009. The Company has reduced inventory since March 31, 2010, as the Company fulfilled customer orders during the second quarter of 2010.

The Company's investment in inventory remained consistent at \$10.4 million compared to inventory levels at December 31, 2009. The following table summarizes the inventory balance at June 30, 2010 compared to December 31, 2009.

(thousands of Canadian dollars)	June 30 2010	December 31 2009	Change
Raw materials	2,834	2,126	708
Work-in-progress	4,313	4,815	(502)
Finished goods	3,233	3,452	(219)
	10,380	10,393	(13)

Work-in-progress and finished goods, substantially represented by confirmed orders, decreased by \$0.7 million on a combined basis, to \$7.5 million when compared to balances at December 31, 2009. The decrease is the result of timing of the production dates for customer orders where inventory at December 31, 2009 was higher due to fulfilling customer orders in the first and second quarter of 2010. Raw materials increased to \$2.8 million as levels of carbon fibre and aluminum tube increased to complete a major North American customer order in the third quarter of 2010.

Accounts payable at June 30, 2010 was \$4.7 million, compared to \$2.9 million as at December 31, 2009. This increase is representative of the additional aluminum required to fulfill the major North American customer orders for the third quarter of 2010 and the additional sales in the second quarter of 2010 which resulted in a corresponding increase to accounts payable.

Deferred revenue at June 30, 2010 was \$0.8 million, an increase of \$0.4 million, compared to \$0.4 million at December 31, 2009. The increase is the result of the funding received from specific OEMs for their participation towards research and development projects. Dynetek continues to build on the strong strategic alliances with several major OEMs whereby confidential joint funding has been obtained to develop complete fuel storage systems. Other research programs with strategic partners, such as government bodies, are also in place to explore other storage applications including hydrogen applications.

Current portion of long-term debt and capital lease relates to repayable research and development funding supplied by Natural Resources Canada ("NRCan"), a \$4.7 million mortgage with the Business Development Bank of Canada ("BDC") and a capital lease obligation.

The agreements with NRCan allow Dynetek to retain the intellectual property and to receive long-term funding. The debt is repayable only in the form of royalties based on specific related commercial product sales. The funding from NRCan is non-interest bearing. The Company has estimated \$0.4 million to be repaid in 2010. During the first six months of 2010, the Company did not receive funding from NRCan in the form of long-term debt.

Principal repayments for the BDC mortgage began in September 2009 and the Company will repay \$0.3 million against principal over the next twelve months. Under certain conditions, the Company can elect to defer repayment of mortgage principal for up to six months.

Transactions with Related Parties

Through June 30, 2010, there were two transactions with related parties and each related party transaction was completed in the normal course of business.

For the three months and six months ended June 30, 2010, the Company purchased under normal terms and conditions \$0.5 million (2009 - \$0.4 million) and \$0.9 million (2009 - \$2.5 million), respectively, of material used in the production of lightweight fuel storage systems from Mitsubishi Rayon Corporation, a shareholder of the Company.

The Company had an agreement with the chairman of the board ending in January 2010. Under that agreement, the Company received financial consulting and strategic planning services. The agreement for the services was effective from August 2009 through January 2010. The Company paid \$29 thousand to a company controlled by the chairman during the first quarter of 2010. No payments have been made subsequent to March 31, 2010.

Outstanding Share Data

Issued and outstanding:

	Number of Shares	Dollar Amount (in thousands)
Balance at December 31, 2009	20,956,500	\$52,422
Stock options exercised	3,000	1
Balance at June 30, 2010	20,959,500	\$52,423

	June 30 2010	December 31 2009
Securities convertible into common shares:		
Stock options	1,948,000	1,214,500
Warrants	581,730	680,112

As at August 10, 2010, common shares outstanding were 20,959,500, options outstanding were 1,948,000 and warrants outstanding were 581,730.

International Financial Reporting Standards ("IFRS")

Effective January 1, 2011, the Company will begin reporting under IFRS. The Company has developed an IFRS conversion plan, which includes initial assessment, detailed assessment and implementation phases and is progressing with its changeover plan to complete its transition to IFRS.

The IFRS changeover plan also includes obtaining skilled personnel, providing education and training, analyzing the impact on Dynetek of key differences between GAAP and IFRS, and developing and executing a phased approach to conversion and implementation. The Company has engaged an external advisor to assist with the IFRS conversion process.

The initial assessment phase began in 2009 and focused on establishing resources, training initiatives, an assessment of the information technology systems and a preliminary assessment of the significant differences between Canadian GAAP and IFRS. With the Company having only two locations of operations, more emphasis has been allocated towards identifying differences between Canadian GAAP and IFRS. A detailed examination of the various financial statement line items is ongoing and identified differences will be assessed for impact on the Company.

Dynetek has determined that the most significant impacts from IFRS conversion will be to property, plant and equipment (capital assets) and effect of foreign exchange rates on the Company's non-monetary assets. Under Canadian GAAP, items of property, plant and equipment are depreciated on a rational basis over their estimated service lives and non-monetary assets were valued at their average historical foreign exchange rate. Under IFRS, significant components of the same items of property, plant and equipment will be separately identified and depreciated over their respective estimated service life and non-monetary assets will be valued at the current foreign exchange rate. Dynetek is also evaluating the use of first-time adoption exemptions and elections available upon initial transition that provides relief from retrospective application of IFRS and application of fair values towards specific capital assets and liabilities.

Several of the IFRS standards that could be applicable to the Company are in the process of being amended by the International Accounting Standards Board. Amendments to existing standards are expected to continue until the effective date of January 1, 2011. The Company will monitor and assess any new or amended IFRS standards and incorporate any relevant changes into the Company's transition project and IFRS policies where necessary. At this time, the impact on the Company's financial position and results of operations is still under review.

During the second half of 2010, the Company expects to be able to run parallel both Canadian GAAP and IFRS trial balances and develop required IFRS financial statement disclosures.

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 June 30, 2010. 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 2009 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.

OUTLOOK

Dynetek is a world-leading participant in the global clean technology space. Dynetek is focused on generating 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.

Current projects underway within the research and development group are expected to result in 2010 research and development revenue exceeding 2009 research and development revenue and are evidence of the commitment on behalf of the OEMs to continue to pursue hydrogen strategies and to continue to see Dynetek as the supplier of choice.

Dynetek will continue to maximize its worldwide CNG product sales. European markets will continue to provide the majority of near-term sales however the Company is working to expand sales in the North American and Asia-Pacific markets.

Dynetek has refocused its North American sales strategy. The Company continues to market to its base of OEM clients and has expanded its marketing efforts to include companies operating in the dealer and after-market integrator segments. These additional segments represent a material expansion of future demand for Dynetek's products.

The Asia-Pacific market represents significant opportunity for revenue growth. Demand for CNG cylinders in Asia-Pacific markets 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.

Our recently announced Korean joint venture with Sejung Co. Ltd. represents significant progress in accessing this important market. In addition to Korea, our cylinders are now fully certified in India. We continue to evaluate joint venture partners in India with the intent of establishing a joint venture by the end of 2010.

With the expected increase in demand for cylinders over the mid term, Dynetek has committed additional production resources and will be making near term capital investments in its Calgary production facility to ensure production capacity and reliability are sufficient to meet market demand.

Reconciliation of non-GAAP Financial Measures

EBITDA

GAAP Measures from Consolidated Statements of Operations, Comprehensive Income (Loss) and Deficit	Three months ended June 30		Six months ended June 30	
(thousands of Canadian dollars – unaudited)	2010	2009	2010	2009
Net Income (Loss) and Comprehensive Income (Loss)	117	(214)	(1,302)	(1,123)
Provision for income tax	-	-	-	-
Stock based compensation	37	25	73	50
Net foreign exchange loss (gain)	83	(62)	397	166
Depreciation and Amortization	555	584	1,108	1,172
Interest	99	74	173	143
Non-GAAP measure - EBITDA	891	407	449	408

Working Capital and Non-Cash Working Capital

GAAP Measures from Consolidated Balance Sheets	June 30 2010	June 30 2009
(thousands of Canadian dollars – unaudited)		
Accounts receivable	8,063	8,339
Inventory	10,380	12,475
Prepays expenses and other	366	283
Bank indebtedness	(362)	(104)
Accounts payable and accrued liabilities	(4,682)	(5,229)
Deferred revenue	(793)	(188)
Current portion of long-term debt and capital lease	(853)	(731)
Non-GAAP measure – Non-Cash Working Capital	12,119	14,845
Add: Cash and Restricted cash	698	507
Non-GAAP measure - Working Capital	12,817	15,352

Management believes that presentation of these non-GAAP financial measures provides useful information to 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 under Dynetek Industries Ltd. and the Company's website www.dynetek.com.

FORWARD LOOKING STATEMENTS

In addition to historical information, this management's discussion and analysis contains forward-looking statements and should be read in conjunction with the financial statements and related notes for the year ended December 31, 2009 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 CNG buses operated in foreign markets; the number of compressed natural gas ("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. The Company does not undertake any obligation to publicly update or revise any forward-looking statements except as expressly required by applicable securities law.