Dynetek Industries Ltd.
STORING ENERGY'S FUTURE

Dynetek Industries Ltd. Reports Second Quarter 2011 Results

Calgary, Alberta, Canada – August 11, 2011 – Dynetek Industries Ltd. ("Dynetek" or "Company") reported today its results for the three and six months ended June 30, 2011. The full unaudited condensed consolidated financial statements and Management's Discussion and Analysis have been filed on SEDAR at www.sedar.com and on Dynetek's website at www.dynetek.com.

FINANCIAL HIGHLIGHTS

(thousands of Canadian dollars, except share capital and per share data) (unaudited)	**Three months ended June 30**		**Six months ended June 30**	
	2011	2010	**2011**	2010
Cylinder and system sales	**4,145**	9,168	**7,229**	13,117
Research and development income	**1,579**	696	**2,830**	1,076
Investment and other income	**14**	-	**557**	1
Total revenue	**5,738**	9,864	**10,616**	14,194
EBITDA[1]	**(684)**	883	**(1,136)**	447
Net (loss) income	**(1,230)**	15	**(2,108)**	(1,612)
Net (loss) income per common share (basic and fully diluted)	**(0.06)**	0.00	**(0.10)**	(0.08)
Cash	**990**	290	**990**	290
Non-cash working capital[1]	**6,933**	11,053	**6,933**	11,053
Working capital[1]	**8,331**	11,751	**8,331**	11,751
Total assets	**33,676**	36,002	**33,676**	36,002
Long-term borrowings and finance leases	**4,795**	7,069	**4,795**	7,069
Property, plant and equipment and intangible expenditures	**170**	231	**384**	485
Cash flow (deficiency) from operations	**(729)**	912	**(1,637)**	(7)
Weighted average common shares outstanding	**20,959,500**	20,959,500	**20,959,500**	20,959,500

OPERATIONAL HIGHLIGHTS

Cylinder and system sales for the six months ended June 30, 2011 were $7.2 million, a decrease of 45% from $13.1 million for the same period of 2010. North American operations increased its cylinder revenue for the six months ending June 30, 2011 compared to the same period of 2010 but the overall decrease was the result of the European operations receiving lower cylinder and system orders from European bus manufacturers, major customers of the European operations. The European bus manufacturers continue to experience lower capital expenditures from European customers including European municipalities since the fourth quarter of 2010.

(thousands of Canadian dollars) (unaudited)	**Three months ended June 30**		**Six months ended June 30**	
Cylinder and system sales	**2011**	2010	**2011**	2010
European operations	**2,436**	7,016	**3,673**	10,278
North American operations	**1,709**	2,152	**3,556**	2,839
	4,145	9,168	**7,229**	13,117

Cylinder and system sales for the three months ended June 30, 2011 were $4.1 million, a decrease of 55% from $9.2 million in the second quarter of 2010. The overall decrease in cylinder and system sales in the second quarter of

[1] EBITDA, Normalized EBITDA, non-cash working capital and working capital are non-GAAP financial measures. Dynetek defines EBITDA as earnings before finance costs, taxes, share based compensation, foreign exchange gain or loss, depreciation, and amortization. Dynetek defines Normalized EBITDA as EBITDA adjusted for excess shareholder compensation and non-recurring items. 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. Since non-GAAP financial measures do not have a standardized definition, they may differ from the non-GAAP financial measures used by other companies. Dynetek 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.

2011, was the result of continued lower orders from European bus manufacturer customers. Traditionally, the second quarter of each year produces the greatest level of European cylinder sales. However, for fiscal 2011, European bus manufacturers are indicating greater activity levels in the third and fourth quarters compared to the second quarter.

The North American operation invoices the majority of its cylinder sales in US dollars. Despite the US dollar depreciating 5.5% against the Canadian dollar when comparing the first six months of 2011 against 2010, the North American operation increased its sales by $0.7 million or 25% for the first six months of 2011 compared to the same period of 2010.

Research and development ("R&D") income for the six months ended June 30, 2011 increased 163%, to $2.8 million compared $1.1 million from the same period in 2010. R&D income for the three months ended June 30, 2011 increased 127%, to $1.6 million from $0.7 million in the second quarter of 2010. The 2011 year-to-date and second quarter increases reflect greater levels of R&D activities and a 33% year-to-date increase in hydrogen valve revenue. The significant R&D contracts that began in the fourth quarter of 2010 will continue through 2011.

Gross profit was $0.5 million for the first six months of 2011, which was $2.0 million lower compared to 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 in the first quarter of 2011.

EBITDA for the three and six months ended 2011 was ($0.7 million) and ($1.1 million) respectively, compared to EBITDA of $0.9 million and $0.4 million for the same respective periods of 2010. Net loss for the three and months ended June 30, 2011 was ($1.2) million or ($0.06) per common share and ($2.1 million) or ($0.10) per common share respectively, compared to breakeven net income or $0.00 per common share and ($1.6 million) or ($0.08) per common share for the same respective periods of 2010. The decrease in EBITDA and increases in net loss for the three and six month periods ended 2011 was due to reduced European cylinder sales for the first six months of 2011.

Dynetek continues to maintain sufficient levels of liquidity. At June 30, 2011, working capital was $8.3 million compared to $10.3 million at December 31, 2010. All financial covenants in the Company's credit agreement were in compliance at June 30, 2011 with the exception of the working capital ratio, which was 1.9:1.0 compared to a covenant of 2.0:1.0. As of the date of this press release, the lender has not indicated any intention to demand repayment of the operating line of credit as a result of this breach of covenant.

On July 31, 2011, the Company completed a sale and leaseback transaction for its land and production facility located in Calgary. The Company sold its land and building for gross proceeds of $6.4 million less transaction and closing costs of $0.1 million. The proceeds will be used to repay the outstanding mortgage balance of $4.5 million and will provide $1.8 million for general working capital purposes. The Company will lease the land and production facility under a ten-year lease.

OUTLOOK

Dynetek is focused on generating increased worldwide sales from its commercialized CNG products through geographic expansion. While Europe and North America continue to provide the majority of near term sales, Dynetek is seeking to expand its presence in the Asia-Pacific market through joint venture relationships in Korea, India and China.

In addition, Dynetek intends to focus on expanding its clean technology footprint through acquisitions in the areas of Supervisory Control and Data Acquisition ("SCADA") and Compressed Natural Gas Distribution Infrastructure. Both of these markets lever Dynetek's engineering expertise and knowledge of the CNG supply chain.

In accordance with the Company's foregoing strategy to expand its clean technology footprint into the SCADA market, Dynetek recently signed a non-binding letter of intent to acquire 100% of the outstanding shares of Control Systems Inc. ("CSI") of Jackson, Mississippi for USD $10 million. CSI has a leading market position in the SCADA sector in the Southeastern U.S., servicing utilities, food processors, industrial and oil and gas industries, with expansion opportunities in CNG related areas. Revenue for CSI's 11 month year-to-date period ending May 30, 2011 was approximately USD $12 million with Normalized EBITDA of approximately USD $3 million, based on unaudited, internally prepared financial statements.[1]

Completion of the acquisition is subject to, among other things, completion of due diligence, completion of financing arrangements, settlement of definitive agreement and related documents, board approval and receipt of required regulatory approvals.

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, statements regarding: management's growth and development strategies; expectations as to 2011 revenue and cylinder units sales compared to 2010; future activity levels of European bus manufactures; expected increases in demand for cylinders; continuation of R&D contracts; the lease of land and production facility; Dynetek's expansion into the Asia Pacific market; Dynetek's expansion into the areas of SCADA and Compressed Natural Gas Distribution Infrastructure; and future acquisitions, including the CSI acquisition and the terms and conditions thereof.

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 exchange rates; and (v) 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; (v) actions by governmental or regulatory authorities including changes in environmental legislation; and (vi) a failure to complete the CSI acquisition as anticipated or at all. 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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Dynetek Industries Ltd.

Condensed Consolidated Financial Statements

For the Quarter ended June 30, 2011

Unaudited

Dynetek Industries Ltd.
Condensed Consolidated Statement of Comprehensive Income

(Unaudited)
For the three and six month periods ended June 30
(thousands of Canadian dollars except per share amounts)

	Notes	Three months ended June 30 2011	Three months ended June 30 2010	Six months ended June 30 2011	Six months ended June 30 2010
Revenue	10	5,738	9,864	10,616	14,194
Cost of sales		(5,868)	(7,990)	(10,115)	(11,730)
Gross profit		(130)	1,874	501	2,464
Expenses					
General and administrative		731	1,175	1,949	2,441
Marketing		262	367	514	680
Finance costs		116	99	199	174
Foreign exchange (gain) loss		(57)	181	(152)	708
Gain on equipment disposal		(4)	–	(4)	–
Share based compensation		52	37	103	73
		1,100	1,859	2,609	4,076
(Loss) income before taxes		(1,230)	15	(2,108)	(1,612)
Provision for income taxes		–	–	–	–
Net (loss) income for the period		(1,230)	15	(2,108)	(1,612)
Other comprehensive income (loss), net of tax					
Exchange gain (loss) on translating foreign operations, net of tax (nil)		55	(277)	285	(775)
Total comprehensive loss		(1,175)	(262)	(1,823)	(2,387)
Net loss per share					
Basic and diluted per share	11	(0.06)	0.00	(0.10)	(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	June 30 2011	December 31 2010
Assets			
Current assets			
Cash		990	962
Restricted cash		408	408
Trade receivables and other	5	5,381	3,737
Inventory	6	10,303	9,843
Prepaid expenses and other		374	687
		17,456	15,637
Non-current assets			
Property, plant and equipment		12,822	13,137
Intangible assets		3,398	3,550
Total assets		33,676	32,324
Liabilities			
Current liabilities			
Bank indebtedness	7	3,134	856
Trade payables and other		4,745	3,651
Deferred revenue		801	483
Current portion of borrowings and finance leases		445	304
		9,125	5,294
Non-current			
Long term borrowings and finance leases		4,350	5,109
Total liabilities		13,475	10,403
Shareholders' equity	8		
Share capital	8.1	52,423	52,423
Contributed surplus		3,188	3,085
Foreign currency translation reserve		(379)	(664)
Deficiency		(35,031)	(32,923)
		20,201	21,921
Total liabilities and shareholders' equity		33,676	32,324

See accompanying notes to the unaudited condensed consolidated financial statements.

Share Capital

Dynetek Industries Ltd.
Condensed Consolidated Statement of Changes in Equity

(Unaudited)
For the six month periods ended June 30 and the year ended December 31, 2010
(thousands of Canadian dollars)

	Number of shares issued and outstanding	Amount	Contributed surplus[(a)]	Foreign currency translation reserve	Net (loss)	Total equity
Balance at January 1, 2010	20,956,500	52,422	2,910	–	(29,971)	25,361
Net loss for the period					(1,612)	(1,612)
Other comprehensive loss, net of tax (nil)				(775)		(775)
Exercise of share options for common shares	3,000	1				1
Share based compensation expense			73			73
Balance at June 30, 2010	20,959,500	52,423	2,983	(775)	(31,583)	23,048
Net loss for the period					(1,340)	(1,340)
Other comprehensive gain, net of tax (nil)				111		111
Share based compensation expense			102			102
Balance at December 31, 2010	20,959,500	52,423	3,085	(664)	(32,923)	21,921
Net loss for the period					(2,108)	(2,108)
Other comprehensive gain, net of tax (nil)				285		285
Share based compensation expense			103			103
Balance at June 30, 2011	20,959,500	52,423	3,188	(379)	(35,031)	20,201

(a) 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 six month periods ended June 30
(thousands of Canadian dollars)

	Notes	2011	2010
Cash flows from operating activities			
Loss before taxes		(2,108)	(1,612)
Adjustments for:			
Share based compensation expense		103	73
Depreciation from general and administrative		189	206
Depreciation from cost of sales		141	377
Amortization from general and administrative		312	332
Amortization from cost of sales		184	189
Gain on equipment disposal		(4)	–
Contribution agreement settled	10	(537)	–
Interest income		(20)	(1)
Interest income received		20	1
Finance costs		199	174
Unrealized foreign exchange (gain) loss		(46)	214
		(1,567)	(47)
Changes in non-cash working capital:			
Trade receivables and other		(1,644)	(2,435)
Inventory		(342)	767
Prepaid expenses and other		313	76
Trade payables and other		1,094	1,767
Deferred revenue		318	364
Unrealized foreign exchange relating to non-cash working capital		191	(499)
Cash from operating activities		(1,637)	(7)
Investing activities			
Proceeds from equipment sale		19	–
Additions to property, plant and equipment		(56)	(209)
Additions to intangible assets		(328)	(276)
Cash used in investing activities		(365)	(485)
Financing activities			
Repayment of borrowings and finance leases		(98)	(229)
Cash received on exercise of share options		–	1
Finance costs paid		(199)	(174)
Cash used in financing activities		(297)	(402)
Unrealized foreign exchange gain (loss) on cash held in foreign currencies		49	(218)
Decrease in cash		(2,250)	(1,112)
Cash, beginning of period		106	1,040
Cash, end of period		(2,144)	(72)
Cash consists of:			
Cash		900	290
Bank indebtedness		(3,134)	(362)
		(2,144)	(72)

See accompanying notes to the unaudited condensed consolidated financial statements.

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 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 condensed consolidated financial statements ("Financial Statements") of the Company as at June 30, 2011 and for the three and six month periods ended June 30, 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 as at June 30, 2011 and 2010 and for the three and six months ended June 30, 2011 and 2010, have been prepared in accordance with International Accounting Standard (IAS) 34 *Interim Financial Reporting ("IAS 34")* using the accounting policies that the Company expects to adopt in its consolidated financial statements for the year ending December 31, 2011. 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, was provided in Note 20 of the Company's first IFRS financial statements dated March 31, 2011.

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") and the financial statements as at and for the three months ended March 31, 2011, prepared under IAS 34.

The Financial Statements were authorized for issuance by the Company's Board of Directors on August 10, 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.

3. Significant accounting policies (continued)

Standards and interpretations not effective in the current reporting period are described in Note 4 below. There have been no changes in the Company's accounting policies at June 30, 2011 from the accounting policies described in the Financial Statements dated March 31, 2011.

3.2 Basis of consolidation

The Financial Statements include the accounts of the Company and its wholly-owned subsidiary, Dynetek Germany, are prepared 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.

4. Future accounting change

The International Accounting Standards Board ("IASB") has issued a number of new and revised International Accounting Standards and International Financial Reporting Standards that may impact the Company in future periods:

- IFRS 7 (Revised), *Financial Instruments: Disclosures* - Amendments enhancing disclosures about transfers of financial assets, effective July 1, 2011;
- 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*, effective January 1, 2011;
- IFRS 10, Consolidated Financial Statements – to replace Standing Interpretations Committee 12, "Consolidation – Special Purpose Entities" and consolidation requirements of IAS 27, effective January 1, 2013;
- IFRS 11, Joint Arrangements – to replace IAS 31 "Interest in Joint Ventures" defines where joint operations are to be proportionately consolidated and joint ventures are to be equity accounted, effective January 1, 2013;

4. Future accounting change (continued)

- IFRS 12, Disclosure of Interests in Other Entities – required disclosures for interest in subsidiaries and joint arrangements, effective January 1, 2013;
- IFRS 13, Fair Value Measurements – provides a common definition of fair value and provides a framework for measuring fair value under IFRS, effective January 1, 2013;
- IAS 12 (Revised), *Income Taxes* – Recovery of underlying deferred income tax assets, effective January 1, 2012;
- IAS 27 (Revised), Separate Financial Statements – eliminated the principles of consolidation and focus on disclosures requirements for investments in subsidiaries, joint ventures and associates when an entity prepare separate financial statements, effective January 1, 2013;
- IAS 28 (Revised), Investments in Associates and Joint Ventures – requirements for accounting for investments in associates and requirements for application of the equity method when accounting for investments in associates and joint ventures, effective January 1, 2013; and
- Exposure Draft, Improvements to IFRSs 2011 – proposed amendments to five IFRSs (IFRS 1, IAS 1, IAS 16, IAS 32 and IAS 34), effective January 1, 2013.

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

5. Trade receivables and other

	June 30 2011	December 31 2010
Trade receivables	4,203	3,098
Allowance for doubtful accounts	–	(14)
Other receivables	1,178	653
	5,381	3,737

See Note 13.1 for a discussion of the Company's credit risk.

The aging of trade receivables is set out below:

	June 30 2011	December 31 2010
Current	2,497	1,465
Past due 0 - 30 days	678	1,034
Past due 31 - 60 days	636	343
Past due over 60 days	392	256
	4,203	3,098

The Company evaluates the ability to collect each trade receivable by counterparty. At June 30, 2011, a provision for doubtful accounts receivable of $nil was recorded (December 31, 2010 - $14) and the Company believes all its

5. Trade receivables and other (continued)

trade receivables are collectable. Of the trade receivable amounts above not classified as current, $982 has been collected subsequent to June 30, 2011 and for the period ended July 29, 2011.

Trade receivables are pledged as security for the Company's operating bank line of credit under the general security agreement (see Note 7).

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

6. Inventory

	June 30 2011	December 31 2010
Raw materials	2,676	2,675
Work-in-progress	4,303	3,924
Finished goods	3,324	3,244
	10,303	9,843

The amount of inventory expensed to cost of sales in the six month period ended June 30, 2011 was $4.7 million (2010 - $8.7 million) and $2.6 million for the three month period ended June 30, 2011 (2010 - $6.0 million).

During the three and six months ended June 30, 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 7).

7. Bank indebtedness

	June 30 2011	December 31 2010
Operating line of credit drawn	3,951	1,750
Less: Canadian cash in bank	(817)	(894)
Bank indebtedness	3,134	856

The Company has a $4.25 million (December 31, 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 June 30, 2011, the Company has drawn $3.95 million on this facility (December 31, 2010 – $1.75 million). Interest and standby fees paid on the operating line of credit during the six month period ended June 30, 2011, were $64 (2010 - $29) and for the three month period ended June 30, 2011, were $40 (2010 - $21).

7. Bank indebtedness (continued)

At June 30, 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 June 30, 2011 and December 31, 2010 with the exception of the working capital ratio at June 30, 2011 which was 1.91:1.0. As of the date of these financial statements, the lender has not indicated any intention to demand repayment of the operating line of credit as a result of this breach of covenant (see Note 13.6).

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.

8. Shareholders' equity

8.1 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) issued and fully paid common shares Nil (December 31, 2010 – Nil) preferred shares

8.2 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 June 30, 2011, there are 591,150 warrants (December 31, 2010 –592,564) outstanding with 583,144 (December 31, 2010 – 581,730) having vested. The vested warrants will expire over a period from 2011 through 2014.

8.3 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.

As at June 30, 2011, 2,883,380 (December 31, 2010 – 2,889,880) options to purchase common shares were outstanding. An additional 369,242 (December 31, 2010 - 362,742) options may be granted in future years under this plan, excluding those options that are available for re-granting.

8.3 Share options (continued)

A summary of the Company's employee share 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 June 30, 2011	**2,883,380**	**$0.41**

For the three and six months ended June 30, 2011, no share options were granted to employees or members of the Board of Directors in accordance with the terms of the stock option plan compared to 786,500 share options granted for the six months ended June 30, 2010 with 11,500 share options granted for the three months ended June 30, 2010. Share options are valued using the Black-Scholes option pricing model with the following assumptions:

	For the period ended June 30, 2011	For the period ended June 30, 2010
Weighted average risk-free interest rate	-	0.61%
Weighted average expected life	-	5 years
Estimated expected volatility in the market price of the common shares	-	123%
Expected dividend yield	-	0%

The weighted average fair value per share option granted for the three and six month periods ended June 30, 2011 were nil as no share options were granted. The weighted average fair value per share option granted for the three and six month periods ended June 30, 2010 was $0.29.

9. Commitments

9.1 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 six month period ended June 30, 2011, the Company recognized $152 (2010 - $156) of operating lease payments as expenses. For the three month period ended June 30, 2011, the Company recognized $76 (2010 - $74) of operating lease payments as expenses.

9.2 Non-cancellable minimum operating lease commitments

Non-cancellable minimum operating lease commitments are due as follows:

	June 30 2011	**December 31 2010**
Not later than one year	310	295
Later than one year and not later than five years	511	633
Later than five years	–	–
	821	928

10. Revenue

Revenue for the three and six months ended June 30.

	Three months ended		**Six months ended**	
	2011	**2010**	**2011**	**2010**
Cylinder and systems	4,145	9,168	7,229	13,117
Research and development	1,579	696	2,830	1,076
Interest and other income	14	–	557	1
	5,738	9,864	10,616	14,194

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 were met which resulted in de-recognition of the amount at March 31, 2011. A gain of $537 (2010 - $nil) was recorded upon de-recognition.

11. Net loss per share

Basic and diluted net loss per share for the three and six months ended June 30 is as follows:

	Three months ended		**Six months ended**	
	2011	**2010**	**2011**	**2010**
Basic net income (loss) per share	(0.06)	0.00	(0.10)	(0.08)
Diluted net income (loss) per share	(0.06)	0.00	(0.10)	(0.08)

For the six month period ended June 30, 2011, 186,027 share options were anti-dilutive (2010 – 113,868) and were excluded from the calculation of diluted loss per share.

11. Net loss per share (continued)

	Three months ended		Six months ended	
	2011	2010	2011	2010
Net income (loss) used in the calculation of basic and diluted net loss per share	(1,230)	15	(2.108)	(1,612)

11.1 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 six month periods ended June 30 are as follows:

	June 30 2011	June 30 2010
Weighted average number of common shares used in the calculation of basic earnings per share	20,959,500	20,959,203
Common shares assumed issued on exercise of share options	443,024	184,282
Common shares repurchased from proceeds of exercise of share options	(443,024)	(184,282)
	20,959,500	20,959,203

At June 30, 2011, 595,717 share options (December 31, 2010 - 175,000) had an exercise price in excess of the period ending closing share price of $0.26 (December 31, 2010 - $0.33).

12. Segment information

12.1 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.

12. Segment information (continued)

12.2 Geographical information

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

The Company's revenue from external customers for the three and six months ended June 30 and information about its non-current assets by geographical location at June 30 are detailed below.

	Revenue for three months ended June 30		Revenue for six months ended June 30		Non-current assets as at June 30	
	2011	2010	2011	2010	2011	2010
North America	1,192	1,696	2,921	2,207	14,085	15,331
European Union	4,027	7,734	6,514	11,462	2,135	2,210
Other	519	434	1,181	525	–	–
	5,738	9,864	10,616	14,194	16,220	17,541

12.3 Information about major customers

Included in revenues for the three and six month period ended June 30, 2011 are revenues of $0.6 million (2010 - $2.2 million) and $1.4 million (2010 -$3.5 million) respectively, which arose from sales to the Company's largest customer. Two customers (2010 – two customers) contributed 10% or more of the Company's revenue for the six month period ended June 30, 2011.

13. Financial risk management and financial instruments

Significant accounting policies

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 June 30, 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 June 30, 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.

13.1 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

13.1 Credit risk (continued)

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 June 30, 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 June 30, 2011, the Company has trade receivables outstanding from four customers (December 31, 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 June 30, 2011 and December 31, 2010, management determined there was no impairment of any of the financial assets of the Company, other than as reflected in Note 5.

13.2 Market risk

Market risk represents the potential losses that the Company may incur as result of unfavorable 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 June 30, 2011, the Company has a $4.25 million (December 31, 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 $3.95 million on this credit facility at June 30, 2011 (December 31, 2010 – $1.75 million). 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.

The Company has a $4.5 million mortgage on its Calgary production facility as at June 30, 2011. 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 borrowings are exposed to fluctuations in interest rates. Based on the outstanding amounts as at June 30, 2011, a 0.25% change in the interest rate would have changed the net loss of the Company during the three and six month periods ended June 30, 2011 by $4 and $9 respectively (2010 - $3 and $8 respectively) 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 and six month periods ended June 30, 2011 and 2010.

Based on Dynetek Germany net assets at June 30, 2011, a $0.05 increase or decrease in the CAD / Euro exchange rate would have changed the foreign currency translation reserve and the Statement of Comprehensive Income of the Company by $192 (2010 - $195) before tax effect. Foreign denominated financial instruments outstanding at June 30, 2011 would have changed the net loss of the Company by $139 for the six month period ended June 30, 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 June 30, 2011, a $0.05 increase or decrease in the CAD / USD exchange rate would have changed the net loss of the Company by $60 (2010 - $36) 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.

The foreign denominated financial instruments at June 30, 2011 and 2010 are as follows:

	June 30, 2011		June 30, 2010	
	Euro	**USD**	**Euro**	**USD**
Cash	228	512	916	427
Trade receivables and other	3,291	1,979	3,254	1,693
Trade payables and other	(737)	(1,295)	(117)	(1,402)
	2,782	1,196	4,053	718

13.3 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 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

13.3 Liquidity risk (continued)

changing capital expenditure requirements 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 7, 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 June 30, 2011 for each of the next five years and thereafter.

	Total	Remainder 2011	2012	2013	2014	2015	Thereafter
Finance leases	287	82	149	56	–	–	–
Mortgage	6,086	251	546	529	512	496	3,752
Operating leases	821	155	310	306	50	–	–
Total contractual obligations	7,194	488	1,005	891	562	496	3,752

13.4 Fair values of financial instruments

The Company's financial instruments include cash and restricted cash, trade receivables and other, trades payable and other, 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 June 30, 2011 is disclosed below by financial instrument category.

	June 30 2011 Carrying Value	June 30 2011 Fair Value	Dec 31 2010 Carrying Value	Dec 31 2010 Fair Value
Fair Value Through Profit and Loss (FVTPL)				
Cash and restricted cash	1,398	1,398	1,370	1,370
Loans and Receivables				
Trade receivables and other	5,381	5,381	3,737	3,737
Other Liabilities				
Trade payables and other	4,745	4,745	3,651	3,651
Bank indebtedness	3,134	3,134	856	856
Contribution agreements[a]	-	-	537	406
Mortgage	4,526	4,526	4,554	4,554
Finance leases[b]	269	275	322	333

[a] The fair value of the contribution agreements is measured at amortized cost using the effective interest method. At December 31, 2010, the cost of borrowing for equipment was 4.25 % per annum.

[b] The fair value of the finance leases is measured using the Company's cost of borrowing for equipment. At June 30, 2011 and December 31, 2010, the cost of borrowing for equipment was Euribor plus 3% per annum.

13.4 Fair values of financial instruments (continued)

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 June 30, 2011.

	Level 1	Level 2	Level 3	Total
Financial assets at FVTPL				
Cash and restricted cash	990	408	-	1,398

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	962	408	-	1,370

13.5 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.

13.6 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:

	June 30 2011	December 31 2010
Shareholders' equity	20,201	21,921
Borrowings and finance leases (current and long-term)	4,795	5,413
Cash	(990)	(962)
Total capital	24,006	26,372

13.6 Capital risk management (continued)

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 7). As of the date of these financial statements, the lender has not indicated any intention to demand repayment of the operating line of credit as a result of this breach of covenant. Post balance sheet date, the Company has received $1.8 million in cash proceeds from a sale and leaseback transaction (see Note 16) and is completing other activities deemed appropriate to ensure access to sufficient working capital.

The Company's overall strategy with respect to capital risk management for the six month period ended June 30, 2011 remained unchanged from the year ended December 31, 2010.

13.7 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.

14. 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 and six months ended June 30, 2011, the Company purchased under normal terms and conditions $545 (2010 - $456) and $1.177 million (2010 - $894) respectively, 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 to a company controlled by the Chairman in 2010. The Company recognized this amount as a 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.

15. Reconciliation of Canadian GAAP to IFRS at June 30, 2010

An explanation of how the transition from Canadian GAAP to IFRS has affected the Company's financial position, and financial performance for the three and six month periods ended June 30, 2010 is set out in the following tables.

The consolidated balance sheet at June 30, 2010 has been reconciled to IFRS as follows:

	Notes	Canadian GAAP	Effect of transition to IFRS	IFRS
Assets				
Current assets				
Cash		290		290
Restricted cash		408		408
Trade receivables and other		8,063		8,063
Inventory	(a)	10,380	(1,046)	9,334
Prepaid expenses and other		366		366
		19,507		18,461
Non-current assets				
Intangible assets	(a)	4,208	(83)	4,125
Property, plant and equipment	(a)(c)	13,657	(241)	13,416
Total assets		**37,372**		**36,002**
Liabilities				
Current liabilities				
Bank indebtedness		362		362
Trade payables and other		4,682		4,682
Deferred revenue		793		793
Current portion of long term borrowing and finance leases	(c)	853	20	873
		6,690		6,710
Non-current				
Long term borrowing and finance leases	(c)	6,206	40	6,246
Total liabilities		12,896		12,956
Shareholders' equity				
Share capital		52,423		52,423
Contributed surplus	(b)	2,903	79	2,982
Foreign currency translation reserve	(a)	–	(775)	(775)
Deficiency	(a)(b)(c)	(30,850)	(734)	(31,584)
		24,476		23,046
Total liabilities and shareholders' equity		**37,372**		**36,002**

The consolidated statement of comprehensive income for the six months ended June 30, 2010 has been reconciled to IFRS as follows:

	Notes	Canadian GAAP	Effect of transition to IFRS	IFRS
Revenue		14,268	(74)	14,194
Cost of sales	(d)(e)	(11,247)	(483)	(11,730)
Gross profit		3,021		2,464
Expenses				
General and administrative	(d)(e)	3,051	(610)	2,441
Marketing		629	51	680
Finance costs	(c)	173	1	174
Foreign exchange loss	(a)	397	311	708
Share based compensation		73		73
		4,323		4,076
Loss before taxes		(1,302)		(1,612)
Provision for income taxes		–		–
Net loss for the period		(1,302)		(1,612)
Other comprehensive income (loss), net of tax				
Exchange loss on translating foreign operations, net of tax (nil)	(a)	–	(775)	(775)
Total comprehensive loss		(1,302)		(2,387)
Net loss per share				
Basic and diluted per share		(0.06)		(0.08)

The consolidated statement of comprehensive income for the three month period ended June 30, 2010 has been reconciled to IFRS as follows:

	Notes	Canadian GAAP	Effect of transition to IFRS	IFRS
Revenue		9,938	(74)	9,864
Cost of sales	(d)(e)	(7,770)	(220)	(7,990)
Gross profit		2,168		1,874
Expenses				
General and administrative	(d)(e)	1,516	(341)	1,175
Marketing		316	51	367
Finance costs		99		99
Foreign exchange loss	(a)	83	98	181
Share based compensation		37		37
		2,051		1,859
Income before taxes		117		15
Provision for income taxes		–		–
Net income for the period		117		15
Other comprehensive income (loss), net of tax				
Exchange loss on translating foreign operations, net of tax (nil)	(a)	–	(277)	(277)
Total comprehensive income (loss)		117		(262)
Net income (loss) per share				
Basic and diluted per share		0.00		0.00

Notes to the IFRS reconciliation above:

Consolidated Balance sheet as at June 30, 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 month-end exchange rate. 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 $83 as at June 30, 2010.

Notes to the IFRS reconciliation above (continued):

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 month-end exchange rate. 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 $316 as at June 30, 2010.

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 month-end exchange rate. Under Canadian GAAP, non-monetary assets held in foreign operations were translated to Canadian dollars at historical exchange rates. As a result of these changes, the carrying amount of inventory was reduced by $1,046 million at June 30, 2010.

With the transition from applying the temporal method under previous Canadian GAAP to the adoption of IAS 21 under IFRS, which permits the cumulative translation account to be reset to zero at January 1, 2010, the deficiency account increased by $357 at June 30, 2010. The deficiency account includes the increase of $66 at January 1, 2010 as a result of IFRS adjustments with the transition to IFRS. As a result of the transition to IFRS, the foreign exchange loss account increased by $311 at June 30, 2010.

The foreign currency translation reserve at June 30, 2010, reflects 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

At January 1, 2010, the Company adjusted its graded vesting and forfeiture estimates which are recognized in the period they are estimated and revised prospectively in future periods. As a result of these changes, the Company's contributed surplus account increased by $79.

(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 $75 at June 30, 2010 and a financial lease obligation with a carrying value of $60. The impact to the Condensed Consolidated Statement of Comprehensive Income was a reduction to general and administrative expense of $6 and an increase to finance costs of $1 for the six months ended June 30, 2010 and a $3 reduction to general and administrative expense for the three month period ended June 30, 2010

Consolidated statement of comprehensive income (loss) as at June 30, 2010:

(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. For the three and six months ended June 30, 2010, depreciation expense of $208 and $377 respectively, has been reclassified to cost of sales.

(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

Notes to the IFRS reconciliation above (continued):

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. For the three and six month periods ended 30, 2010, amortization expense of $95 and $187, respectively has been reclassified to cost of sales.

Consolidated statement of cash flows for the six months ended June 30, 2010:

There are no material differences between the statement of cash flows presented under IFRS and the statement of cash flows presented under previous Canadian GAAP.

16. Subsequent Event

On July 31, 2011, the Company completed a sale and leaseback transaction for its land and production facility located in Calgary. The Company sold its land and building for gross proceeds of $6.4 million less transaction and closing costs of $0.1 million. The proceeds will be used to repay the outstanding mortgage balance of $4.5 million and for general working capital purposes. The Company will lease the land and production facility under a ten-year lease.

Dynetek Industries Ltd.

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, 2011 and December 31, 2010 and results of operations for the three and six months ended June 30, 2011 and 2010 and is based on information available as at August 2, 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 14 of the June 30, 2011 unaudited condensed consolidated financial statements discloses the impact of the transition to IFRS on Dynetek's reported financial position, operations and cash flows at June 30, 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 generally accepted accounting principles ("GAAP"). It also occasionally uses certain non-GAAP financial measures, such as EBITDA, Normalized 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 Normalized EBITDA as EBITDA adjusted for excess shareholder compensation and non-recurring items. 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)	Three months ended June 30		Six months ended June 30	
	2011	2010	**2011**	2010
Revenue				
Cylinder and system	**4,145**	9,168	**7,229**	13,117
Research and development	**1,579**	696	**2,830**	1,076
Interest and other income	**14**	-	**557**	1
Total Revenue	**5,738**	9,864	**10,616**	14,194
Net income (loss)	**(1,230)**	15	**(2,108)**	(1,612)
Net income (loss) per common share (basic and fully diluted)	**(0.06)**	0.00	**(0.10)**	(0.08)
EBITDA [(1)]	**(684)**	883	**(1,136)**	447
Cash flow (deficiency) from operations	**(729)**	912	**(1,637)**	(7)
Property, plant and equipment and intangible expenditures	**170**	231	**384**	485
Cash	**990**	290	**990**	290
Non-cash working capital [(1)]	**6,933**	11,053	**6,933**	11,053
Working capital [(1)]	**8,331**	11,751	**8,331**	11,751
Total assets	**33,676**	36,002	**33,676**	36,002
Long-term borrowings and finance leases	**4,795**	7,069	**4,795**	7,069
Weighted average number of common shares outstanding	**20,959,500**	20,959,203	**20,959,500**	20,959,203

[(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, 2011 were $7.2 million, a decrease of 45% from $13.1 million for the same period of 2010. North American operations increased its cylinder revenue for the first six months of 2011 compared to 2010 but the European operations experienced decreased cylinder and system revenue for the first six months of 2011 compared to 2010. The overall decrease was the result of lower cylinder and system orders from European bus manufacturer who are major customers of the European operations and lower levels of spending by European municipalities for CNG products. Since the fourth quarter of 2010, the European bus manufacturers have experienced lower capital expenditures from European customers including European municipalities.

Cylinder and system sales for the three months ended June 30, 2011 were $4.1 million, a decrease of $5.0 million or 55% from $9.1 million in 2010. The decrease in cylinder and system sales in the second quarter of 2011, compared to the same quarter of 2010, was reflective of the reduced 2011 orders from European bus manufacturers and municipalities. In addition, the European operations experienced a deferral of sales from the first quarter of 2010 and specific European sales which were forecasted to be delivered in the third quarter of 2010 being realized in the second quarter of 2010.

(thousands of Canadian dollars) (unaudited)	Three months ended June 30		Six months ended June 30	
	2011	2010	**2011**	2010
Cylinder and system sales				
European operations	**2,436**	7,016	**3,673**	10,278
North American operations	**1,709**	2,152	**3,556**	2,839
	4,145	9,168	**7,229**	13,117

The North American operation increased its sales for the first six months of 2011 by $0.7 million, compared to the same period of 2010. 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.

Research and development income for the six months ended June 30, 2011 was $2.8 million, an increase of 163%, from $1.1 million for the same period in 2010. The 2011 year-to-date 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 six months of 2011, as the Company continues to complete delivery of its major hydrogen valve purchase orders. Research and development income for the three months ended June 30, 2011 was $1.6 million, an increase of 127%, from $0.7 million from the same period in 2010.

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 six month period ended June 30, 2011 was $0.6 million compared to a minor amount for the same period of 2010. The $0.6 million increase was the result of the settlement of the remaining government contribution agreement at March 31, 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 $10.1 million for the six month period ended June 30, 2011, compared to $11.7 million for the same period in 2010. Cost of sales was $5.9 million for the three month period ended June 30, 2011, compared to $8.0 million for the for the same period of 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 decreases in cost of goods sold for the three and six month periods ending June 30, 2011 reflect the lower sales activity from the European operations and margins associated with research and development projects. The decrease in cost of goods sold was partially offset by 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 $0.5 million for the six month period ended June 30, 2011 was $2.0 million lower compared to the first half of 2010. Gross profit was negative ($0.1 million) for the second quarter of 2011, compared to $1.9 million for the second quarter of 2010. The three and six month decrease in 2011 gross profit compared to the same periods of 2010 was due to decreased European sales in the second quarter of 2011. Corresponding gross profit percentage for the first six months of 2011 was 0% of sales compared to 17% of sales for the same period of 2010. Gross profit as a percentage of sales decreased quarter over quarter in 2011 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 six months of 2011 was mitigated by the settlement of $0.5 million from the last government contribution agreement.

General and administrative expense was $1.9 million for the six month period ended June 30, 2011, compared to $2.4 million for the same period of 2010. General and administrative expense was $0.7 million for the three month period ended June 30, 2011, compared to $1.2 million for the same period of 2010. The decrease reflects the decision by management at June 30, 2011 to eliminate incentive compensation accrued at December 31, 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 six month period ended June 30, 2011, depreciation and amortization expense classified to general and administrative expense was $0.5 million which was comparable to the same period of 2010.

Marketing expense was $0.5 million for the six months ended June 30, 2011, a decrease of $0.2 million, compared to the same period of 2010. Marketing expense was $0.3 million for the three months ended June 30, 2011, a decrease of $0.1 million compared to the same period of 2010. The three and six month decreases in marketing expense reflects lower

European commissions as a result of lower sales activities from the European operations. Marketing expense remained constant at 5% of revenue for the six months ended June 30, 2011 compared to the same period of 2010.

Finance costs of $199 thousand for the six month period ended June 30, 2011 was higher compared to interest expense of $174 thousand for the same period of 2010. Interest expense for the second quarter of 2011 was $116 thousand compared to $99 thousand for the same quarter of 2010. The increase in interest expense for the three and six month period ended June 30 was due to greater utilization of its $4.25 million line of credit as the Company had greater working capital requirements.

Foreign exchange gain for the six month period ended June 30, 2011 was $0.15 million compared to a loss of $0.7 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 half of 2011 was due to the strengthening of the Euro against the Canadian dollar and was offset by weakening of the US dollar against the Canadian dollar. At June 30, 2011, the exchange rates for 1 Euro was $1.40 Canadian and for 1 US dollar was $0.96 Canadian, compared to exchange rates at December 31, 2010 of 1 Euro worth $1.33 Canadian and 1 US dollar worth $0.99 Canadian. During the second quarter of 2011, the Euro continued to strengthen against the Canadian dollar while the US dollar continued to weaken against the Canadian dollar.

In contrast, the exchange rates for 1 Euro was 1.30 and for 1 US dollar was 1.06 at June 30, 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 during the first half of 2010 resulted in the foreign exchange loss of $0.7 million.

Share based compensation for six month period ended June 30, 2011 was $103 thousand compared to $73 thousand in the same period of 2010 and share based compensation for three months ended June 30, 2011 was $52 thousand compared to $37 thousand in the same period of 2010. The increases for each of the three and six month periods of 2011 were related to the Company issuing 1,740,880 stock options during 2010.

Net Loss for the six month period ended June 30, 2011 was ($2.1) million or ($0.10) per common share compared to the net loss of ($1.6) million or ($0.08) per common share for the comparable period of 2010. Net loss for the three months ended June 30, 2011 was ($1.2) million or ($0.06) per common share compared to the net income of $15 thousand or $0.00 per common share for the comparable period of 2010. The increase in net loss for the six months ended June 30, 2011 compared to the first six months of 2010 is substantially the result of decreased sales activity from the European operations.

Exchange gain on translating foreign operations for the six month period ended June 30, 2011 was $0.3 million compared to an exchange loss on translating foreign operations of $0.8 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 June 30, 2011, the exchange rate for 1 Euro was $1.40 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 $0.3 million for the first six months of 2011 and a translation gain of $0.1 million for the three month period ending June 30, 2011.

In contrast, the translation loss of $0.8 million in the first half of 2010 was the result of the strengthening of the Canadian dollar against the Euro. At June 30, 2010, the exchange rate for 1 Euro was $1.30 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 June 30, 2011. The information has been obtained from the Company's quarterly unaudited financial statements, which have been prepared in accordance with Canadian GAAP and IFRS as applicable, 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				
(thousands of Canadian dollars except per share data)	Sept 30 2009	Dec 31 2009	Mar 31 2010	June 30 2010	July 1 - Dec 31 2010	Mar 31 2011	June 30 2011
(unaudited)							
Revenues							
Cylinder and system sales	7,433	4,893	3,949	9,168	9,155	3,084	4,145
Research & development income	920	912	380	696	1,984	1,251	1,579
Investment & other income	1	61	1	-	1,495	543	14
	8,354	5,866	4,330	9,864	12,634	4,878	5,738
Cost of sales	(6,707)	(5,404)	(3,740)	(7,990)	(9,653)	(4,247)	(5,868)
Gross profit	1,647	462	590	1,874	2,981	631	(130)
General and administrative (G&A) plus marketing	(1,348)	(1,042)	(1,579)	(1,542)	(4,103)	(1,470)	(993)
Add: depreciation and amortization in cost of sales and G&A	-	-	553	551	1,175	387	439
EBITDA[1]	299	(580)	(436)	883	53	(452)	(684)
Finance costs	(94)	(98)	(75)	(99)	(179)	(83)	(116)
Taxes	-	-	-	-	-	-	-
Share based compensation	(27)	(26)	(36)	(37)	(102)	(51)	(52)
Foreign exchange (loss) gain	143	(199)	(527)	(181)	66	95	57
Depreciation & amortization	(595)	(823)	(553)	(551)	(1,175)	(387)	(439)
Gain (loss) on equipment disposal	-	(299)	-	-	(2)	-	4
Net Income (loss)	(274)	(2,025)	(1,627)	15	(1,339)	(878)	(1,230)
Net Income (loss) per share Basic and fully diluted	(0.02)	(0.09)	(0.08)	0.00	(0.06)	(0.04)	(0.06)

[1] 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 operation 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)

	Three months ended June 30		Six months ended June 30	
	2011	2010	**2011**	2010
Patents	**-**	-	**-**	-
Certification costs	**12**	105	**67**	173
Project costs	**136**	78	**261**	103
	148	183	**328**	276

Intangible asset and project cost expenditures of $0.3 million for the six months ended June 30, 2011 were comparable for the same period of 2010. Intangible asset and project cost expenditures of $0.2 million for the three month period ended June 30, 2011 were also comparable to the same period of 2010. The intangible and project cost expenditures for the first six months of 2011 were related to the Indian and Korean development costs for the respective joint venture in each country. The intangible asset and project costs for the first six months of 2010 were related to obtaining new product certifications in North America and India and initial development costs to establish the Korean joint venture.

Capital Expenditures

(thousands of Canadian dollars)
(unaudited)

	Three months ended June 30		Six months ended June 30	
	2011	2010	**2011**	2010
Building and leaseholds	**-**	-	**4**	-
Manufacturing equipment	**3**	21	**121**	96
Office furniture and other equipment	**-**	-	**1**	7
Computer hardware and software	**5**	-	**5**	13
Manufacturing equipment under construction	**15**	27	**(75)**	93
	23	48	**56**	209

Capital expenditures for the six months ended June 30, 2011 were $56 thousand, a decrease of $153 thousand from the same period in 2010. Capital expenditures for the three months ended June 30, 2011 were $23 thousand compared to a $48 thousand in the second quarter of 2010. The six month additions for each of 2011 and 2010 were primarily due to minor upgrades to manufacturing equipment. In the first quarter of 2010, the Company began to upgrade specific production equipment with the upgrades being completed during the first quarter of 2011. When the upgrades were placed into service, this resulted in reducing the balance of manufacturing equipment under construction. The same additions placed in service in 2011 were started in the first quarter of 2010 and classified as manufacturing equipment under construction.

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, 2011, Dynetek had cash of $1.0 million, which was comparable to December 31, 2010. Dynetek had a cash flow deficiency from operations of ($1.6) million for the period ended June 30, 2011 compared to neutral cash flow from operations for the six months ended June 30, 2010. The cash flow deficiency in the first half of 2011 is indicative of the cash cycle required to purchase an inventory of raw materials, manufacture orders from the customer and collect the trade

receivables from the customer. The Company is expecting higher levels of cylinder sales in the second half of 2011. The Company realized a greater level of cylinder sales in the first half of 2010 resulting in breakeven cash flow from operations.

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 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 June 30, 2011, $3.95 million has been drawn on this credit facility, compared to $1.75 million at December 31, 2010. All financial covenants under the credit agreement were in compliance at June 30, 2011 and December 31, 2010 with the exception of working capital ratio at June 30, 2011 which was 1.9:1.0 compared to a covenant of 2.0:1.0. As of the date of this MD&A, the lender has not indicated any intention to demand repayment of the operating line of credit as a result of this breach of covenant.

The following table provides additional information on working capital balances at June 30, 2011 as compared to December 31, 2010.

(thousands of Canadian dollars)	**June 30 2011**	December 31 2010	Change in working capital
Cash and restricted cash	**1,398**	1,370	28
Trade receivables and other	**5,381**	3,737	1,644
Inventory	**10,303**	9,843	460
Prepaid expenses and other	**374**	687	(313)
Bank indebtedness	**(3,134)**	(856)	(2,278)
Trade payables and other	**(4,745)**	(3,651)	(1,094)
Deferred revenue	**(801)**	(483)	(318)
Current portion of borrowings and finance leases	**(445)**	(304)	(141)
	8,331	10,343	(2,012)

At June 30, 2011 trade receivables were $5.4 million, representing an increase of $1.6 million when compared to December 31, 2010. This increase is primarily the result of increased cylinder sales from the North American operations and high levels of research and development activities.

The Company's investment in inventory increased by $0.5 million at June 30, 2011 from $9.8 million at December 31, 2010. The increase was the result of the of the North American operations increasing inventory levels to fulfill deliveries in the second half of 2011 and materials required for new research and development projects. The following table summarizes the inventory balance at June 30, 2011 compared to December 31, 2010.

(thousands of Canadian dollars)	**June 30 2011**	December 31 2010	Change in inventory
Raw materials	**2,676**	2,675	1
Work-in-progress	**4,303**	3,924	379
Finished goods	**3,324**	3,244	80
	10,303	9,843	460

Work-in-progress inventory increased to $4.3 million at June 30, 2011 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 third quarter. In addition, work-in-progress includes research and development projects that have products that are being developed. Finished goods, substantially represented by confirmed orders to be delivered, increased by $0.1 million to $3.3 million. The Company forecasts greater cylinder and system revenue in the remaining quarters for the European operations. 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. Levels of raw materials at June 30, 2011 remained constant to levels at December 31, 2010.

Trade payables and other at June 30, 2011 were $4.7 million, compared to $3.6 million as at December 31, 2010. This increase is representative of the increase in materials required to produce additional inventory in the second quarter of 2011 and the increase in research and development expenditures to support on-going projects.

Deferred revenue at June 30, 2011 was $0.8 million, an increase of $0.3 million, compared to $0.5 million at December 31, 2010. 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.

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 obligations relate to production equipment and a vehicle at the European operation. The Company is scheduled to repay $0.3 million against the BDC mortgage principal over the next twelve months. The Company exercised its option to extend repayment of mortgage 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.

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 13 of the unaudited condensed consolidated financial statements for the period ended June 30, 2011.

Subsequent Event

On July 31, 2011, the Company completed a sale and leaseback transaction for its land and production facility located in Calgary, Alberta. The Company sold its land and building for gross proceeds of $6.4 million less transaction and closing costs of $0.1 million. The proceeds will be used to repay the outstanding mortgage balance of $4.5 million and provide $1.8 million for working capital purposes. The Company will lease the land and production facility under a 10-year lease.

Transactions with Related Parties

Through June 30, 2011, there was one transaction with a related party which was completed in the normal course of business.

For the three and six months ended June 30, 2011, the Company purchased, under normal terms and conditions, $0.5 million and $1.2 million, respectively, of material used in the production of lightweight fuel storage systems from Mitsubishi Rayon Corporation, a shareholder of the Company. For the three and six month period ended June 30, 2010, the Company purchased $0.5 million and $0.9 million, respectively, of the same material from the same related party under normal terms and conditions.

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)
Balance at December 31, 2010 and June 30, 2011	20,959,500	52,423

Securities convertible into common shares:	June 30 2011	December 31 2010
Stock options	2,883,380	2,889,880
Warrants	8,722	39,879

As at August 2, 2011, common shares outstanding were 20,959,500, options outstanding were 2,878,630 and warrants outstanding were 8,722.

International Financial Reporting Standards

The Company began to report under IFRS standards with the issuance of its unaudited condensed consolidated financial statements for the three months ended March 31, 2011 and 2010. The initial IFRS consolidated financial statements were 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 dated March 31, 2011.

The unaudited condensed consolidated financial statements as at March 31, 2011 included IFRS 1 *First Time Adoption of* IFRS ("IFRS 1"). The unaudited condensed consolidated financial statements for June 30 and March 31, 2011 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 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 of the condensed consolidated financial statements dated March 31, 2011.

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, 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.

OUTLOOK

Dynetek is focused on generating increased worldwide sales from its commercialized CNG products through geographic expansion. While Europe and North America continue to provide the majority of near term sales, Dynetek is seeking to expand its presence in the Asia-Pacific market through joint venture relationships in Korea, India and China.

In addition, Dynetek intends to focus on expanding its clean technology footprint through acquisitions in the areas of Supervisory Control and Data Acquisition ("SCADA") and Compressed Natural Gas Distribution Infrastructure. Both of these markets lever Dynetek's engineering expertise and knowledge of the CNG supply chain.

In accordance with the Company's foregoing strategy to expand its clean technology footprint into the SCADA market, Dynetek recently signed a non-binding letter of intent to acquire 100% of the outstanding shares of Control Systems Inc. ("CSI") of Jackson, Mississippi for USD $10 million. CSI has a leading market position in the SCADA sector in the Southeastern U.S., servicing utilities, food processors, industrial and oil and gas industries, with expansion opportunities in CNG related areas. Revenue for CSI's 11 month year-to-date period ending May 30, 2011 was approximately USD $12 million with Normalized EBITDA of approximately USD $3 million, based on unaudited, internally prepared financial statements.

Completion of the acquisition is subject to, among other things, completion of due diligence, completion of financing arrangements, settlement of definitive agreement and related documents, board approval and receipt of required regulatory approvals.

Reconciliation of Non-GAAP Financial Measures

EBITDA

GAAP Measures from Consolidated Statement of Comprehensive Income (thousands of Canadian dollars – unaudited)	Three months ended June 30 **2011**	2010	Six months ended June 30 **2011**	2010
Net Income (Loss) for the period	**(1,230)**	15	**(2,108)**	(1,612)
Provision for income taxes	**-**	-	**-**	-
Share based compensation	**52**	37	**103**	73
Foreign exchange loss (gain)	**(57)**	181	**(152)**	708
Gain on equipment disposal	**(4)**	-	**(4)**	-
Depreciation and Amortization in general & administration	**293**	248	**501**	538
Depreciation and Amortization in cost of sales	**146**	303	**325**	566
Finance costs	**116**	99	**199**	174
Non-GAAP measure - EBITDA	**(684)**	883	**(1,136)**	447

Working Capital and Non-Cash Working Capital

GAAP Measures from Consolidated Balance Sheets (thousands of Canadian dollars – unaudited)	**June 30 2011**	June 30 2010
Trade receivables and other	**5,381**	8,063
Inventory	**10,303**	9,334
Prepaids expenses and other	**374**	366
Bank indebtedness	**(3,134)**	(362)
Trade payables and other	**(4,745)**	(4,682)
Deferred revenue	**(801)**	(793)
Current portion of borrowings and finance leases	**(445)**	(873)
Non-GAAP measure – Non-Cash Working Capital	**6,933**	11,053
Add: Cash and restricted cash	**1,398**	698
Non-GAAP measure - Working Capital	**8,331**	11,751

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 MD&A contains forward-looking statements and should be read in conjunction with the financial statements and related notes for the quarterly interim financial statements for 2011 and the year ended December 31, 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; expectations as to 2011 revenue and cylinder units sales compared to 2010; future activity levels of European bus manufactures; expected increases in demand for cylinders; continuation of R&D contracts; the lease of land and production facility; Dynetek's expansion into the Asia Pacific market; Dynetek's expansion into the areas of SCADA and Compressed Natural Gas Distribution Infrastructure; and future acquisitions, including the CSI acquisition and the terms and conditions thereof.

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 exchange rates; and (v) 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; (v) actions by governmental or regulatory authorities including changes in environmental legislation; and (vi) a failure to complete the CSI acquisition as anticipated or at all. 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.