

Dynetek Industries Ltd. Reports Third Quarter 2011 Results

Calgary, Alberta, Canada – November 10, 2011 – Dynetek Industries Ltd. (“Dynetek” or “Company”) reported today its results for the three and nine months ended September 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

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

	Three months ended September 30		Nine months ended September 30	
	2011	2010	2011	2010
Cylinder and system sales	2,792	4,899	10,021	18,016
Research and development income	895	705	3,725	1,781
Investment and other income	80	5	637	6
Total revenue	3,767	5,609	14,383	19,803
EBITDA ¹	(2,134)	(9)	(3,270)	438
Net (loss) income	1,108	(551)	(1,000)	(2,163)
Net (loss) income per common share (basic and fully diluted)	0.05	(0.03)	(0.05)	(0.10)
Cash	484	1,062	484	1,062
Non-cash working capital ¹	7,629	10,461	7,629	10,461
Working capital ¹	8,113	11,931	8,113	11,931
Total assets	28,298	35,287	28,298	35,287
Long-term borrowings and finance leases	231	7,032	231	7,032
Property, plant and equipment and intangible expenditures	133	152	517	637
Cash flow (deficiency) from operations	(1,645)	621	(3,282)	614
Weighted average common shares outstanding	20,960,735	20,958,412	20,960,735	20,958,412

OPERATIONAL

Cylinder and system sales for the nine months ended September 30, 2011 were \$10.0 million, a decrease of 44% from \$18.0 million for the same period of 2010. North American operations experienced a decrease of \$0.7 million in cylinder and system sales comparing the nine months ending September 30, 2011 against 2010. The European operations experienced decreased cylinder and system sales of \$7.3 million comparing nine month of sales from 2011 against the same period of 2010. The overall decrease was the result of lower levels of spending from both American and European customers, the majority whom rely on government funding in their operations.

(thousands of Canadian dollars)
(unaudited)

Cylinder and system sales	Three months ended September 30		Nine months ended September 30	
	2011	2010	2011	2010
European operations	1,325	1,976	4,998	12,254
North American operations	1,467	2,923	5,023	5,762
	2,792	4,899	10,021	18,016

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, gain or loss on non-current asset disposal, 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.

Cylinder and system sales for the three months ended September 30, 2011 were \$2.8 million, a decrease of \$2.1 from \$4.9 million in the third quarter of 2010. The decrease in cylinder and system sales in the third quarter of 2011 was a continuation of economic factors that reduced cylinder and system sales for the first nine months of 2011. With European financial markets experiencing a high degree of volatility and American markets influenced by near-recessionary factors, government spending has significantly decreased throughout 2011.

Research and development ("R&D") income for the nine months ended September 30, 2011 increased 109%, to \$3.7 million compared \$1.8 million from the same period in 2010. R&D income for the three months ended September 30, 2011 increased 27%, to \$0.9 million from \$0.7 million in the third quarter of 2010. The 2011 year-to-date and third quarter increases reflect greater levels of R&D activities and a 13% increase in hydrogen valve revenue in 2011. The significant R&D contracts that began in the fourth quarter of 2010 will continue through 2012.

Gross profit was \$0.2 million for the first nine months of 2011, which was \$3.4 million lower compared to the same period of 2010. The decrease was the result of decreased cylinder and system sales, lower margins associated with research and development projects in progress, increased pricing for major raw materials 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 nine months ended 2011 was (\$2.1 million) and (\$3.3 million) respectively, compared to EBITDA of \$0.0 million and \$0.4 million for the same respective periods of 2010. The quarterly and year-to-date decreases to EBITDA were the result of reduced cylinder and system sales. Net income (loss) for the three and nine months ended September 30, 2011 was \$1.1 million or \$0.05 per common share and (\$1.0 million) or (\$0.05) per common share respectively, compared to net loss of (\$0.6) million or (\$0.03) per common share and (\$2.2 million) or (\$0.10) per common share for the same respective periods of 2010. Net income for the third quarter of 2011 was the result of the gain on sale of the Calgary facilities on August 1, 2011.

At September 30, 2011, working capital was \$8.1 million compared to \$10.3 million at December 31, 2010 and all financial covenants in the Company's credit agreement were in compliance.

OUTLOOK

Dynetek continues to focus 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.

The global economic slowdown in 2011 has had a negative impact on Dynetek's current markets. However, interest has increased significantly in new products that Dynetek is currently launching. These products include container systems for bulk transportation of CNG and other industrial gases and a Type 4 cylinder.

Although Dynetek continues to look for opportunities to expand its clean technology footprint, the Letter of Intent to acquire Control Systems Inc., which was disclosed in the second quarter results press release and MD&A, has expired without Dynetek making a formal offer.

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 government funding; expected increases in demand for cylinders; continuation of R&D contracts; and Dynetek's expansion into the Asia Pacific market.

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; and (v) actions by governmental or regulatory authorities including changes in environmental legislation. The Company cautions that the foregoing list of assumptions, risks and uncertainties is not exhaustive. Additional information on these and other factors that could affect operations or financial results can be found in the Company's Annual Information Form available on SEDAR at www.sedar.com. The Company does not undertake any obligation to publicly update or revise any forward-looking statements except as expressly required by applicable securities law.

For further information, please contact:

Douglas Pigot, Executive Chairman
Dynetek Industries Ltd.
4410 - 46th Avenue SE
Calgary, Alberta T2B 3N7
Tel Calgary: 403-720-0262
Toll free: 1-888-396-3835
Web: www.dynetek.com

Dynetek Industries Ltd.

Condensed Consolidated Financial Statements

For the Quarter ended September 30, 2011

Unaudited

Dynetek Industries Ltd.**Condensed Consolidated Statement of Comprehensive Income (Loss)**

(Unaudited)

For the three and nine month periods ended September 30

(thousands of Canadian dollars except per share amounts)

		Three months ended September 30		Nine months ended September 30	
	Notes	2011	2010	2011	2010
Revenue	13	3,767	5,609	14,383	19,803
Cost of sales		(4,056)	(4,508)	(14,171)	(16,238)
Gross profit		(289)	1,101	212	3,565
Expenses					
General and administrative		2,021	1,378	3,970	3,819
Marketing		285	359	799	1,039
Finance costs		79	95	278	269
Foreign exchange (gain) loss		(119)	(239)	(271)	469
Gain on non-current asset disposal	10	(3,714)	–	(3,718)	–
Share based compensation		51	59	154	132
		(1,397)	1,652	1,212	5,728
Income (loss) before taxes		1,108	(551)	(1,000)	(2,163)
Provision for income taxes		–	–	–	–
Net income (loss) for the period		1,108	(551)	(1,000)	(2,163)
Other comprehensive income (loss), net of tax					
Exchange gain (loss) on translating foreign operations, net of tax (nil)		(19)	463	266	(312)
Total comprehensive income (loss)		1,089	(88)	(734)	(2,475)
Net income (loss) per share					
Basic and diluted per share	14	0.05	(0.03)	(0.05)	(0.10)

See accompanying notes to the unaudited condensed consolidated financial statements.

Dynetek Industries Ltd.
Condensed Consolidated Balance Sheet

(Unaudited)
(thousands of Canadian dollars)

	Notes	September 30 2011	December 31 2010
Assets			
Current assets			
Cash		484	962
Restricted cash	6	–	408
Trade receivables and other	7	3,286	3,737
Inventory	8	10,809	9,843
Prepaid expenses and other		394	687
		14,973	15,637
Non-current assets			
Property, plant and equipment	10	10,074	13,137
Intangible assets		3,251	3,550
Total assets		28,298	32,324
Liabilities			
Current liabilities			
Bank indebtedness	9	2,351	856
Trade payables and other		3,520	3,651
Deferred revenue		854	483
Current portion of borrowings and finance leases		135	304
		6,860	5,294
Non-current			
Long term borrowings and finance leases		96	5,109
Total liabilities		6,956	10,403
Shareholders' equity			
Share capital	11	52,424	52,423
Contributed surplus	11.1	3,239	3,085
Foreign currency translation reserve		(398)	(664)
Deficiency		(33,923)	(32,923)
		21,342	21,921
Total liabilities and shareholders' equity		28,298	32,324

See accompanying notes to the unaudited condensed consolidated financial statements.

Dynetek Industries Ltd.

Condensed Consolidated Statements of Changes in Equity

(Unaudited)

For the nine month periods ended September 30 and the year ended December 31, 2010

(thousands of Canadian dollars, except number of shares)

	Share Capital		Contributed surplus ^(a)	Foreign currency translation reserve	Net (loss)	Total equity
	Number of shares issued and outstanding	Amount				
Balance at January 1, 2010	20,956,500	52,422	2,910	–	(29,971)	25,361
Net loss for the period					(2,163)	(2,163)
Other comprehensive loss, net of tax (nil)				(312)		(312)
Exercise of share options for common shares	3,000	1				1
Share based compensation expense			131			131
Balance at September 30, 2010	20,959,500	52,423	3,041	(312)	(32,134)	23,018
Net loss for the period					(789)	(789)
Other comprehensive loss, net of tax (nil)				(352)		(352)
Share based compensation expense			44			44
Balance at December 31, 2010	20,959,500	52,423	3,085	(664)	(32,923)	21,921
Net loss for the period					(1,000)	(1,000)
Exercise of share options for common shares	4,750	1				1
Other comprehensive gain, net of tax (nil)				266		266
Share based compensation expense			154			154
Balance at September 30, 2011	20,964,250	52,424	3,239	(398)	(33,923)	21,342

^(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 Statements of Cash Flows

(Unaudited)

For the nine month periods ended September 30
(thousands of Canadian dollars)

	Notes	2011	2010
Cash flows from operating activities			
Loss before taxes		(1,000)	(2,163)
Adjustments for:			
Share based compensation expense		154	132
Depreciation from general and administrative		359	340
Depreciation from cost of sales		217	555
Amortization from general and administrative		442	542
Amortization from cost of sales		269	294
Gain on non-current asset disposal	10	(3,718)	–
Contribution agreement settled	13	(537)	–
Interest income		(3)	(6)
Interest income received		3	6
Finance costs		278	269
Unrealized foreign exchange (gain) loss		(97)	191
		(3,633)	160
Changes in non-cash working capital:			
Trade receivables and other		451	256
Inventory		(846)	(673)
Prepaid expenses and other		293	(1)
Trade payables and other		(131)	996
Deferred revenue		371	155
Unrealized foreign exchange relating to non-cash working capital		213	(279)
Cash (used in) from operating activities		(3,282)	614
Investing activities			
Proceeds from non-current asset sale		1,766	–
Additions to property, plant and equipment		(119)	(397)
Additions to intangible assets		(398)	(240)
Cash (used in) from investing activities		1,249	(637)
Financing activities			
Repayment of borrowings and finance leases		(134)	(344)
Cash received on exercise of share options		1	1
Finance costs paid		(278)	(269)
Cash (used in) financing activities		(411)	(612)
Unrealized foreign exchange gain (loss) on cash held in foreign currencies		63	(85)
Decrease in cash		(2,381)	(720)
Cash, beginning of period		514	1,448
Cash, end of period		(1,867)	728
Cash consists of:			
Cash		484	1,062
Restricted cash		–	408
Bank indebtedness		(2,351)	(742)
		(1,867)	728

See accompanying notes to the unaudited condensed consolidated financial statements.

Dynetek Industries Ltd.

Notes to the Condensed Consolidated Financial Statements

For the three and nine month periods ended September 30, 2011 and 2010

(Unaudited)

(amounts in thousands of Canadian dollars or as otherwise indicated, except per share amounts)

1. General information

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

The 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 September 30, 2011 and for the three and nine month periods ended September 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 September 30, 2011 and 2010 and for the three and nine months ended September 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 November 9, 2011.

3. Going concern

These financial statements have been prepared on a going concern basis. The going concern basis assumes that the Company will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities and commitments in the normal course of business.

At September 30, 2011, the Company had not yet achieved profitable operations since its inception and accumulated a deficiency of \$33,923 (2010 - \$32,923) and recognized a cash flow deficiency from operations of \$3,282 (2010 cash from operations - \$160). Although the lack of profitable operations and cash flow deficiency may cast significant doubt on the Company’s ability to continue as a going concern, the Company maintained a working capital surplus of \$8,113 (2010 - \$10,343) at September 30, 2011.

Dynetek Industries Ltd.

Notes to the Condensed Consolidated Financial Statements

For the three and nine month periods ended September 30, 2011 and 2010

(Unaudited)

(amounts in thousands of Canadian dollars or as otherwise indicated, except per share amounts)

3. Going concern (continued)

The ability to continue as a going concern is dependent on completing equity or debt financings or generating profitable operations in the future in order to meet liabilities as they come due and enable the Company to continue operations. To address its financing requirements, the Company may seek additional financing through debt or equity issuance, asset sales or rights offerings to existing shareholders. The outcome of these matters cannot be predicted at this time.

4. Significant accounting policies

4.1 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.

There have been no changes in the Company's accounting policies at September 30, 2011 from the accounting policies described in the Financial Statements dated March 31, 2011.

4.2 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.

4.3 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.

Dynetek Industries Ltd.

Notes to the Condensed Consolidated Financial Statements

For the three and nine month periods ended September 30, 2011 and 2010

(Unaudited)

(amounts in thousands of Canadian dollars or as otherwise indicated, except per share amounts)

5. 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;
- 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.

6. Restricted cash

The Company had \$408 (2010 – \$408) in restricted cash, representing funds used as security for loans between an officer and a director of the Company and a major chartered bank for the exercise of share options to purchase common shares of the Company prior to the initial public offering of the Company in 2000. On September 22, 2011 the restricted cash was used to repay the outstanding loans between the chartered bank and officer and director (see note 17 b).

Dynetek Industries Ltd.

Notes to the Condensed Consolidated Financial Statements

For the three and nine month periods ended September 30, 2011 and 2010

(Unaudited)

(amounts in thousands of Canadian dollars or as otherwise indicated, except per share amounts)

7. Trade receivables and other

	September 30	December 31
	2011	2010
Trade receivables	3,186	3,098
Allowance for doubtful accounts	(11)	(14)
Other receivables	111	653
	3,286	3,737

See Note 16.1 for a discussion of the Company's credit risk.

The aging of trade receivables is set out below:

	September 30	December 31
	2011	2010
Current	1,416	1,465
Past due 0 - 30 days	991	1,034
Past due 31 - 60 days	17	343
Past due over 60 days	762	256
	3,186	3,098

The Company evaluates the ability to collect each trade receivable by counterparty. At September 30, 2011, a provision for doubtful accounts receivable of \$11 was recorded (December 31, 2010 - \$14) and the Company believes all its trade receivables are collectable. Of the trade receivable amounts above not classified as current, \$763 has been collected subsequent to September 30, 2011 and for the period ended October 31, 2011.

Trade receivables are pledged as security for the Company's operating bank line of credit under the general security agreement (see Note 9).

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

8. Inventory

	September 30	December 31
	2011	2010
Raw materials	2,720	2,675
Work-in-progress	4,153	3,924
Finished goods	3,936	3,244
	10,809	9,843

The amount of inventory expensed to cost of sales in the nine month period ended September 30, 2011 was \$7.0 million (2010 - \$11.1 million) and \$2.3 million for the three month period ended September 30, 2011 (2010 - \$2.4 million).

During the three and nine months ended September 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).

Dynetek Industries Ltd.

Notes to the Condensed Consolidated Financial Statements

For the three and nine month periods ended September 30, 2011 and 2010

(Unaudited)

(amounts in thousands of Canadian dollars or as otherwise indicated, except per share amounts)

8. Inventory (continued)

Inventory is pledged as security for the Company's operating line under the general security agreement (see Note 9).

9. Bank indebtedness

	September 30 2011	December 31 2010
Operating line of credit drawn	3,356	1,750
Less: Canadian cash in bank	(1,005)	(894)
Bank indebtedness	2,351	856

The Company has a \$3.5 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 and an export guarantee program guarantee in the amount of \$1.5 million from Export Development Canada. At September 30, 2011, the Company has drawn \$3.4 million on this facility (December 31, 2010 - \$1.75 million). Interest and standby fees paid on the operating line of credit during the nine month period ended September 30, 2011, were \$106 (2010 - \$47) and for the three month period ended September 30, 2011, were \$42 (2010 - \$18).

At September 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 September 30, 2011 and December 31, 2010.

10. Sale-leaseback

On August 1, 2011, the Company completed a sale-leaseback transaction for its land and production facility located in Calgary. The Company sold its land and building for gross proceeds of \$6.42 million resulting in a gain of \$3.86 million before transaction and closing costs. Transaction and closing costs of \$146 were incurred to complete the transaction. The proceeds were used to repay the outstanding mortgage balance of \$4.53 million and for general working capital purposes.

The Company will lease the land and production facility under a ten-year operating lease.

11. Shareholders' equity

11.1 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	20,964,250 (December 31, 2010 - 20,959,500) issued and fully paid common shares Nil (December 31, 2010 - Nil) preferred shares

Dynetek Industries Ltd.

Notes to the Condensed Consolidated Financial Statements

For the three and nine month periods ended September 30, 2011 and 2010

(Unaudited)

(amounts in thousands of Canadian dollars or as otherwise indicated, except per share amounts)

11.2 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. At September 30, 2011, the maximum number of options that can be issued to purchase common shares is 3,252,622.

As at September 30, 2011, 2,877,130 (December 31, 2010 – 2,889,880) options to purchase common shares were outstanding. An additional 375,492 (December 31, 2010 - 362,742) options may be granted in future years under this plan, excluding those options that are available for re-granting.

A summary of the Company's employee 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	(4,750)	(\$0.20)
Options forfeited	(8,000)	(\$0.20)
Balance September 30, 2011	2,877,130	\$0.41

For the three and nine months ended September 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 1,740,880 share options granted for the nine months ended September 30, 2010 with 954,380 share options granted for the three months ended September 30, 2010. At September 30, 2011, 1,413,104 (2010 – 787,012) share options were eligible to be exercised.

Share options are valued using the Black-Scholes option pricing model with the following assumptions:

	For the period ended September 30, 2011	For the period ended September 30, 2010
Weighted average risk-free interest rate	-	0.72%
Weighted average expected life	-	5 years
Estimated expected volatility in the market price of the common shares	-	121%
Expected dividend yield	-	0%

The weighted average fair value per share option granted for the three and nine month periods ended September 30, 2011 were nil as no share options were granted. The weighted average fair value per share option granted for the nine month period ended September 30, 2010 was \$0.25 and \$0.27 for the three month period ended September 30, 2010.

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12. Commitments

12.1 Leasing arrangements

Operating leases relate to the Company's buildings and a vehicle with original lease terms ranging between 3 and 10 years. The building leases do not contain a renewal option. During the nine month period ended September 30, 2011, the Company recognized \$353 (2010 - \$230) of operating lease payments as expenses. For the three month period ended September 30, 2011, the Company recognized \$201 (2010 - \$74) of operating lease payments as expenses.

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

	September 30	December 31
	2011	2010
Not later than one year	1,056	295
Later than one year and not later than five years	4,206	633
Later than five years	2,989	—
	8,251	928

13. Revenue

Revenue for the three and nine months ended September 30.

	Three months		Nine months	
	ended		ended	
	2011	2010	2011	2010
Cylinder and systems	2,792	4,899	10,021	18,016
Research and development	895	705	3,725	1,781
Interest and other income	80	5	637	6
	3,767	5,609	14,383	19,803

Interest and other income include 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.

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14. Net loss per share

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

	Three months ended		Nine months ended	
	2011	2010	2011	2010
Basic net income (loss) per share	0.05	(0.03)	(0.05)	(0.10)
Diluted net income (loss) per share	0.05	(0.03)	(0.05)	(0.10)

For the three and nine month periods ended September 30, 2011, 138,996 share options were anti-dilutive (2010 – 141,362) and were excluded from the calculation of diluted loss per share.

	Three months ended		Nine months ended	
	2011	2010	2011	2010
Net income (loss) used in the calculation of basic and diluted net loss per share	1,108	(551)	(1,000)	(2,163)

14.1 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 nine month periods ended September 30 are as follows:

	September 30 ended 2011	September 30 ended 2010
Weighted average number of common shares used in the calculation of basic earnings per share	20,960,735	20,958,412
Common shares assumed issued on exercise of share options	657,881	388,108
Common shares repurchased from proceeds of exercise of share options	(657,881)	(388,108)
	20,960,735	20,958,412

At September 30, 2011, 624,544 share options (December 31, 2010 - 175,000) had an exercise price in excess of the period ending closing share price of \$0.22 (December 31, 2010 - \$0.33).

15. Segment information

15.1 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.

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15.2 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 nine months ended September 30 and information about its non-current assets by geographical location at September 30 are detailed below.

	Revenue for three		Revenue for nine		Non-current assets	
	months ended		months ended		as at September 30	
	September 30		September 30			
	2011	2010	2011	2010	2011	2010
North America	1,093	2,791	4,014	4,998	11,250	14,842
European Union	2,225	2,696	8,739	14,158	2,075	2,387
Other	449	122	1,630	647	–	–
	3,767	5,609	14,383	19,803	13,325	17,229

15.3 Information about major customers

Included in revenues for the three and nine month period ended September 30, 2011 are revenues of \$0.2 million (2010 - \$0.7 million) and \$1.6 million (2010 - \$4.1 million) respectively, which arose from sales to the Company's largest customer. Two customers (2010 – three customers) contributed 10% or more of the Company's revenue for the nine month period ended September 30, 2011 with each customer contributing 11% of the Company's revenue.

16. Financial risk management and financial instruments

Significant accounting policies

The Company's financial instruments are composed of 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 September 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 September 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.

16.1 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

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16.1 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 September 30, 2011, the Company's cash is 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 September 30, 2011, the Company has trade receivables outstanding from two 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 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 September 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 7.

16.2 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 September 30, 2011, the Company has a \$3.5 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 \$3.35 million on this credit facility at September 30, 2011 (December 31, 2010 - \$1.75 million). The credit agreement requires the Company to be below a specified tangible net worth ratio, above a specified working capital ratio and maintain shareholders' equity above \$19.0 million.

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.

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16.2 Market risk (continued)

Interest rate sensitivity analysis

The operating line of credit is exposed to fluctuations in interest rates. Based on the outstanding amounts as at September 30, 2011, a 0.25% change in the interest rate would have changed the net loss of the Company during the three and nine month periods ended September 30, 2011 by \$1 and \$10 respectively (2010 - \$4 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 nine month periods ended September 30, 2011 and 2010.

Based on Dynetek Germany net assets at September 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 \$172 (2010 - \$195) before tax effect. Foreign denominated financial instruments outstanding at September 30, 2011 would have changed the net loss of the Company by \$113 for the nine month period ended September 30, 2011 (2010 - \$122). 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 September 30, 2011, a \$0.05 increase or decrease in the CAD / USD exchange rate would have changed the net loss of the Company by \$81 (2010 - \$46) 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 September 30, 2011 and 2010 are as follows:

	September 30, 2011		September 30, 2010	
	Euro	USD	Euro	USD
Cash	46	854	47	310
Trade receivables and other	3,059	1,556	2,633	1,656
Trade payables and other	(837)	(788)	(248)	(1,037)
	2,268	1,622	2,432	929

16.3 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.

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16.3 Liquidity risk (continued)

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 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 9, 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 finance lease obligations, including interest, and operating leases based on their maturity dates at September 30, 2011 for each of the next five years and thereafter.

	Total	Remainder 2011	2012	2013	2014	2015	Thereafter
Finance leases	245	41	149	55	–	–	–
Operating leases	8,229	261	1,045	1,045	797	747	4,334
Total contractual obligations	8,474	302	1,194	1,100	797	747	4,334

16.4 Fair values of financial instruments

The Company's financial instruments include cash and restricted, 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 September 30, 2011 is disclosed below by financial instrument category.

	Sept 30 2011 Carrying Value	Sept 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	484	484	1,370	1,370
Loans and Receivables				
Trade receivables and other	3,286	3,286	3,737	3,737
Other Liabilities				
Trade payables and other	3,520	3,520	3,651	3,651
Bank indebtedness	2,351	2,351	856	856
Contribution agreements ^(a)	–	–	537	406
Mortgage	–	–	4,554	4,554
Finance leases ^(b)	231	236	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.

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16.4 Fair values of financial instruments (continued)

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

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

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

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

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

The following table presents the Company's fair value hierarchy for those assets and liabilities measured at fair value on a recurring basis as at September 30, 2011.

	Level 1	Level 2	Level 3	Total
Financial assets at FVTPL				
Cash	484	-	-	484

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

16.5 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.

16.6 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:

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16.6 Capital risk management (continued)

	September 30 2011	December 31 2010
Shareholders' equity	21,342	21,921
Borrowings and finance leases (current and long-term)	231	5,413
Cash	(484)	(962)
Total capital	21,089	26,372

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 9).

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

16.7 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.

17. Related party transactions

Details of transactions between the Company and other related parties are disclosed below.

- (a) For the three and nine months ended September 30, 2011, the Company purchased under normal terms and conditions \$505 (2010 - \$466) and \$1,682 (2010 - \$1,360) 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) On September 22, 2011, a chartered bank demanded repayment of the outstanding loans between the bank and an officer and a director of the Company. The loans were used for the exercise of share options to purchase common shares of the Company prior to the initial public offering of the Company in September 2000. The loans were guaranteed by the Company through a pledge of \$408 in restricted cash. Upon demand of the loans, the bank exercised the guarantee provided by the Company and applied the restricted cash against the loans. Based on review of the documentation regarding the loans, the Company recorded a provision of \$408 against the loans and an addition \$160 against future tax obligations. The provisions were recorded as compensation in general and administrative expenses.
- (c) 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.

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18. Reconciliation of Canadian GAAP to IFRS at September 30, 2010

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

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

	Notes	Canadian GAAP	Effect of transition to IFRS	IFRS
Assets				
Current assets				
Cash		1,062		1,062
Restricted cash		408		408
Trade receivables and other		5,372		5,372
Inventory	(a)	11,474	(701)	10,773
Prepaid expenses and other		443		443
		18,759		18,058
Non-current assets				
Intangible assets	(a)	3,857	(58)	3,799
Property, plant and equipment	(a)(c)	13,533	(103)	13,430
Total assets		36,149		35,287
Liabilities				
Current liabilities				
Bank indebtedness		742		742
Trade payables and other		3,911		3,911
Deferred revenue		584		584
Current portion of long term borrowing and finance leases	(c)	869	21	890
		6,106		6,127
Non-current				
Long term borrowing and finance leases	(c)	6,104	38	6,142
Total liabilities		12,210		12,269
Shareholders' equity				
Share capital		52,423		52,423
Contributed surplus	(b)	2,962	79	3,041
Foreign currency translation reserve	(a)	–	(312)	(312)
Deficiency	(a)(b)(c)	(31,446)	(688)	(32,134)
		23,939		23,018
Total liabilities and shareholders' equity		36,149		35,287

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

	Notes	Canadian GAAP	Effect of transition to IFRS	IFRS
Revenue		19,803		19,803
Cost of sales	(d)(e)	(15,388)	(850)	(16,238)
Gross profit		4,415		3,565
Expenses				
General and administrative	(d)(e)	4,717	(898)	3,819
Marketing		994	45	1,039
Finance costs	(c)	266	3	269
Foreign exchange loss	(a)	204	265	469
Share based compensation		132		132
		6,313		5,728
Loss before taxes		(1,898)		(2,163)
Provision for income taxes		–		–
Net loss for the period		(1,898)		(2,163)
Other comprehensive (loss), net of tax				
Exchange loss on translating foreign operations, net of tax (nil)	(a)	–	(312)	(312)
Total comprehensive loss		(1,898)		(2,475)

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

	Notes	Canadian GAAP	Effect of transition to IFRS	IFRS
Revenue		5,535	74	5,609
Cost of sales	(d)(e)	(4,141)	(367)	(4,508)
Gross profit		1,394		1,101
Expenses				
General and administrative	(d)(e)	1,666	(288)	1,378
Marketing		365	(6)	359
Finance costs	(c)	93	2	95
Foreign exchange (gain)	(a)	(193)	(46)	(239)
Share based compensation		59		59
		1,990		1,652
Loss before taxes		596		551
Provision for income taxes		–		–
Net loss for the period		596		551
Other comprehensive (income) loss, net of tax				
Exchange gain on translating foreign operations, net of tax (nil)	(a)	–	(463)	(463)
Total comprehensive loss		596		88

Notes to the IFRS reconciliation above:

Consolidated Balance sheet as at September 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 \$58 as at September 30, 2010.

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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 \$180 as at September 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 \$701 at September 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 September 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 \$265 at September 30, 2010.

The foreign currency translation reserve at September 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 \$77 at September 30, 2010 and a financial lease obligation with a carrying value of \$59. The impact to the Condensed Consolidated Statement of Comprehensive Income was a reduction to general and administrative expense of \$17 and an increase to finance costs of \$3 for the nine months ended September 30, 2010 and a \$6 reduction to general and administrative expense and an increase to finance costs of \$2 for the three month period ended September 30, 2010.

Consolidated statement of comprehensive income (loss) as at September 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 nine months ended September 30, 2010, depreciation expense of \$178 and \$555 respectively, has been reclassified to cost of sales.

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Notes to the IFRS reconciliation above (continued)

(e) Reclassification of amortization expense to cost of sales

Under Canadian GAAP, the Company recognized amortization expense as a separate item on its consolidated statement of operations. Under IFRS, the Company records expenses according to their function. Therefore, the Company records a portion of its amortization expense related to manufacturing its products to cost of sales with the remainder as general and administrative expense. For the three and nine month periods ended September 30, 2010, amortization expense of \$105 and \$294, respectively has been reclassified to cost of sales.

Consolidated statement of cash flows for the nine months ended September 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.

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 September 30, 2011 and December 31, 2010 and results of operations for the three and nine months ended September 30, 2011 and 2010 and is based on information available as at October 31, 2011. The interim management's discussion and analysis ("MD&A") updates Dynetek's 2010 annual MD&A, to which readers are referred. No update is provided where an item is not material or where there has been no material change from the discussion in Dynetek's annual MD&A.

Effective January 1, 2011, Dynetek has adopted International Financial Reporting Standards ("IFRS") as its basis of financial 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 18 of the September 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 September 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, gain on non-current asset disposal, 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		Nine months ended	
	September 30		September 30	
	2011	2010	2011	2010
Revenue				
Cylinder and system	2,792	4,899	10,021	18,016
Research and development	895	705	3,725	1,781
Interest and other income	80	5	637	6
Total Revenue	3,767	5,609	14,383	19,803
Net income (loss)	1,108	(551)	(1,000)	(2,163)
Net income(loss) per common share (basic and fully diluted)	0.05	(0.03)	(0.05)	(0.10)
EBITDA ⁽¹⁾	(2,134)	(9)	(3,270)	438
Cash flow (deficiency) from operations	(1,645)	621	(3,282)	614
Property, plant and equipment intangible expenditures	133	152	517	637
Cash	484	1,062	484	1,062
Non-cash working capital ⁽¹⁾	7,629	10,461	7,629	10,461
Working capital ⁽¹⁾	8,113	11,931	8,113	11,931
Total assets	28,298	35,287	28,298	35,287
Long-term borrowings and finance leases	231	7,032	231	7,032
Weighted average number of common shares outstanding	20,960,735	20,958,412	20,960,735	20,958,412

(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 nine months ended September 30, 2011 were \$10.0 million, a decrease of 44% from \$18.0 million for the same period of 2010. North American operations experienced a decrease of \$0.7 million to its cylinder revenue for the first nine months of 2011 compared to 2010 and the European operations experienced decreased cylinder and system revenue for the first nine months of 2011 of \$7.3 million compared to 2010. The overall decrease was the result of lower levels of spending from both American and European customers, the majority of whom rely on government funding in their operations.

Cylinder and system sales for the three months ended September 30, 2011 were \$2.8 million, a decrease of \$2.1 million or 43% from \$4.9 million in 2010. The decrease in cylinder and system sales in the third quarter of 2011, compared to the same quarter of 2010, was a continuation of the same factors that have reduced cylinder and system revenues in the first nine months of 2011. With European financial markets experiencing a high degree of volatility and American markets influenced by near-recessionary factors, the level of government spending has significantly decreased throughout 2011.

(thousands of Canadian dollars)
(unaudited)

	Three months ended		Nine months ended	
	September 30		September 30	
	2011	2010	2011	2010
Cylinder and system sales				
European operations	1,325	1,976	4,998	12,254
North American operations	1,467	2,923	5,023	5,762
	2,792	4,899	10,021	18,016

Research and development income for the nine months ended September 30, 2011 was \$3.7 million, an increase of 109%, from \$1.8 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 nine 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 September 30, 2011 was \$0.9 million, an increase of 27%, from \$0.7 million from the same period in 2010.

Dynetek's research and development team continues to attract significant new hydrogen projects. Projects underway include three different agreements to develop and certify a new hydrogen cylinders and related certifications to be used in pre-production passenger vehicles for three European based Original Equipment Manufacturers ("OEM") and development and testing of hydrogen cylinders for 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 nine month period ended September 30, 2011 was \$0.6 million compared to a minor amount for the same period of 2010. The \$0.6 million increase was primarily 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 \$14.2 million for the nine month period ended September 30, 2011, compared to \$16.2 million for the same period in 2010. Cost of sales was \$4.1 million for the three month period ended September 30, 2011, compared to \$4.5 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 nine month periods ending September 30, 2011 reflect the lower sales activity from the North American and 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.

Gross profit was \$0.2 million for the nine month period ended September 30, 2011 which was \$3.4 million lower compared to the first nine months of 2010. Gross profit was negative (\$0.3 million) for the third quarter of 2011, compared to \$1.1 million for the same quarter of 2010. The three and nine month decreases in 2011 gross profit compared to the same periods of 2010 was due to decreased North American and European sales in 2011. Corresponding gross profit percentage for the first nine months of 2011 was 1% of sales compared to 18% 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 Company sales and production. The decrease in 2011 gross profit from operations was mitigated by the settlement of \$0.5 million from the last government contribution agreement in the first quarter of the year.

General and administrative expense was \$4.0 million for the nine month period ended September 30, 2011, compared to \$3.8 million for the same period of 2010. General and administrative expense was \$2.0 million for the three month period ended September 30, 2011, compared to \$1.4 million for the same period of 2010. The year-over-year and quarter-over-quarter increases reflect a \$0.6 million provision against loans to an officer and a director of the Company. On September 22, 2011, a chartered bank demanded repayment of the outstanding loans between an officer and a director of the Company. The bank exercised the guarantee provided by the Company, which served as security for these loans. Based on a review of the related documentation, the Company recorded a provision of \$0.4 million for the exercise of the security and an additional \$0.2 million for future obligations related to the loans. The nine month increase to 2011 general and administrative expense was partially mitigated by 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

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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 nine month period ended September 30, 2011, depreciation and amortization expense classified to general and administrative expense was \$0.9 million which was comparable to the same period of 2010.

Marketing expense was \$0.8 million for the nine months ended September 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 September 30, 2011, a decrease of \$0.1 million from \$0.4 million, compared to the same period of 2010. The three and nine month decreases in marketing expense reflects lower European commissions as a result of lower sales activities from the European operations. Marketing expense was 6% of revenue for the nine months ended September 30, 2011 compared 5% for the same period of 2010 which reflects the lower sales activities from the European operations.

Finance costs of \$0.3 million for the nine month period ended September 30, 2011 was comparable to the same period of 2010. Finance costs for the third quarter of 2011 was \$79 thousand compared to \$95 thousand for the same quarter of 2010. The decrease in interest expense for the three months ended September 30 was due to the repayment of the \$4.5 million mortgage on August 1, 2011. However, greater utilization of the Company's \$3.5 million line of credit because of greater working capital requirements offset the finance costs savings.

Foreign exchange gain for the nine month period ended September 30, 2011 was \$0.3 million compared to a loss of \$0.5 million for the same period of 2010. Foreign exchange gains and losses are primarily generated from the North American operation. The North American operation invoices the majority of its revenue in US dollars and to a lesser extent, Euro denominated invoices. The North American operation also incurs significant purchases of raw materials that are priced in US dollars and issues US dollar payments as settlement for these purchases.

The Company reports its results in Canadian dollars and at the end of each reporting period, will revalue its monetary items including cash, trade receivables and trade payables at the prevailing foreign exchange rates on the reporting date. The net foreign exchange gain in the first nine months of 2011 was due to the strengthening of the Euro against the Canadian dollar and was boosted by the strengthening US dollar against the Canadian dollar during the month September. At September 30, 2011, the exchange rates for 1 Euro was \$1.40 Canadian and for 1 US dollar was \$1.04 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 third quarter of 2011, the Euro remained constant against the Canadian dollar while the US dollar continued to strengthen against the Canadian dollar resulting in a foreign exchange gain of \$0.1 million.

Share based compensation for nine month period ended September 30, 2011 was \$154 thousand compared to \$132 thousand in the same period of 2010 and share based compensation for three months ended September 30, 2011 was \$51 thousand compared to \$59 thousand in the same period of 2010. The increase for 2011 were related to the Company issuing 1,740,880 stock options during 2010.

Net Loss for the nine month period ended September 30, 2011 was (\$1.0) million or (\$0.05) per common share compared to the net loss of (\$2.2) million or (\$0.10) per common share for the comparable period of 2010. Net income for the three months ended September 30, 2011 was \$1.1 million or \$0.05 per common share compared to the net loss of (\$0.6) million or (\$0.03) per common share for the comparable period of 2010. The decrease in net loss for the three and nine months ended September 30, 2011 compared to the same periods of 2010 is the result of the gain of \$3.7 million realized from the sale-leaseback of the Calgary land and production facility on August 1, 2011, offset by lower cylinder revenue.

Exchange gain on translating foreign operations for the nine month period ended September 30, 2011 was \$0.3 million compared to an exchange loss on translating foreign operations of \$0.3 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 September 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 nine months of 2011. The exchange rate for 1 Euro remained constant at \$1.40 for June 30 and September 30, 2011 which resulted in no gain or loss for the third quarter of 2011.

In contrast, the translation loss of \$0.3 million in the first nine months of 2010 was the result of the strengthening of the Canadian dollar against the Euro. At September 30, 2010, the exchange rate for 1 Euro was \$1.40 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 September 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. The Company used January 1, 2010 as its transition date to IFRS and applied accounting policies that are expected to be adopted with the Company's audited consolidated financial statements as at December 31, 2011. In the opinion of management, all adjustments necessary to the results of the interim periods have been included following the transition date to IFRS. 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						
	Dec 31 2009	Mar 31 2010	June 30 2010	Sept 30 2010	Dec 31 2010	Mar 31 2011	June 30 2011	Sept 30 2011
(thousands of Canadian dollars except per share data)								
(unaudited)								
Revenues								
Cylinder and system sales	4,893	3,949	9,168	4,899	4,256	3,084	4,145	2,792
Research & development income	912	380	696	705	1,279	1,251	1,579	895
Other income	61	1	-	5	1,489	543	14	80
	5,866	4,330	9,864	5,609	7,024	4,878	5,738	3,767
Cost of sales	(5,404)	(3,740)	(7,990)	(4,508)	(5,145)	(4,247)	(5,868)	(4,056)
Gross profit	462	590	1,874	1,101	1,879	631	(130)	(289)
General and administrative (G&A) plus marketing	(1,042)	(1,579)	(1,542)	(1,737)	(2,366)	(1,470)	(993)	(2,306)
Add: depreciation and amortization in cost of sales and G&A	-	553	551	627	549	387	439	461
EBITDA⁽¹⁾	(580)	(436)	883	(9)	62	(452)	(684)	(2,134)
Finance costs	(98)	(75)	(99)	(95)	(84)	(83)	(116)	(79)
Taxes	-	-	-	-	-	-	-	-
Share based compensation	(26)	(36)	(37)	(59)	(43)	(51)	(52)	(51)
Foreign exchange (loss) gain	(199)	(527)	(181)	239	(173)	95	57	119
Depreciation & amortization	(823)	(553)	(551)	(627)	(549)	(387)	(439)	(461)
Gain (loss) on non-current asset disposal	(299)	-	-	-	(2)	-	4	3,714
Net Income (loss)	(2,025)	(1,627)	15	(551)	(789)	(878)	(1,230)	1,108
Net Income (loss) per share Basic and fully diluted	(0.09)	(0.08)	0.00	(0.03)	(0.03)	(0.04)	(0.06)	0.05

¹ EBITDA is defined in the Reconciliation of non-GAAP Financial Measures of the Managements' 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 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 Project Costs - Expenditures

(thousands of Canadian dollars) (unaudited)	Three months ended		Nine months ended	
	September 30		September 30	
	2011	2010	2011	2010
Patents	-	-	-	-
Certification costs	6	(48)	73	125
Project costs	64	12	325	115
	70	(36)	398	240

Intangible asset and project cost expenditures of \$0.4 million for the nine months ended September 30, 2011 were \$0.15 million higher compared to the same period of 2010. Intangible asset and project cost expenditures of less than \$0.1 million for the three month period ended September 30, 2011 were also higher compared to the same period of 2010. The adjustment of \$36 thousand in the third quarter of 2010 related to derecognizing certification costs that had been previously capitalized during 2010. The intangible and project cost expenditures for the first nine months of 2011 were related to the Indian and Korean development costs for the respective joint venture in each country and certification costs related to cylinder and valve product upgrades. The intangible asset and project costs for the first nine 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		Nine months ended	
	September 30		September 30	
	2011	2010	2011	2010
Building and leaseholds	-	9	4	9
Manufacturing equipment	31	115	152	211
Office furniture and other equipment	-	41	1	48
Computer hardware and software	7	6	12	19
Manufacturing equipment under construction	25	17	(50)	110
	63	188	119	397

Capital expenditures for the nine months ended September 30, 2011 were \$0.1 million, a decrease of \$0.3 million from the same period in 2010. Capital expenditures for the three months ended September 30, 2011 were less than \$0.1 million compared to \$0.2 million in the third quarter of 2010. The nine month additions for each of 2011 and 2010 were primarily due to minor upgrades to manufacturing equipment to increase the production capabilities of the North American operations. In the first quarter of 2010, the Company began to upgrade specific production equipment with the upgrades being completed and placed into service during the first quarter of 2011. When the upgrades were placed into service, this resulted in reducing the balance of manufacturing equipment under construction. Capital expenditures are classified as manufacturing equipment under construction until placed into service.

Financial Resources and Liquidity

The Company's principal source of liquidity is cash generated from operations. The Company's principal liquidity requirements relate to the increase in working capital required to maintain production, sales and research and development projects. Actual funding requirements and financing alternatives could vary depending on a number of factors including: CNG system sales on a global basis, 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 September 30, 2011, Dynetek had cash of \$0.5 million compared to a cash balance of \$1.0 million at December 31, 2010, a decrease of \$0.5 million. Dynetek had a cash flow deficiency from operations of (\$3.3) million for the nine months ended September 30, 2011 compared to a cash flow from operations of \$0.6 million for the nine months ended September 30, 2010. The cash flow deficiency in the first nine months of 2011 is primarily the result of the lower revenue generated from the European and North American operations. The cash flow deficiency is also indicative of the cash cycle required to purchase an inventory of raw materials, manufacture orders from the customer and collect the accounts receivable from the customer. With a significant amount of European sales orders delivered in the second quarter of 2010, there was less demand to purchase raw materials for future European sales orders resulting in positive cash flow from operations in the first nine months of 2010.

To offset the cash flow deficiency from operations in the first nine months of 2011, the Company completed a sale-leaseback transaction on August 1, 2011 for its land and production facility located in Calgary. The Company sold its land and building for gross proceeds of \$6.4 million resulting in a gain of \$3.7 million before transaction and closing costs of \$0.1 million. The proceeds were used to repay the outstanding mortgage balance of \$4.53 million with the remaining proceeds used for general working capital purposes. The Company will lease the land and Calgary production facility under a ten-year operating lease.

During the third quarter of 2011, the Company released the restricted cash of \$0.4 million to repay the outstanding loans between a major chartered bank and an officer and director of the Company. The restricted cash represented funds used as security for the outstanding loans between the officer and the director of the Company.

The Company has a \$3.5 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. At September 30, 2011, \$3.35 million has been drawn on this credit facility, compared to \$1.75 million at December 31, 2010. The outstanding line of credit balance is reduced by the amount of Canadian cash balance resulting in the bank indebtedness balance. All financial covenants under the credit agreement were in compliance at September 30, 2011 and December 31, 2010.

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

(thousands of Canadian dollars) (unaudited)	September 30 2011	December 31 2010	Change in working capital
Cash and restricted cash	484	1,370	(886)
Trade receivables and other	3,286	3,737	(451)
Inventory	10,809	9,843	966
Prepaid expenses and other	394	687	(293)
Bank indebtedness	(2,351)	(856)	(1,495)
Trade payables and other	(3,520)	(3,651)	131
Deferred revenue	(854)	(483)	(371)
Current portion of borrowings and finance leases	(135)	(304)	169
	8,681	10,343	(2,230)

At September 30, 2011 trade receivables were \$3.3 million which was \$0.4 million less than the balance at December 31, 2010, reflecting the decrease in cylinder and system sales.

The Company's investment in inventory increased by \$1.0 million to \$10.8 million at September 30, 2011 from \$9.8 million at December 31, 2010. The increase was the result of increased 2011 research and development activities and requirement for materials. The Company's research and development team continues to complete a major hydrogen bus order with deliveries started in the fourth quarter of 2010 and continuing through the third quarter of 2012. Inventory is expected to decrease after the Company fulfills its hydrogen bus order and completion of other research and development projects and products.

The following table summarizes the inventory balance at September 30, 2011 compared to December 31, 2010.

(thousands of Canadian dollars) (unaudited)	September 30 2011	December 31 2010	Change
Raw materials	2,720	2,675	45
Work-in-progress	4,153	3,924	229
Finished goods	3,936	3,244	692
	10,809	9,843	966

Work-in-progress, substantially represented by confirmed cylinder orders and research and development projects, increased by \$0.2 million to \$4.1 million from \$3.9 million. The increase is primarily the result of Dynetek's research and development projects that have products that are being developed. Raw materials remained constant at \$2.7 million as the backlog of cylinder sales order remained at the same levels comparing December 31, 2010 and September 30, 2011. Finished goods inventory increased by \$0.7 million to \$3.9 million at September 30, 2011 from \$3.2 million. Additional hydrogen cylinders have been manufactured in advance, to facilitate the remaining hydrogen fuel storage systems that must be built for 2011 and 2012 to fulfill the major hydrogen bus order.

Accounts payable at September 30, 2011 was \$3.5 million, compared to \$3.7 million as at December 31, 2010. This decrease is representative of the decrease in cylinder and system orders experienced in the European and North American operations. The decrease was partially offset by increased expenditures from research and development projects including increased hydrogen valve activities in 2011.

Deferred revenue at September 30, 2011 was \$0.9 million, an increase of \$0.4 million, compared to \$0.5 million at December 31, 2010. The increase is the result of 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 reduction to current portion of borrowings and finance leases from \$0.3 million at December 31, 2010 to \$0.1 million at September 30, 2011 is due to the repayment of the outstanding mortgage balance of \$4.5 million with the Business Development Bank of Canada. On August 1, 2011, the Company completed a sale-leaseback transaction where the land and Calgary production facility were sold for proceeds of \$6.4 million and \$4.5 million from the proceeds were used to repay the outstanding mortgage balance. In addition to the repayment of the \$4.5 million mortgage, the Company also settled one other borrowing on March 31, 2011, by meeting certain conditions related to the remaining \$0.5 million contribution agreement with Natural Resources Canada ('NRCan'). The remaining borrowings and finance leases relate to production equipment and a vehicle at the European operations.

At September 30, 2011, the Company reviewed its going concern assumption. The going concern assumption assumes that the Company will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities and commitments in the normal course of business. Dynetek prepares its financial statements on the basis of the going concern assumption. The review of the going concern assumption was primarily the result of the Company not achieving profitable operations since its inception and recording a deficiency of \$33.9 million and a cash flow deficiency from operations of (\$3.3) million for the first nine months of 2011.

Although the Company maintains a working capital surplus of \$8.1 million at September 30, 2011, the continued lack of profitable operations and cash flow deficiency may cast significant doubt on the Company's ability to continue as a going concern.

The ability to continue as a going concern is dependent on completing equity or debt financing or generating profitable operations in the future in order to meet its liabilities as they come due and enable the Company to continue operations. To address its financing requirements, the Company may seek additional financing through debt or equity issuance, asset sales or rights offerings to existing shareholders. The outcome of these matters cannot be predicted at this time. The Company has included a Going Concern note into its unaudited condensed consolidated financial statements at September 30, 2011.

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 16 of the unaudited condensed consolidated financial statements for the period ended September 30, 2011.

Transactions with Related Parties

Through September 30, 2011, there were two transactions with related parties which were completed.

For the three months and nine months ended September 30, 2011, the Company purchased under normal terms and conditions, \$0.5 million and \$1.7 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 nine months ended September 30, 2010, the Company purchased \$0.5 million and \$1.4 million, respectively, of the same material from the same related party under normal terms and conditions.

On September 22, 2011, a chartered bank demanded repayment of the outstanding loans between the bank and an officer and a director of the Company. The loans were used for the exercise of share options to purchase common shares of the Company, prior to the initial public offering of the Company in September 2000. The loans were guaranteed by the Company through a pledge of \$0.4 million in restricted cash. Upon demand of the loans, the bank exercised the guarantee provided by the Company and applied the restricted cash against the loans. Based on review of the documentation regarding the loans, the Company recorded a provision of \$0.4 million against the loans and an addition \$0.2 million against future tax obligations. The provisions were recorded as compensation in general and administrative expenses.

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	20,959,500	\$52,423
Stock options exercised	4,750	1
Balance at September 30, 2011	20,964,250	52,424

	September 30 2011	December 31 2010
Securities convertible into common shares:		
Stock options	2,877,130	2,889,880
Warrants	8,722	39,879

As at October 31, 2011, common shares outstanding were 20,964,250, stock options outstanding were 2,877,130 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 Company's quarterly unaudited condensed consolidated financial statements for 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 September 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 continues to focus 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.

The global economic slowdown in 2011 has had a negative impact on Dynetek's current markets. However, interest has increased significantly in new products that Dynetek is currently launching. These products include container systems for bulk transportation of CNG and other industrial gases and a Type 4 cylinder.

Although Dynetek continues to look for opportunities to expand its clean technology footprint, the Letter of Intent to acquire Control Systems Inc., which was disclosed in the second quarter MD&A, has expired without Dynetek making a formal offer.

Reconciliation of non-GAAP Financial Measures

EBITDA

GAAP Measures from Condensed Consolidated Statement of Comprehensive Income	Three months ended September 30		Nine months ended September 30	
(thousands of Canadian dollars – unaudited)	2011	2010	2011	2010
Net income (loss) for the period	1,108	(551)	(1,000)	(2,163)
Provision for income taxes	-	-	-	-
Share based compensation	51	59	154	132
Foreign exchange loss (gain)	(119)	(239)	(271)	469
Gain on non-current asset disposal	(3,714)	-	(3,718)	-
Depreciation and amortization in general and administration	300	344	801	882
Depreciation and amortization in cost of sales	161	283	486	849
Finance costs	79	95	278	269
Non-GAAP measure - EBITDA	(2,134)	(9)	(3,270)	438

Working Capital and Non-Cash Working Capital

GAAP Measures from Consolidated Balance Sheets	September 30 2011	September 30 2010
(thousands of Canadian dollars – unaudited)		
Trade receivables and other	3,286	5,372
Inventory	10,809	10,773
Prepays expenses and other	394	443
Bank indebtedness	(2,351)	(742)
Trade payables and other	(3,520)	(3,911)
Deferred revenue	(854)	(584)
Current portion of borrowings and finance leases	(135)	(890)
Non-GAAP measure – Non-Cash Working Capital	7,629	10,461
Add: Cash and Restricted cash	484	1,470
Non-GAAP measure - Working Capital	8,113	11,931

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; Dynetek's expansion into the Asia Pacific market; and Dynetek's expansion into the areas of Compressed Natural Gas Distribution Infrastructure.

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; and (v) actions by governmental or regulatory authorities including changes in environmental legislation. The Company cautions that the foregoing list of assumptions, risks and uncertainties is not exhaustive. Additional information on these and other factors that could affect operations or financial results can be found in the Company's Annual Information Form available on SEDAR at www.sedar.com. The Company does not undertake any obligation to publicly update or revise any forward-looking statements except as expressly required by applicable securities law.