



THREE AND NINE MONTHS ENDED
SEPTEMBER 30, 2007

Q3

**DUALEX ENERGY INTERNATIONAL
INC.**

Interim Report

**For the three and nine months ended
September 30, 2007**

MANAGEMENT'S DISCUSSION AND ANALYSIS

This Management's Discussion and Analysis ("MD&A") should be read in conjunction with the unaudited interim financial statements of DualEx Energy International Inc. ("DualEx" or the "Company") for the three and nine months ended September 30, 2007 and the audited financial statements and MD&A for the year ended December 31, 2006. All figures have been prepared in accordance with Canadian generally accepted accounting principles and are reported in Canadian dollars unless otherwise stated. DualEx is an international company engaged in the exploration for and development of petroleum and natural gas properties internationally, with a primary focus in the greater Mediterranean area. The Company currently holds working interests in Hungary, Syria, Portugal, Western Canada and a royalty interest in Wyoming.

Where amounts are expressed on a barrel of oil equivalent (boe) basis, natural gas has been converted at a ratio of six thousand cubic feet to one boe. Boe's may be misleading, particularly if used in isolation. A boe conversion ratio of six thousand cubic feet to one barrel is based on an energy equivalent conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead.

Forward looking statements

Certain disclosure in this MD&A contains forward-looking statements that involve risks and uncertainties. Such information, although considered reasonable by the Company at the time of preparation, may prove to be incorrect and actual results may differ materially from those anticipated in the statements made. For this purpose, any statements contained herein that are not statements of historical fact may be deemed to be forward-looking statements. Such risks and uncertainties include, but are not limited to, risk associated with operations, loss of market, regulatory matters, fluctuations in commodity prices and foreign exchange rates, environmental and political risks, industry competition, and ability to access sufficient capital from internal and external sources.

Additional information related to the Company, including the Company's Annual Information Form, can be found on SEDAR at www.sedar.com.

This MD&A has been prepared as of November 21, 2007.

RESULTS OF OPERATIONS

As the Company commenced operations on May 31, 2006, the comparative numbers for the nine months ended September 30, 2006 represent transactions from May 31, 2006.

Business Acquisition

On August 30, 2007, pursuant to a plan of arrangement (the "Arrangement"), DualEx acquired all of the outstanding shares of Winslow Resources Inc. ("Winslow"). Under the Arrangement, Winslow Shareholders received 0.44 DualEx Units for each Winslow common share outstanding. Each DualEx Unit entitles a Winslow Shareholder to one share of DualEx plus one half of one DualEx Warrant. Each DualEx Warrant entitles the holder to purchase one DualEx share until February 28, 2009 upon payment of the exercise price of \$0.30 per share. After one year the Company has the option to force the exercise of these DualEx Warrants if the Company's share price trades above \$0.40 for 20 consecutive trading days. A total of 20,734,384 DualEx shares and 10,367,192 DualEx Warrants were issued pursuant to the plan of arrangement.

For further information please refer to the August 2, 2007 information circular filed on SEDAR located at www.sedar.com.

The acquisition has provided DualEx with additional working capital of approximately \$3.0 million for its international exploration and development program, domestic development drilling opportunities, and cashflow associated with production of approximately 26 boe/d to partially offset the Company's Canadian G&A expenses.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Revenue

During the quarter the Company produced an average of approximately 14 boe/d, from the properties acquired from Winslow along with a gross overriding royalty interest in coal bed methane production in the United States. The Company generated royalty and production revenues of \$45,798 for the three months ended September 30, 2007 and \$85,805 for the nine months ended September 30, 2007. The Company's royalty revenue for the three and nine months ended September 30, 2006 was \$21,257 and \$29,114 respectively. The Company currently has no production from its other oil and gas interests.

During the three and nine months ended September 30, 2007 the Company earned \$19,248 and \$106,554 respectively in interest income on its cash balances compared to \$113,836 and \$141,500 for the three and nine months ended September 30, 2006.

General and administrative

During the three months ended September 30, 2007 general and administrative expenses were \$237,241 consistent with the previous two quarters of expenditures of \$224,748 in the second quarter and \$280,190 in the first quarter. General and administrative expenditures increased over the comparative prior year periods primarily due to an increase in employees and office costs due to an increase in operational activities. A comparative summary of the Company's general and administrative expenses is as follows:

	Three months ended September		Nine months ended September	
	2007	2006	2007	2006
Salaries and benefits	\$ 105,272	\$ 68,017	\$ 322,551	\$ 75,663
Office costs	85,059	12,740	202,746	43,300
Consulting fees	26,165	25,648	68,565	35,626
Insurance	16,124	19,648	56,085	26,299
Legal and accounting	1,020	14,013	45,426	18,633
Travel	3,601	25,913	18,625	34,355
	<u>\$ 237,241</u>	<u>\$ 165,979</u>	<u>\$ 713,998</u>	<u>\$ 233,876</u>

Stock based compensation

Stock-based compensation costs for the three and nine months ended September 30, 2007 amounted to \$23,986 and \$64,301 respectively (\$12,189 and \$17,208 for the three and nine months ended September 30, 2006). The increase over 2006 is a result of additional stock options outstanding and nine months amortization in for nine months ended September 30, 2007 compared to four months amortization in the comparative period. Stock-based compensation costs attributable to share options granted were measured at their fair value at the grant date and are being amortized over the vesting period with a corresponding increase to contributed surplus. The fair value of the stock options were calculated using the Black-Scholes option pricing method for all stock options granted during the period.

Foreign exchange loss

A large portion of the Company's receivables and payables during the three and nine months ended September 30, 2007 were denominated in US dollars. During the year the Company's US dollar denominated working capital has reversed from a positive working capital position in the first quarter to a negative working capital position in the third quarter. This reversal along with the continuing weakening of the US dollar has resulted in a foreign exchange gain for the third quarter of \$18,608. For the nine months ended September 30, 2007 the Company has a foreign exchange loss of \$163,736 as a result of a positive US dollar denominated working capital position during the early part of the year and the weakening US dollar.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Depletion, depreciation and accretion

Depletion, depreciation and accretion amounted to \$14,990 for the three months ended September 30, 2007 and \$30,494 for the nine months ended September 30, 2007. This is made up of depreciation on the Company's furniture and computer equipment, depletion on its newly acquired properties from the Winslow acquisition plus accretion on the Company's asset retirement obligations. Depletion, depreciation and accretion for the nine months ended September 30, 2006 was \$509.

Current taxes

Current taxes of \$3,408 for the three months ended September 30, 2007 and \$15,410 for the nine months ended September 30, 2007 (\$6,377 and \$8,734 for the three and nine months ended September 30, 2006) are withholding taxes paid on the royalty interest in the United States.

Capital expenditures

During the nine months ended September 30, 2007, the Company expended \$5.3 million on its petroleum and natural gas properties with \$0.5 million being spent in the third quarter on seismic activities in Syria. An additional \$1.0 million of petroleum and natural gas properties was acquired through the Winslow acquisition. A breakdown of the petroleum and natural gas expenditures by country is as follows:

	<u>Hungary</u>	<u>Syria</u>	<u>Portugal</u>	<u>Western Canada</u>	<u>Total</u>
Balance December 31, 2006	\$ 3,475,565	\$ 966,080	\$ 2,625,836	\$ -	\$ 7,067,481
Additions during the period					
Corporate acquisition	-	-	-	986,503	986,503
Seismic activities	-	2,229,323	-	-	2,229,323
Drilling	2,602,884	-	-	-	2,602,884
Technical and administrative	55,053	403,861	12,365	958	472,237
	<u>2,657,937</u>	<u>2,633,184</u>	<u>12,365</u>	<u>987,461</u>	<u>6,290,947</u>
Less other items					
Depletion	-	-	-	(7,287)	(7,287)
Asset retirement obligations	(76,890)	-	-	-	(76,890)
	<u>(76,890)</u>	<u>-</u>	<u>-</u>	<u>(7,287)</u>	<u>(84,177)</u>
Balance September 30, 2007	<u>\$ 6,056,612</u>	<u>\$ 3,599,264</u>	<u>\$ 2,638,201</u>	<u>\$ 980,174</u>	<u>\$ 13,274,251</u>

Hungary

The Company has a 37.5% working interest in the Nyirseg Permits, containing approximately 614,000 gross acres (approximately 230,000 net acres). The Company and its partners in the Nyirseg permits are planning a development centered on the PEN-104 gas discovery (announced November 2006) and incorporating the PEN-9 and PEN-12 discovery wells. The Company's share of this development is anticipated to be \$1.2 million. The re-development of the previously productive Penészlek field will be considered as an addition to this development. Work is continuing with these various development initiatives at Penészlek, which include pipeline integrity testing on the existing gathering system (approximately 2/3 completed); the necessary wellbore permitting and regulatory approvals for the re-entry of PEN-9 and PEN-12; and the negotiation of natural gas processing and transportation arrangements with the operator of the area infrastructure. The Company's PEN-104 discovery, together with PEN-9 and PEN-12, in aggregate tested over 7.5 MMcf/day of gas from both the basal Miocene volcanoclastic section and the overlying Pannonian section. DualEx and its partners are working towards having natural gas production on stream at Penészlek this coming winter.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Syria

Processing of both the 1,105 line km of new 2D seismic data and the 2,338 line kilometres of legacy 2D seismic data on Block 17 is nearing completion. This dataset, once integrated with the geologic / petrophysical review and existing well data, will be used to rank prospects for drilling in 2008. The Company has until June 2009 to meet its commitment to drill one exploratory well in Syria. The Company estimates the exploratory well may cost between \$1 million - \$3 million net. DualEx has a 31.67% working interest in the 1.248 million acre Block 17.

Portugal

DualEx has a 10% working interest in the Torres Vedras-3 and Aljubarrota-3 Concessions, which contain 321,000 acres and 311,000 acres respectively.

The currently planned exploration program consists of two 3D seismic surveys, the deepening of two wells and the drilling of a third (exploration) well. This program is scheduled to commence in December 2007, and be completed in Q2 2008. The Company projects its share of the costs of this program to be approximately \$1.4 million.

The deepening of the two wells, Lapaducos-2 and Aljubarrota-4, is scheduled to commence late this year. The contracted rig is now enroute to Portugal, and is expected to re-initiate drilling operations on the Lapaducos-2 well in December, 2007. This operation involves deepening the well to 1500 m in order to evaluate Upper Jurassic fractured Montejunto carbonate and Middle Jurassic Candieiros limestone targets. The rig will then be mobilized to the Aljubarrota-4 location, which will be deepened by 400 m into the lower portion of the fractured Brenha Carbonate zone and underlying Brenha carbonate grainstone zone. The third well in the program, Carascal (a Triassic subsalt test), will be drilled subsequent to the below referenced Aljubarrota 3D survey.

A geophysical company has been contracted to undertake the two 3D seismic programs. Surveying and permitting is ongoing on the first program, located within the Torres Vedras Concession, with field recording anticipated to commence prior to year-end. This 117 sq km 3D survey will be recorded to follow up on a well drilled by DualEx's predecessor on a Jurassic reef prospect utilizing older 2D seismic. That well missed the reef although indications from the well data suggest proximity to a reef buildup. Several additional reef prospects (mapped with the older 2D data) will also be imaged by this survey. The second 3D survey (130 sq km) will be located within the Aljubarrota Concession, and will be used to pick the Carascal well location, anticipated to be drilled in Q2 2008.

Western Canada

DualEx has various working interests in legacy assets acquired with Winslow Resources Inc. in Alberta, Saskatchewan, and Manitoba. September production from these interests was approximately 26 boepd. DualEx is continuing with the evaluation of these assets, including development, by either funding internally or farming out, or selling those interests which do not fit within DualEx's corporate strategy. In this regard, the Company sold certain mining properties for total consideration of \$279,356 in September and has recently closed a transaction whereby it sold its working interests in the Wainwright area of Alberta for \$350,000.

Asset Retirement Obligations

The asset retirement obligations increased from \$46,285 at June 30, 2007 to \$76,968 as at September 30, 2007 as a result of the obligations acquired through the Winslow acquisition.

LIQUIDITY AND CAPITAL RESOURCES

During the quarter ended September 30, 2007, the Company had cash flow from operating activities of \$14,904. During the quarter the Company received \$2.7 million in cash from the Winslow acquisition and another \$0.3 million was received from the sale of Winslow mining properties. The Company also spent \$0.5 million in capital expenditures during the quarter. Overall the Company had an increase in cash of \$2.8 million during the quarter.

MANAGEMENT'S DISCUSSION AND ANALYSIS

The Company plans to spend an additional \$0.3 million in Syria and \$0.6 million in Portugal in 2007. In 2008, the Company plans to spend \$1.2 million in Hungary and \$0.8 million in Portugal. The Company has the ability to complete its 2007 and 2008 commitments with available cash resources. The Company has a remaining commitment to drill one exploratory well in Syria prior to June 2009. Depending on the actual cost to drill this well in Syria, the timing and amount of future cashflow from the Company's property in Hungary, and value realized from any further dispositions of oil and gas assets in western Canada, the Company may need to carry out some form of financing or other transaction to raise sufficient funds to complete this commitment in Syria.

Share capital

During the quarter a total of 20,734,384 DualEx shares and 10,367,192 DualEx Warrants were issued as consideration for the Winslow acquisition. This increased the total shares outstanding to 64,772,966 and warrants to 25,367,192. In addition, the Company has 2,671,250 Agent Options, 1,740,000 Stock Options, and 282,444 special warrants outstanding as of the date hereof.

SUMMARY OF QUARTERLY INFORMATION

The following table summarizes quarterly financial information for the previous quarters:

	Quarter ended					
	Sep 30 2007	Jun 30 2007	Mar 31 2007	Dec 31 2006	Sep 30 2006	June 30 2006
Total revenue	\$ 65,046	\$ 45,015	\$ 82,298	\$ 109,043	\$ 135,093	\$ 33,164
Net loss	(199,971)	(377,762)	(221,847)	(90,911)	(58,934)	(39,819)
per share - basic and diluted	-	(0.01)	(0.01)	-	-	-

During the quarter ended September 30, 2007, revenue increased as a result of production received from the Winslow acquisition. Net loss in the quarter decreased over the previous quarter primarily due to a foreign exchange gain of \$18,608 compared to a foreign exchange loss of \$165,233 previous quarter.

CHANGES IN ACCOUNTING POLICES

Effective January 1, 2007 the Company adopted the Canadian Institute of Chartered Accountants section 1506 "Accounting Changes," section 1530 "Comprehensive Income," section 3251 "Equity," section 3855 "Financial Instruments – Recognition and Measurement," section 3861 "Financial Instruments - Disclosure and Presentation," and section 3865 "Hedges." See Note 3 to the Consolidated Financial Statements.

DISCLOSURE CONTROLS AND PROCEDURES

The Company has established certain disclosure controls and procedures to provide a reasonable level of assurance that the financial and other information required to be disclosed under applicable securities laws is accurately prepared and disclosed within the time periods required. The Company's Chief Executive Officer and Chief Financial Officer have evaluated these controls and procedures and concluded that they were effective for the period ended September 30, 2007.

INTERNAL CONTROLS OVER FINANCIAL REPORTING

The Company has assessed the impact of the business acquisition on the internal controls over financial reporting and has determined there has been no material affect. There have been no changes in the design of the Company's internal control over financial reporting that occurred during the most recent interim period ended September 30, 2007 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.



THREE AND NINE MONTHS ENDED
SEPTEMBER 30, 2007

Q3

DUALEX ENERGY INTERNATIONAL INC.

Interim Consolidated Financial Statements

**For the three and nine months ended
September 30, 2007**

The accompanying unaudited interim consolidated financial statements of DualEx Energy International Inc. for the three and nine months ended September 30, 2007 have been prepared by management and approved by the Board of Directors of the Company. These financial statements have not been reviewed by the Company's auditor.

DUALEX ENERGY INTERNATIONAL INC.
CONSOLIDATED BALANCE SHEET
AS AT SEPTEMBER 30, 2007 AND DECEMBER 31, 2006
UNAUDITED

ASSETS	<u>September 30, 2007</u>	<u>December 31, 2006</u>
CURRENT		
Cash and cash equivalents	\$ 5,024,184	\$ 6,905,285
Accounts receivable	189,744	661,087
Joint venture receivable (note 5)	605,322	-
Prepaid expenses and deposits	217,329	33,690
Short-term investments	24,366	-
	<u>6,060,945</u>	<u>7,600,062</u>
PETROLEUM AND NATURAL GAS PROPERTIES (note 6)	13,274,251	7,067,481
OTHER CAPITAL ASSETS (note 7)	73,533	39,504
	<u>\$ 19,408,729</u>	<u>\$ 14,707,047</u>
 LIABILITIES & SHAREHOLDERS' EQUITY 		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	\$ 428,537	\$ 283,828
Joint venture payable (note 8)	1,178,899	-
	<u>1,607,436</u>	<u>283,828</u>
ASSET RETIREMENT OBLIGATIONS (note 9)	<u>76,968</u>	<u>119,556</u>
	<u>1,684,404</u>	<u>403,384</u>
SHARE CAPITAL (note 10)	18,180,732	14,033,856
CONTRIBUTED SURPLUS (note 12)	523,772	459,471
ACCUMULATED OTHER COMPREHENSIVE INCOME	9,065	-
DEFICIT	(989,244)	(189,664)
	<u>17,724,325</u>	<u>14,303,663</u>
	<u>\$ 19,408,729</u>	<u>\$ 14,707,047</u>

See accompanying notes

DUALEX ENERGY INTERNATIONAL INC.
CONSOLIDATED STATEMENTS OF LOSS, DEFICIT, COMPREHENSIVE LOSS
AND ACCUMULATED OTHER COMPREHENSIVE INCOME
FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30
UNAUDITED

	Three months ended September 30		Nine months ended September 30	
	2007	2006	2007	2006
REVENUE				
Royalty revenue	\$ 15,858	\$ 21,257	\$ 55,865	\$ 29,114
Production revenue (net of royalties)	29,940	-	29,940	-
Interest and other	19,248	113,836	106,554	141,500
	<u>65,046</u>	<u>135,093</u>	<u>192,359</u>	<u>170,614</u>
EXPENSES				
Operating costs	4,000	-	4,000	-
General and administrative	237,241	165,979	713,998	233,876
Stock based compensation	23,986	12,189	64,301	17,208
Depletion, depreciation and accretion	14,990	442	30,494	509
	<u>280,217</u>	<u>178,610</u>	<u>812,793</u>	<u>251,593</u>
LOSS FROM OPERATIONS	(215,171)	(43,517)	(620,434)	(80,979)
Foreign exchange gain (loss)	18,608	(9,040)	(163,736)	(9,040)
	<u>18,608</u>	<u>(9,040)</u>	<u>(163,736)</u>	<u>(9,040)</u>
NET LOSS BEFORE TAXES	(196,563)	(52,557)	(784,170)	(90,019)
Current taxes	3,408	6,377	15,410	8,734
	<u>3,408</u>	<u>6,377</u>	<u>15,410</u>	<u>8,734</u>
NET LOSS	(199,971)	(58,934)	(799,580)	(98,753)
DEFICIT, beginning of period	(789,273)	(39,819)	(189,664)	-
DEFICIT, end of period	<u>\$ (989,244)</u>	<u>\$ (98,753)</u>	<u>\$ (989,244)</u>	<u>\$ (98,753)</u>
NET LOSS PER SHARE				
Basic and diluted	<u>-</u>	<u>-</u>	<u>\$ (0.02)</u>	<u>-</u>
STATEMENT OF COMPREHENSIVE LOSS AND ACCUMULATED OTHER COMPREHENSIVE INCOME				
NET LOSS	<u>\$ (199,971)</u>	<u>\$ (58,934)</u>	<u>\$ (799,580)</u>	<u>\$ (98,753)</u>
Change in unrealized gains and losses on available-for-sale assets	9,065	-	9,065	-
OTHER COMPREHENSIVE INCOME AND ACCUMULATED OTHER COMPREHENSIVE INCOME	<u>9,065</u>	<u>-</u>	<u>9,065</u>	<u>-</u>
COMPREHENSIVE LOSS	<u>\$ (190,906)</u>	<u>\$ (58,934)</u>	<u>\$ (790,515)</u>	<u>\$ (98,753)</u>

See accompanying notes

DUALEX ENERGY INTERNATIONAL INC.
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30
UNAUDITED

	Three months ended September 30		Nine months ended September 30	
	2007	2006	2007	2006
OPERATING ACTIVITIES				
Net loss	\$ (199,971)	\$ (58,934)	\$ (799,580)	\$ (98,753)
Add (deduct) items not requiring cash				
Depletion, depreciation and accretion	14,990	-	30,494	-
Stock based compensation	23,986	442	64,301	509
Unrealized foreign exchange gain	(44,541)	-	(17,115)	-
	<u>(205,536)</u>	<u>(58,492)</u>	<u>(721,900)</u>	<u>(98,244)</u>
Change in non-cash working capital items (note 13)	<u>220,440</u>	<u>(70,159)</u>	<u>119,709</u>	<u>(88,231)</u>
	<u>14,904</u>	<u>(128,651)</u>	<u>(602,191)</u>	<u>(186,475)</u>
FINANCING ACTIVITIES				
Proceeds from private placement, net of share issue costs	-	(3,314)	-	11,146,287
Change in non-cash working capital items (note 13)	-	(117,075)	-	-
	<u>-</u>	<u>(120,389)</u>	<u>-</u>	<u>11,146,287</u>
INVESTING ACTIVITIES				
Additions to petroleum and natural gas properties	(509,389)	(622,411)	(5,304,446)	(650,065)
Dispositions of (additions to) other capital assets	2,000	-	(42,716)	-
Proceeds from sale of mining properties	264,056	-	264,056	-
Corporate acquisition	2,731,468	-	2,731,468	-
Change in non-cash working capital items (note 13)	303,192	(1,159,798)	1,101,949	(1,137,336)
	<u>2,791,327</u>	<u>(1,782,209)</u>	<u>(1,249,689)</u>	<u>(1,787,401)</u>
Foreign exchange loss on cash and cash equivalents held in a foreign currency	<u>(13,523)</u>	<u>-</u>	<u>(29,221)</u>	<u>-</u>
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	2,792,708	(2,031,249)	(1,881,101)	9,172,411
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	2,231,476	11,208,679	6,905,285	-
CASH AND CASH EQUIVALENTS, END OF PERIOD	<u>\$ 5,024,184</u>	<u>\$ 9,177,430</u>	<u>\$ 5,024,184</u>	<u>\$ 9,172,411</u>

See accompanying notes

DUALEX ENERGY INTERNATIONAL INC.

Notes to the September 30, 2007 Interim Consolidated Financial Statements

All amounts in Canadian dollars unless otherwise stated (unaudited)

1. DESCRIPTION OF BUSINESS

DualEx Energy International Inc. ("DualEx or "the Company") was incorporated on March 20, 2006 and commenced operations on May 31, 2006. DualEx is an international company engaged in the exploration for and development of petroleum and natural gas properties internationally, with a primary focus in the greater Mediterranean area. The Company currently holds working interests in Hungary, Syria, Portugal, Western Canada and a royalty interest in Wyoming. The Company considers itself to be in the development stage in Hungary, Syria and Portugal as it is in the process of exploring its petroleum and natural gas properties.

2. ACCOUNTING POLICIES

The interim consolidated financial statements of the Company have been prepared in accordance with generally accepted accounting principles ("GAAP") in Canada, which were the same accounting policies and methods of computation as those used to prepare the consolidated financial statements as at December 31, 2006, except as described in Note 3 below. The Company follows the Canadian full cost method of accounting for petroleum and natural gas properties. The unaudited interim consolidated financial statements do not include all the disclosures required for annual financial statements and should be read in conjunction with the Company's consolidated financial statements and notes thereto for the year ended December 31, 2006.

Short-term investments

Short-term investments that have a quoted market price in an active market are recorded at fair value. Short-term investments that do not have a quoted market price in an active market are measured at cost. Gains and losses on short-term investments are recognized in other comprehensive income.

3. CHANGES IN ACCOUNTING POLICIES

(a) Financial Instruments

Effective January 1, 2007 the Company adopted the Canadian Institute of Chartered Accountants ("CICA") section 1530 "Comprehensive Income," section 3251 "Equity," section 3855 "Financial Instruments – Recognition and Measurement," section 3861 "Financial Instruments - Disclosure and Presentation," and section 3865 "Hedges." These standards have been adopted prospectively.

i) Financial Instruments

Section 3855 establishes a framework for classifying and measuring financial instruments. Under this section all financial instruments must be initially recognized at their fair value on the balance sheet. In accordance with section 3855, the Company has classified each of its financial instruments into one of the five categories set out in the standard: Financial assets and liabilities held for trading, financial assets held to maturity, loans and receivables, financial assets available for sale, and other liabilities. Measurement of each of these items is contingent upon initial classification. The classification does not change subsequent to initial recognition.

Unrealized gains and losses on financial instruments classified as held for trading are recognized in earnings in the period incurred. Gains and losses on assets available for sale are recognized in other comprehensive income, when a decline in fair value is determined to be other than temporary, the cumulative loss included in accumulated other comprehensive income is removed and recognized in other

DUALEX ENERGY INTERNATIONAL INC.

Notes to the September 30, 2007 Interim Consolidated Financial Statements

All amounts in Canadian dollars unless otherwise stated (unaudited)

income. Financial assets classified as held to maturity are accounted for at amortized cost using the effective interest rate method. Loans and receivables and other liabilities are accounted for at amortized cost.

ii) Derivative Instruments and Hedging

The Company may use derivative instruments to manage its exposure to the volatility in commodity prices. These derivatives are recorded on the balance sheet at fair value. Gains and losses on these instruments are charged to income in the period that they occur. Fair values of the derivatives are based on quoted market prices. The fair values of forward contracts are based on forward market prices. If a forward price is not available, a forward market price is estimated.

iii) Embedded Derivatives

Derivatives may be embedded in other financial and non-financial instruments or contracts ("host contracts"). Under the new standards, embedded derivatives are treated as separate derivatives when their economic characteristics and risks are not clearly and closely related to those of the host contract, the terms of the embedded derivative are the same as those of a stand-alone derivative, and the combined contract is not designated as held for trading or accounted for at fair value. These embedded derivatives are measured at fair value and gains and losses are charged to income in the period that they occur.

iv) Comprehensive Income

Comprehensive income is the change in equity of the Company from net earnings and other comprehensive income ("OCI"). OCI consists of the change in fair value of any financial instruments classified as available for sale. Amounts recognized in OCI must eventually be reclassified to income when the related gains or losses are realized.

(b) Accounting Changes

Beginning January 1, 2007 the Company adopted Section 1506 "Accounting Changes" the only impact of which is to provide disclosure of when an entity has not applied a new source of GAAP that has been issued but is not yet effective. This is the case with Section 3862 "Financial Instruments Disclosures," Section 3863 "Financial Instruments Presentation," and Section 1535 "Capital Disclosures," which are required to be adopted for fiscal years beginning on or after October 1, 2007. The Company will adopt these standards on January 1, 2008 and it is expected the only effect on the Company will be incremental disclosures regarding the significance of financial instruments for the entity's financial position and performance; and the nature, extent and management of risks arising from financial instruments to which the entity is exposed.

4. CORPORATE ACQUISITION

On August 30, 2007, pursuant to a plan of arrangement (the "Arrangement"), DualEx acquired all of the outstanding shares of Winslow Resources Inc. ("Winslow"). Under the Arrangement, Winslow Shareholders received 0.44 DualEx Units for each Winslow common share outstanding. Each DualEx Unit includes one share of DualEx plus one half of one DualEx warrant. Each DualEx Warrant entitles the holder to purchase one DualEx share until February 28, 2009 upon payment of the exercise price of \$0.30 per share, provided however, that if, after one year, the trading price of the DualEx shares is greater than \$0.40 for 20 consecutive days of trading at any time following August 30, 2007, DualEx will have the right to shorten the term of the DualEx Warrants to

DUALEX ENERGY INTERNATIONAL INC.

Notes to the September 30, 2007 Interim Consolidated Financial Statements

All amounts in Canadian dollars unless otherwise stated (unaudited)

thirty days from the day on which DualEx provides notice to the holders of the DualEx Warrants of the shortened exercise term. A total of 20,734,384 DualEx shares and 10,367,192 DualEx Warrants were issued pursuant to the plan of arrangement.

The value ascribed to the transaction is based on the trading price of DualEx shares on a five day period surrounding the announcement of the acquisition. The business combination was accounted for using the purchase method and the purchase equation is based on management's best estimate of the fair value of the assets and liabilities of Winslow as at August 30, 2007 and is subject to adjustment.

The purchase price allocation relating to the Winslow acquisition is as follows:

	<u>Amount</u>
Consideration	
DualEx Units	\$ 4,146,877
Transaction Costs	<u>93,625</u>
	<u>4,240,502</u>
Allocated to:	
Current Assets	3,475,313
Current Liabilities	<u>(480,886)</u>
	2,994,427
Petroleum and Natural Gas Properties	986,502
Mining Properties	284,356
Other assets	5,000
Asset Retirement Obligations	(29,783)
	<u>\$ 4,240,502</u>

Certain mining properties were sold in September for a total of \$264,056 in cash and 30,000 common shares in a public company, reflected in short term investments, with a fair value of \$15,300.

5. JOINT VENTURE RECEIVABLE

The joint venture receivable at September 30, 2007 relates to amounts owing from our joint venture partners in Hungary and Western Canada.

6. PETROLEUM AND NATURAL GAS PROPERTIES

	<u>Cost</u>	<u>Accumulated Depletion</u>	<u>Net Book Value September 30, 2007</u>	<u>Net Book Value December 31, 2006</u>
Hungary	\$ 6,056,612	\$ -	\$ 6,056,612	\$ 3,475,565
Syria	3,599,264	-	3,599,264	966,080
Portugal	2,638,201	-	2,638,201	2,625,836
Western Canada	987,461	7,287	980,174	-
	<u>\$ 13,281,538</u>	<u>\$ 7,287</u>	<u>\$ 13,274,251</u>	<u>\$ 7,067,481</u>

DUALEX ENERGY INTERNATIONAL INC.

Notes to the September 30, 2007 Interim Consolidated Financial Statements

All amounts in Canadian dollars unless otherwise stated (unaudited)

7 OTHER CAPITAL ASSETS

	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Net Book Value September 30, 2007</u>	<u>Net Book Value December 31, 2006</u>
Furniture and computer equipment	\$ 90,571	\$ 22,038	\$ 68,533	\$ 39,504
Mining properties	<u>5,000</u>	<u>-</u>	<u>5,000</u>	<u>-</u>
	<u>\$ 95,571</u>	<u>\$ 22,038</u>	<u>\$ 73,533</u>	<u>\$ 39,504</u>

8. JOINT VENTURE PAYABLE

The joint venture payable at September 30, 2007 relates to amounts owing to our joint venture partner for seismic expenditures in Syria.

9. ASSET RETIREMENT OBLIGATIONS

The following table summarizes changes in future asset retirement obligations:

	<u>Nine months ended September 30, 2007</u>	<u>From incorporation to December 31, 2006</u>
Asset retirement obligations, beginning of period	\$ 119,556	\$ -
Acquisition	29,783	
Liabilities incurred	18,853	116,566
Change in estimate	(95,743)	
Accretion expense	4,519	2,990
Asset retirement obligations, end of period	<u>\$ 76,968</u>	<u>\$ 119,556</u>

The undiscounted amount of the estimated future cash flows required to settle the obligations is \$273,000. These obligations are expected to be paid over the next several years with a weighted average life of approximately 15 years. The estimated future cash flows have been discounted at a credit-adjusted risk free rate of 9%.

DUALEX ENERGY INTERNATIONAL INC.

Notes to the September 30, 2007 Interim Consolidated Financial Statements

All amounts in Canadian dollars unless otherwise stated (unaudited)

10. SHARE CAPITAL

Authorized

Unlimited number of common shares

Unlimited number of first preferred shares

Issued

Common Shares	Number of Shares	Stated Value
Shares Issued	44,038,582	\$ 12,879,606
Warrants		1,154,250
Balance - December 31, 2006	44,038,582	14,033,856
Winslow acquisition, net (note 4)	20,734,384	3,524,845
Warrants issued on Winslow acquisition (note 4)		622,031
Balance - September 30, 2007	64,772,966	\$ 18,180,732

Reserved for Issuance

Stock Options

	Number of Options	Weighted Average Exercise Price
Outstanding - December 31, 2006	1,000,000	\$ 0.40
Granted (a)	740,000	0.29
Outstanding - September 30, 2007	1,740,000	\$ 0.35

Warrants

	Number of Warrants	Weighted Average Exercise Price
Outstanding - December 31, 2006 ¹	15,000,000	\$ 0.55
Granted (note 4)	10,367,192	0.30
Outstanding - September 30, 2007	25,367,192	\$ 0.45

Special Warrants

	Number of Special Warrants	Weighted Average Exercise Price
Winslow acquisition (b)	185,400	\$ 0.18
Winslow acquisition (b)	97,044	0.15
	282,444	\$ 0.17

Agent Options ²

	Number of Agent Options	Exercise Price
Outstanding - December 31, 2006	2,671,250	\$ 0.40
Exercised	-	
Outstanding - June 30, 2007	2,671,250	\$ 0.40

¹ The warrants expire May 31, 2008

² Each agent option entitles the holder to acquire one common share at a price of \$0.40 per share and one-half of a Warrant until May 18, 2008. Each whole warrant entitles the holder to acquire one voting common share at a price of \$0.55 per share.

DUALEX ENERGY INTERNATIONAL INC.

Notes to the September 30, 2007 Interim Consolidated Financial Statements

All amounts in Canadian dollars unless otherwise stated (unaudited)

10. SHARE CAPITAL (continued)

a) Granting of Stock Options

On September 4, 2007 the Company granted 655,000 stock options to directors, officers and employees. These options are exercisable at \$0.24 per share, vest over a three term and expire on September 4, 2012.

b) Special Warrants

Pursuant to the plan of arrangement described in note 4, DualEx assumed 282,444 special warrants, Each Special Warrant upon exercise at prices of \$0.15 and \$0.18 allows the Special Warrant holder to acquire 0.44 of a DualEx Unit. These Special Warrants expire December 22, 2007. The value ascribed to these Special Warrants was nominal.

11. STOCK-BASED COMPENSATION

The Company accounts for its stock options granted to employees, officers and directors using the fair value method for valuing stock option grants. In accordance with the Company's incentive stock plan, these options have an exercise price equal to the fair value of the security at the date of grant. The fair value of each option granted is estimated on the date of grant using the Black-Scholes option-pricing model. The following assumptions have been used:

Risk free rate ranging from 3.5% - 4.4%
Expected life - 5 years
Expected volatility ranging from 50% - 132%
Expected dividend - 0%

The fair value of the stock options granted was \$379,718 or \$0.22 per option which will be recognized as an expense over the related vesting period.

12. CONTRIBUTED SURPLUS

The following table summarizes changes in contributed surplus for the periods ended September 30, 2007 and December 31, 2006.

	Nine months ended September 30, 2007	From incorporation to December 31, 2006
Contributed surplus, beginning of period	\$ 459,471	\$ -
Stock based compensation	64,301	33,826
Agent options	-	425,645
Contributed surplus, end of period	<u>\$ 523,772</u>	<u>\$ 459,471</u>

DUALEX ENERGY INTERNATIONAL INC.

Notes to the September 30, 2007 Interim Consolidated Financial Statements

All amounts in Canadian dollars unless otherwise stated (unaudited)

13. CHANGES IN NON-CASH WORKING CAPITAL ITEMS

	For the three months ended September 30, 2007	For the three months ended September 30, 2006	For the nine months ended September 30, 2007	From incorporation to September 30, 2006
Change in non-cash working capital related to operating activities				
Accounts receivable	\$ 3,863	\$ (67,498)	\$ 39,192	\$ (114,376)
Prepaid expenses and deposits	132,974	12,048	76,995	(60,086)
Accounts payable and accrued liabilities	83,603	(14,709)	3,522	86,231
	<u>\$ 220,440</u>	<u>\$ (70,159)</u>	<u>\$ 119,709</u>	<u>\$ (88,231)</u>
Change in non-cash working capital related to financing activities				
Accounts payable and accrued liabilities	\$ -	\$ (117,075)	\$ -	\$ -
Change in non-cash working capital related to investing activities				
Accounts receivable	\$ 36,961	\$ (1,159,798)	\$ 600,944	\$ (1,137,336)
Joint venture receivable	(56,044)	-	(436,057)	
Accounts payable and accrued liabilities	(183,773)	-	(338,629)	
Joint venture payable	506,048	-	1,275,691	
	<u>\$ 303,192</u>	<u>\$ (1,159,798)</u>	<u>\$ 1,101,949</u>	<u>\$ (1,137,336)</u>

For the three and nine months ended September 30, 2007, the receipt of short term investments valued at \$15,300 acquired from the sale of mining properties has been excluded from the statement of cash flows.

14. SEGMENTED INFORMATION

The Company operates in the oil and gas industry. Its reportable segments are identified on a geographic basis. The Company has operations in Syria, Portugal, Hungary, Western Canada and a royalty interest in the United States. Gross revenue and net income (loss) for the three and nine months ended September 30, 2007 and capital assets as at September 30, 2007 are summarized on a country basis below:

	United States	Western Canada	Syria	Portugal	Hungary	Corporate	Total
	\$	\$	\$	\$	\$	\$	\$
For the three months ended September 30, 2007							
Revenue	15,858	29,940	-	-	-	19,248	65,046
Net Income (Loss)	12,450	19,593	-	(100)	(11,780)	(220,134)	(199,971)
For the nine months ended September 30, 2007							
Revenue	55,865	29,940	-	-	-	106,554	192,359
Net Income (Loss)	40,455	19,593	(1,699)	(1,925)	(16,970)	(839,034)	(799,580)
As at September 30, 2007							
Capital assets	-	985,174	3,599,264	2,638,201	6,056,612	68,533	13,347,784

DUALEX ENERGY INTERNATIONAL INC.

Notes to the September 30, 2007 Interim Consolidated Financial Statements

All amounts in Canadian dollars unless otherwise stated (unaudited)

15. RELATED PARTY TRANSACTIONS

During the three and nine month periods ended September 30, 2007, the Company incurred \$59,323 and \$88,908 respectively (\$10,801 and \$43,757 during the three and nine months ended September 30, 2006 respectively) in legal fees to a law firm, of which one of the directors of the Corporation is a partner, for legal services rendered in respect to general corporate matters. The legal fees charged were based on the law firm's hourly rates and time charges based on the work performed. At September 30, 2007 there was a net payable of \$59,323 to this law firm.

During the three months ended September 30, 2007, the Company incurred and accrued \$12,000 in consulting fees to a director of the Company.

16. FINANCIAL INSTRUMENTS

(a) Fair Value of Financial Instruments

The Company's financial instruments recognized in the consolidated balance sheet consists of cash and cash equivalents, accounts receivable, joint venture receivable, deposits, short-term investments, accounts payable and accrued liabilities, and joint venture payable. The carrying value of these balances approximates their fair value. Cash and cash equivalents are classified as held for trading. Accounts receivable, joint venture receivable, and deposits are classified as loans and receivables. Short-term investments are classified as available-for-sale. Accounts payable and accrued liabilities and joint venture payable is classified as other liabilities.

(b) Concentration Risk

The majority of the Company's joint venture receivables are from two joint venture partners. The fair value of the joint venture receivable is equal to its carrying value due to its short term nature.

(c) Foreign currency risk

The majority of the Company's assets are located in Syria, Portugal and Hungary, and accordingly portions of the Company's current assets and liabilities, revenue, expenses and capital expenditures are denominated in Canadian and US dollars and Euros. As such, the Company is subject to risk of fluctuating exchange rates amongst the Canadian dollar, US dollar and Euro.

17. SUBSEQUENT EVENT

Effective November 1, 2007, the Company sold its interest in the Wainwright property in Western Canada for \$350,000. The Wainwright property had a recorded book value of \$147,000.

CORPORATE INFORMATION

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President & Chief Executive Officer

Kenneth M. Tompson P. Geol
Executive Vice President & Chief Operating Officer

Lorne A. Morozoff, CA
VP Finance & Chief Financial Officer

DIRECTORS

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DualEx Energy International Inc.

Kenneth M. Tompson, P. Geol
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Executive Vice President and
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