



THREE AND NINE MONTHS ENDED
SEPTEMBER 30, 2008

Q3

DUALEX ENERGY INTERNATIONAL INC.

Interim Report

**For the three and nine months ended
September 30, 2008**

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, 2008 and the audited financial statements and MD&A for the year ended December 31, 2007. 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, with a primary focus in the greater Mediterranean area. The Company currently holds working interests in Hungary, Syria, Portugal, Alberta and a royalty interest in Wyoming.

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

This MD&A has been prepared as of November 24, 2008.

RESULTS OF OPERATIONS

Production

The following table outlines the Company's production volume for the periods indicated:

	Three months ended September 30 (mcf/d)		Nine months ended September 30 (mcf/d)	
	2008	2007	2008	2007
Hungary	724	-	243	-
North America	92	82	102	52
Total	<u>816</u>	<u>82</u>	<u>345</u>	<u>52</u>

For the three months ended September 30, 2008, petroleum and natural gas production averaged 816 mcfe/d compared to 82 mcfe/d in the comparative quarter. The increase in production was the result of production from the PEN-104 well in Hungary which began producing the middle of August. For the nine months ended September 30, 2008, petroleum and natural gas production averaged 345 mcfe/d compared to 52 mcfe/d in the comparative period. The increase is the result of the previously mentioned production in Hungary, as well as an increase in production from North America related to the business acquisition of Winslow Resources Inc (the "Winslow Acquisition") on August 30, 2007. Production as at September 30, 2008 was 1580 mcfe/d.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Petroleum and Natural Gas Sales

The following table outlines the Company's volumes and operating netback for the periods indicated:

	Three months ended September 30					
	2008			2007		
	Hungary	North America	Total	Hungary	North America	Total
Gas production (mcf)	66,630	8,470	75,100	-	5,499	5,499
Oil production (bbls)	-	-	-	-	336	336
Total production (mcf)	66,630	8,470	75,100	-	7,515	7,515
Mcf/d	724	92	816	-	82	82
Total P&NG sales	\$ 914,668	\$ 68,059	\$ 982,727	\$ -	\$ 48,598	\$ 48,598
Netback (\$/mcf)						
Per sales mcf	13.73	8.04	13.09	-	6.47	6.47
Royalties	(3.07)	(0.86)	(2.82)	-	(0.37)	(0.37)
Operating	(3.64)	(1.68)	(3.42)	-	(0.53)	(0.53)
Operating Netback	\$ 7.02	\$ 5.50	\$ 6.85	\$ -	\$ 5.57	\$ 5.57
	Nine months ended September 30					
	2008			2007		
	Hungary	North America	Total	Hungary	North America	Total
Gas production (mcf)	66,630	28,010	94,640	-	12,327	12,327
Oil production (bbls)	-	-	-	-	336	336
Total production (mcf)	66,630	28,010	94,640	-	14,343	14,343
Mcf/d	243	102	345	-	52	52
Total P&NG sales	\$ 914,668	\$ 222,253	\$ 1,136,921	\$ -	\$ 88,605	\$ 88,605
Netback (\$/mcf)						
Per sales mcf	13.73	7.93	12.01	-	6.18	6.18
Royalties	(3.07)	(0.86)	(2.42)	-	(0.20)	(0.20)
Operating	(3.64)	(2.81)	(3.40)	-	(0.28)	(0.28)
Operating Netback	\$ 7.02	\$ 4.26	\$ 6.19	\$ -	\$ 5.70	\$ 5.70

During the three months ended September 30, 2008, the Company generated \$982,727 in petroleum and natural gas revenue compared to \$48,598 in the three months ended September 30, 2007. The increase was primarily a result of the PEN-104 well commencing production in Hungary in August 2008.

During the nine months ended September 30, 2008 the Company generated \$1,136,921 in petroleum and natural gas sales compared to \$88,605 in the comparative period. The increase is due to the production in Hungary as well as a full period of production from producing North American assets related to the Winslow acquisition.

Gas price in Hungary is based on a formula which references heating oil and diesel prices for preceding periods. The North American price is based on current natural gas sales price.

Interest and other revenue

During the three and nine months ended September 30, 2008 the Company earned \$14,550 and \$51,350 respectively in interest income on its cash balances compared to \$19,248 and \$106,554 in the comparative periods. The decrease is due to lower cash balances than in the comparative periods.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Royalties

	Three months ended September 30		Nine months ended September 30	
	2008	2007	2008	2007
Total	\$ 212,109	\$ 2,800	\$ 228,997	\$ 2,800
Percentage of revenue	22%	6%	20%	3%
Per mcfe	\$ 2.82	\$ 0.37	\$ 2.42	\$ 0.20

Royalties increased during the three and nine months ended September 30, 2008 due to the commencement of production in Hungary. The royalty rate in Hungary will vary depending on the average price of Brent. The base royalty rate is 12% plus 3% when Brent crude is trading above \$80 plus another 3% when Brent crude is trading above \$90, for a maximum of 18%. The Company's effective royalty rate in Hungary may vary as the price received for natural gas sales may be different than the average price the Hungarian government calculates the royalty on. For the periods ended September 30, 2008 the effective royalty rate paid for Hungary natural gas production was 22%. The royalties paid on the Company's North American production is approximately 11% for the three and nine months ended September 30, 2008 compared to 6% for the three months ended September 30, 2007 and 3% for the nine months ended September 30, 2007. The increase in the North American royalty rate is the result of the increase in Canadian production over the comparative periods. The Company does not pay any royalties on revenue from its royalty interest in Wyoming.

Operating Costs

	Three months ended September 30		Nine months ended September 30	
	2008	2007	2008	2007
Total	\$ 257,021	\$ 4,000	\$ 321,348	\$ 4,000
Per mcfe	\$ 3.42	\$ 0.53	\$ 3.40	\$ 0.28

The increase in operating costs in 2008 is a result of first production in Hungary. For the three months ended September 30, 2008 operating costs were \$3.64 per mcfe (2007 – nil) in Hungary, in North America operating costs were \$1.68 per mcfe (2007 \$0.53 per mcfe). For the nine months ended September 30, operating costs were \$3.64 per mcfe (2007 – nil) in Hungary, in North America operating costs were \$2.81 per mcfe (2007 \$0.28 per mcfe). The increase in the North American operating costs over 2007 is a result a one time adjustment for operating costs made by the operator on its previous invoices.

General and administrative

	Three months ended September 30		Nine months ended September 30	
	2008	2007	2008	2007
Gross general and administrative	\$ 260,615	\$ 265,241	\$ 845,264	\$ 801,998
less capitalized	(117,055)	(28,000)	(213,205)	(88,000)
General and administrative	<u>\$ 143,560</u>	<u>\$ 237,241</u>	<u>\$ 632,059</u>	<u>\$ 713,998</u>

Gross general and administrative costs remained relatively constant during the periods, a decrease of 2% for the three months ended September 30, 2008 and an increase of 5% for the nine months ended September 30, 2008. Capitalized administrative expenses increased during the periods as the Company spent more time working on its international projects.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Depreciation, depletion and accretion ("DD&A")

	Three months ended September 30		Nine months ended September 30	
	2008	2007	2008	2007
Total	\$ 620,189	\$ 14,990	\$ 658,133	\$ 30,494
Per mcfe	\$ 8.26	\$ 1.99	\$ 6.95	\$ 2.13

DD&A increased in the three and nine months ended September 30, 2008 primarily as a result of the Hungary production. The increase in DD&A for three and nine months ended September 30, 2008 is a result of the depletion in Hungary which incorporate all of the capitalized costs in Hungary as part of its depletable base, including the costs of two dry holes drilled outside the Peneszlek area.

Stock based compensation

Stock-based compensation costs for the three and nine months ended September 30, 2008 amounted to \$34,568 (2007 - \$23,986) and \$97,855 (2007 - \$64,301) respectively. The increase over the three and nine months ended September 30, 2007 is attributable to additional stock options being granted in September 2007 and 2008. Stock-based compensation costs attributable to share options granted were measured at their fair value at the grant date and 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 gain

A portion of the Company's working capital is denominated in US dollars. The fluctuating US dollar against the Canadian dollar created exchange gains and losses during the periods. During the three months ended September 30, 2008 the Company experienced a foreign exchange gain of \$120,616 (2007 - \$18,608). During the nine months ended September 30, 2008 the Company experienced a foreign exchange gain of \$142,795 (2007 - \$163,736 loss).

Gain on sales of property, plant and equipment

During the first quarter ended March 31, 2008 the Company disposed of three properties located in Western Canada for \$1,024,000 which resulted in a gain on sale of \$591,399. The properties were acquired as part of the Winslow Acquisition.

Current taxes

During the three months ended September 30, 2008, current taxes of \$16,967, (2007 - \$3,408) were incurred, including \$4,623 (2007 - \$3,408) of withholding taxes paid on the royalty interest in the United States and Hungarian municipal taxes amounting to \$12,344. The Canadian and Hungarian operations each have sufficient tax loss carry forwards and undepreciated capital costs to deduct against corporate taxable income. During the nine months ended September 30, 2008 the Company incurred current taxes of \$28,865 (2007 - \$15,410). The increase relates to Hungarian municipal taxes.

Capital expenditures

During the three months ended September 30, 2008, the Company expended \$224,921 on its petroleum and natural gas properties of which the majority was spent in Syria on geological and geophysical studies and administrative expenditures.

During the nine months ended September 30, 2008, the Company expended \$1,595,477 on its petroleum and natural gas properties, the majority of which was spent as follows: \$600,000 on the PEN-104 completion and the facility and plant construction in Hungary, \$520,000 on geological and geophysical studies and administrative expenditures in Syria, and \$350,000 on seismic operations in Portugal.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Hungary

The Company has a 37.5% working interest in the Nyirseg Permits, encompassing approximately 614,000 gross acres (approximately 230,000 net acres). First production from the Penészlek natural gas field commenced in August 2008 with the completion and tying-in of the PEN-104 well. Current gross production is approximately 4.0 MMcf/day (net 1.50 MMcf/day). The Company and its partners have initiated a development project centred on the PEN-104 gas discovery which also includes two suspended gas wells. In addition, the Company and its partners have commenced the field acquisition of an approximately 90 sq km 3D seismic survey, which is anticipated to provide development drilling opportunities along with the re-entering and tying-in of the aforementioned suspended gas wells. The Company anticipates the 3D survey will cost approximately \$1.0 million net and is expected to be funded through future Hungarian natural gas sales.

Syria

Following on the interpretation of the Company's 2007 2D seismic survey on Block 17, the Company and its partners have approved a drilling location at Al Tayr-101 on the Jebel Nasrani prospect. In all, eight closed structures have been mapped at the primary objective Kurrachine level. The Company and its partners have contracted a drilling rig for the first quarter of 2009. The Company has until June 2009 to meet its commitment to drill one exploratory well on Block 17. The Company estimates the exploratory well will cost approximately \$US 2.9 million net.

Portugal

DualEx has a 10% working interest in the Torres Vedras-3 and Aljubarrota-3 Concessions, which encompass 321,000 acres and 311,000 acres respectively. To retain the rights under the concession agreements the Company and its joint venture partners are required to drill one well per concession per year. Commencement of a program to meet these requirements is anticipated to begin once the Company's joint venture partners secure financing for their share of the required capital.

Tunisia

On February 20, 2008, the Company announced that its bid for the Bouhajla Exploration Block in Eastern onshore Tunisia had been approved by the Tunisian Ministry of Industry and Energy's Comite Consultatif des Hydrocarbures. The Company will hold 100% of the contractor share and would be the operator. The issuance of the PSC is subject to finalization of the detailed terms and final Government approval.

Western Canada

DualEx has various working interests in legacy assets acquired through the Winslow Acquisition. DualEx has an ongoing program of evaluating these assets, with a view to their continued development, by either funding internally or farming out a portion of its interest, or selling those interests which do not fit within DualEx's corporate strategy.

In September 2008, the Company commenced legal proceedings against a third party to recover certain property interests located in Saskatchewan. These proceedings are ongoing and an estimate of the damages cannot be made at this time.

Asset Retirement Obligations

The asset retirement obligations decreased to \$68,739 as at September 30, 2008 from \$74,226 as at December 31, 2007. The decrease is due to an obligation being discharged as part of the sale of a Western Canadian property.

MANAGEMENT'S DISCUSSION AND ANALYSIS

LIQUIDITY AND CAPITAL RESOURCES

As at September 30, 2008 the Company had working capital of \$4.0 million. The Company has firm commitments for its share of planned drilling costs of the well in Syria estimated to be \$US 2.9 million as well as its share of the 3D seismic program in Hungary, estimated to be approximately \$1 million (which is anticipated to be funded out of future Hungary natural gas sales). Depending on a number of factors (including operating cashflows and the timing of whether or not the Company's Portugal program proceeds and the costs of such program), the Company may need to carry out some form of financing or other transaction to meet such additional requirements to the extent they exceed existing capital resources.

Share capital

During the nine months ended September 30, 2008, 15,000,000 warrants and 2,671,250 agent options expired unexercised. However, 1,001,025 warrants were exercised for net proceeds of \$296,743.

On September 11, 2008, the Company granted 400,000 stock options to directors, officers and employees. These options are exercisable at \$0.30 per share, vest over a three year term and expire on September 11, 2013.

A total of 65,773,991 common shares of the Company are outstanding as of the date hereof. In addition, the Company has 9,366,167 warrants and 2,140,000 stock options 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 2008	June 30 2008	Mar 31 2008	Dec 31 2007	Sep 30 2007	Jun 30 2007	Mar 31 2007	Dec 31 2006
Total revenue	\$ 785,168	\$ 76,500	\$ 97,606	\$ 110,064	\$ 65,046	\$ 45,015	\$ 82,298	\$ 109,043
Net income (loss)	(166,521)	(298,376)	420,105	(377,805)	(199,971)	(377,762)	(221,847)	(90,911)
per share - basic and diluted	-	-	0.01	(0.01)	-	(0.01)	(0.01)	-

During the quarter ended September 30, 2008, revenue increased significantly over the previous quarters as the Company began production from its property in Hungary. The Company incurred a net loss in the quarter ending September 30, 2008 as the Company continued to explore and develop its international properties.

RELATED PARTY TRANSACTIONS

During the three and nine months ended September 30, 2008, the Company incurred \$3,400 (2007 - \$59,323) and \$17,300 (2007 - \$88,908) respectively, in legal fees to a law firm, of which one of the directors of the Company is a partner, for legal services rendered in respect to general corporate matters. The legal fees charged were based on the law firm's established hourly rates and time charges based on the work performed. At September 30, 2008 there was a net payable of Nil (2007 - \$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.

MANAGEMENT'S DISCUSSION AND ANALYSIS

CHANGES IN ACCOUNTING POLICIES

On January 1, 2008, the Company prospectively adopted CICA Section 1535 Capital Disclosures issued by the AcSB. This Section establishes standards for disclosing information about an entity's objectives, policies and processes for managing its capital structure.

On January 1, 2008, the Company prospectively adopted the following new standards issued by the AcSB: Financial Instruments – Disclosure (Section 3862) and Financial Instruments – Presentation (Section 3863). These accounting standards replaced Financial Instruments – Disclosure and Presentation (Section 3861). The disclosures required by Section 3862 provide additional information on the risks associated with our financial instruments and how we manage those risks.

Effective January 1, 2008, the Company adopted Section 1400, General Standards of Financial Statement Presentation which was amended to include requirements to assess and disclose an entity's ability to continue as a going concern. The adoption of this new accounting standard did not impact the Company's net earnings or financial position.

Effective January 1, 2008, the Company adopted Section 3031, Inventories which replaces section 3030 and provides additional guidance on the measurement and disclosure requirements for inventories. This new standard did not have an impact on the financial statements.

NEW ACCOUNTING PRONOUNCEMENTS

In January 2006, the AcSB adopted a strategic plan for the direction of accounting standards in Canada. Accounting standards for public companies in Canada will converge with the International Financial Reporting Standards (IFRS) by 2011 and we will be required to report according to IFRS standards for the year ended December 31, 2011. The Company is currently assessing the impact of the convergence of Canadian GAAP with IFRS on our results of operations, financial position and disclosures.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Forward looking statements

Certain statements contained in this MD&A may constitute forward-looking statements. These statements relate to future events or the Company's future performance. All statements, other than statements of historical fact, may be forward-looking statements. Forward-looking statements are often, but not always, identified by the use of words such as "seek", "anticipate", "plan", "continue", "estimate", "expect", "may", "will", "project", "predict", "propose", "potential", "targeting", "intend", "could", "might", "should", "believe" and similar expressions. These 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. The Company believes that the expectations reflected in those forward-looking statements are reasonable but no assurance can be given that these expectations will prove to be correct and such forward-looking statements included in this MD&A should not be unduly relied upon by investors as actual results may vary. These statements speak only as of the date of this MD&A and are expressly qualified, in their entirety, by this cautionary statement.

In particular, this MD&A contains forward-looking statements, pertaining to the following: capital expenditure programs; cashflows from production; regulatory decisions and government approvals.

With respect to forward-looking statements listed above and contained in the MD&A, the Company has made assumptions regarding, among other things: the legislative and regulatory environment; commodity prices; estimated proven reserves; costs related to development of oil and gas properties will remain consistent with historical experiences; equipment and crew availability; joint venture partner financial capability; and the Company's ability to obtain additional financing on satisfactory terms.

The Company's actual results could differ materially from those anticipated in these forward looking-statements as a result of the risk factors set forth below and elsewhere in this MD&A; changes in oil and natural gas prices; geological, technical, drilling and processing problems; liabilities and risks, including environmental liabilities and risks, inherent in oil and natural gas operations; reservoir performance; labour, equipment and material costs; access to capital markets; interest and currency exchange rates; and political and economic conditions.

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



THREE AND NINE MONTHS ENDED
SEPTEMBER 30, 2008

Q3

DUALEx ENERGY INTERNATIONAL INC.

Interim Consolidated Financial Statements

**For the three and nine months ended
September 30, 2008**

The accompanying unaudited interim consolidated financial statements of DualEx Energy International Inc. for the three and nine months ended September 30, 2008 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 SHEETS
AS AT SEPTEMBER 30, 2008 AND DECEMBER 31, 2007
UNAUDITED

<u>ASSETS</u>	<u>September 30, 2008</u>	<u>December 31, 2007</u>
CURRENT		
Cash	\$ 3,834,437	\$ 3,883,511
Accounts receivable	834,082	148,209
Prepaid expenses and deposits	87,842	131,288
Joint venture receivable	-	437,615
	<u>4,756,361</u>	<u>4,600,623</u>
PROPERTY, PLANT AND EQUIPMENT (note 4)	13,761,820	13,262,564
	<u>\$ 18,518,181</u>	<u>\$ 17,863,187</u>
 <u>LIABILITIES & SHAREHOLDERS' EQUITY</u>		
CURRENT		
Accounts payable and accrued liabilities	\$ 730,449	\$ 419,774
ASSET RETIREMENT OBLIGATIONS (note 5)	<u>68,739</u>	<u>74,226</u>
	<u>799,188</u>	<u>494,000</u>
SHAREHOLDERS' EQUITY		
SHARE CAPITAL (note 6)	17,323,314	18,180,821
CONTRIBUTED SURPLUS (note 8)	1,807,520	555,415
DEFICIT	(1,411,841)	(1,367,049)
	<u>17,718,993</u>	<u>17,369,187</u>
	<u>\$ 18,518,181</u>	<u>\$ 17,863,187</u>

See accompanying notes

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

	Three months ended September 30		Nine months ended September 30	
	2008	2007	2008	2007
REVENUE				
Petroleum and natural gas sales	\$ 982,727	\$ 48,598	\$ 1,136,921	\$ 88,605
Interest and other	14,550	19,248	51,350	106,554
Royalties	(212,109)	(2,800)	(228,997)	(2,800)
	<u>785,168</u>	<u>65,046</u>	<u>959,274</u>	<u>192,359</u>
EXPENSES				
Operating costs	257,021	4,000	321,348	4,000
General and administrative	143,560	237,241	632,059	713,998
Depletion, depreciation and accretion	620,189	14,990	658,133	30,494
Stock based compensation	34,568	23,986	97,855	64,301
	<u>1,055,338</u>	<u>280,217</u>	<u>1,709,395</u>	<u>812,793</u>
LOSS FROM OPERATIONS	(270,170)	(215,171)	(750,121)	(620,434)
OTHER ITEMS				
Gain on sales of property, plant and equipment (note 4)	-	-	591,399	-
Foreign exchange gain (loss)	120,616	18,608	142,795	(163,736)
	<u>120,616</u>	<u>18,608</u>	<u>734,194</u>	<u>(163,736)</u>
NET LOSS BEFORE TAXES	(149,554)	(196,563)	(15,927)	(784,170)
Current taxes	16,967	3,408	28,865	15,410
NET LOSS AND COMPREHENSIVE LOSS	(166,521)	(199,971)	(44,792)	(799,580)
DEFICIT, beginning of period	(1,245,320)	(789,273)	(1,367,049)	(189,664)
DEFICIT, end of period	<u>\$ (1,411,841)</u>	<u>\$ (989,244)</u>	<u>\$ (1,411,841)</u>	<u>\$ (989,244)</u>
NET LOSS PER SHARE				
Basic and diluted	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (0.02)</u>

See accompanying notes

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

	Three months ended September 30		Nine months ended September 30	
	2008	2007	2008	2007
OPERATING ACTIVITIES				
Net loss	\$ (166,521)	\$ (199,971)	\$ (44,792)	\$ (799,580)
Add (deduct) items not requiring cash				
Depletion, depreciation and accretion	620,189	14,990	658,133	30,494
Stock based compensation	34,568	23,986	97,855	64,301
Gain on sales of property, plant and equipment	-	-	(591,399)	-
Unrealized foreign exchange gain	(61,728)	(44,541)	(81,605)	(17,115)
	<u>426,508</u>	<u>(205,536)</u>	<u>38,192</u>	<u>(721,900)</u>
Change in non-cash working capital items (note 9a)	<u>(399,320)</u>	<u>220,440</u>	<u>(261,656)</u>	<u>119,709</u>
	<u>27,188</u>	<u>14,904</u>	<u>(223,464)</u>	<u>(602,191)</u>
FINANCING ACTIVITIES				
Proceeds from warrants	<u>293,621</u>	<u>-</u>	<u>296,743</u>	<u>-</u>
INVESTING ACTIVITIES				
Additions to property, plant and equipment	(224,971)	(507,389)	(1,595,477)	(5,347,162)
Proceeds from				
sales of property, plant and equipment	-	-	1,024,000	-
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 9a)	(415,729)	303,192	366,871	1,101,949
	<u>(640,700)</u>	<u>2,791,327</u>	<u>(204,606)</u>	<u>(1,249,689)</u>
Foreign exchange gain (loss) on cash held in a foreign currency	<u>56,465</u>	<u>(13,523)</u>	<u>82,253</u>	<u>(29,221)</u>
INCREASE (DECREASE) IN CASH	(263,426)	2,792,708	(49,074)	(1,881,101)
CASH, BEGINNING OF PERIOD	4,097,863	2,231,476	3,883,511	6,905,285
CASH, END OF PERIOD	<u>\$ 3,834,437</u>	<u>\$ 5,024,184</u>	<u>\$ 3,834,437</u>	<u>\$ 5,024,184</u>

See accompanying notes

DUALEX ENERGY INTERNATIONAL INC.

Notes to the September 30, 2008 Interim Consolidated Financial Statements

All amounts in Canadian dollars unless otherwise stated (unaudited)

1. NATURE OF OPERATIONS AND BASIS OF PRESENTATION

DualEx is engaged in the exploration for and development and production of petroleum and natural gas properties internationally, with primary focus in the greater Mediterranean area. The Company currently holds working interests in Hungary, Syria, Portugal, Alberta, and a royalty interest in Wyoming. In Syria and Portugal the Company is in the process of exploring its international petroleum and natural gas properties and has not yet determined whether they contain economically recoverable reserves. The success of the Company's exploration and development of its petroleum and natural gas properties will be influenced by significant financial risks, legal and political risks, fluctuations in commodity prices and currency exchange rates, varying levels of taxation and the ability of the Company to discover economically recoverable reserves and to bring such reserves into production on an economic basis. If necessary, the Company may be required to obtain additional financing to develop its properties. While the Company seeks to manage these risks, many of these factors are beyond its control.

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 the consolidated financial statements as at December 31, 2007, except as described in Note 3 below. The Company follows the Canadian full cost method of accounting for petroleum and natural gas properties. The disclosure which follows is incremental to the disclosure included in the annual consolidated financial statements. The interim consolidated financial statements should be read in conjunction with the Company's consolidated financial statements and notes thereto for the year ended December 31, 2007.

3. CHANGES IN ACCOUNTING POLICIES

a) Capital Disclosures

On January 1, 2008, the Company prospectively adopted CICA Handbook Section 1535 Capital Disclosures issued by the Accounting Standards Board ("AcSB"). This Section establishes standards for disclosing information about an entity's objectives, policies and processes for managing its capital structure. The disclosures have been included in Note 13.

b) Financial Instruments Disclosures and Presentation

On January 1, 2008, the Company prospectively adopted the following new standards issued by the AcSB: Financial Instruments – Disclosure (Section 3862) and Financial Instruments – Presentation (Section 3863). These accounting standards replaced Financial Instruments – Disclosure and Presentation (Section 3861). The disclosures required by Section 3862 provide additional information on the risks associated with our financial instruments and how we manage those risks. The additional disclosures required by these standards are provided in Note 14.

c) General Standards of Financial Statement Presentation

Effective January 1, 2008, the Company adopted Section 1400, General Standards of Financial Statement Presentation which was amended to include requirements to assess and disclose an entity's ability to continue as a going concern. The adoption of this new accounting standard did not impact these financial statements.

d) Inventories

Effective January 1, 2008, the Company adopted Section 3031, Inventories which replaces section 3030 and provides additional guidance on the measurement and disclosure requirements for inventories. This new standard did not have an impact on the financial statements.

DUALEX ENERGY INTERNATIONAL INC.

Notes to the September 30, 2008 Interim Consolidated Financial Statements

All amounts in Canadian dollars unless otherwise stated (unaudited)

3. CHANGES IN ACCOUNTING POLICIES (continued)

e) New Accounting Pronouncements

In February 2008, the AcSB issued Section 3064, Goodwill and Intangible Assets and amended Section 1000, Financial Statement Concepts clarifying the criteria for the recognition of assets, intangible assets and internally developed intangible assets. Items that no longer meet the definition of an asset are no longer recognized with assets. The standard is effective for fiscal years beginning on or after October 1, 2008 and early adoption is permitted. The Company does not expect that the adoption of this new Section will have a material impact on its financial statements.

In January 2006, the AcSB adopted a strategic plan for the direction of accounting standards in Canada. Accounting standards for public companies in Canada will converge with the International Financial Reporting Standards (IFRS) by 2011 and we will be required to report according to IFRS standards for the year ended December 31, 2011. The Company is currently assessing the impact of the convergence of Canadian GAAP with IFRS on our results of operations, financial position and disclosures.

4. PROPERTY, PLANT AND EQUIPMENT

	September 30, 2008			December 31, 2007		
	Cost	Accumulated Depletion	Net Book Value	Cost	Accumulated Depletion	Net Book Value
Hungary	\$ 6,819,889	\$ 603,713	\$ 6,216,176	\$ 6,224,936	\$ -	\$ 6,224,936
Syria	4,237,866	-	4,237,866	3,719,389	-	3,719,389
Portugal	2,993,955	-	2,993,955	2,638,201	-	2,638,201
Western Canada	202,500	59,142	143,358	642,697	29,223	613,474
Tunisia	120,291	-	120,291	-	-	-
Other assets	95,587	50,668	44,919	90,571	29,007	61,564
Mining properties	5,255	-	5,255	5,000	-	5,000
	<u>\$ 14,475,343</u>	<u>\$ 713,523</u>	<u>\$ 13,761,820</u>	<u>\$ 13,320,794</u>	<u>\$ 58,230</u>	<u>\$ 13,262,564</u>

During the first quarter the Company disposed of three properties located in Western Canada for \$1,024,000 which resulted in a gain on sale of \$591,399.

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Notes to the September 30, 2008 Interim Consolidated Financial Statements

All amounts in Canadian dollars unless otherwise stated (unaudited)

5. ASSET RETIREMENT OBLIGATIONS

The following table summarizes changes in future asset retirement obligations:

	Nine months ended September 30, 2008	Year ended December 31, 2007
Asset retirement obligations, beginning of period	\$ 74,226	\$ 119,556
Obligations assumed with exploration activities	-	18,853
Obligations assumed with business acquisition	-	29,783
Obligations discharged with disposed properties	(8,636)	(4,246)
Obligations settled on abandoned properties	-	(2,550)
Accretion	3,149	5,610
Revisions to estimates	-	(92,780)
Asset retirement obligations, end of period	<u>\$ 68,739</u>	<u>\$ 74,226</u>

The undiscounted amount of the estimated future cash flows required to settle the obligations as at September 30, 2008 is \$220,000. These obligations are expected to be paid in the future with a weighted average period to settlement of approximately 15 years. The estimated future cash flows have been discounted at a credit-adjusted risk free rate of 9% and an inflation rate of 2%.

6. SHARE CAPITAL

a) Authorized

Unlimited number of common shares

Unlimited number of first preferred shares to be issued in series, with the directors determining the terms of the preferred shares on a series by series basis.

b) Issued

	Number of Shares	Stated Value
Common Shares		
Balance - December 31, 2007	64,772,966	\$ 16,404,540
Shares issued on exercise of warrants	1,001,025	356,804
Balance - September 30, 2008	<u>65,773,991</u>	<u>16,761,344</u>
Fair Value of Warrants		
Balance - December 31, 2007	-	1,776,281
Warrants exercised (note 7d)	-	(60,061)
Warrants expired (note 7d)	-	(1,154,250)
Balance - September 30, 2008	<u>-</u>	<u>561,970</u>
Share Capital - September 30, 2008	<u>65,773,991</u>	<u>\$ 17,323,314</u>

DUALEX ENERGY INTERNATIONAL INC.

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6. SHARE CAPITAL (continued)

c) Stock options

	Number of Options	Weighted Average Exercise Price
Outstanding - December 31, 2007	1,740,000	\$ 0.35
Granted	400,000	0.30
Outstanding - September 30, 2008	<u>2,140,000</u>	<u>\$ 0.34</u>

On September 11, 2008, the Company granted 400,000 stock options to directors, officers and employees. These options are exercisable at \$0.30 per share, vest over a three year term and expire on September 11, 2013.

d) Warrants

	Number of Warrants	Weighted Average Exercise Price
Outstanding - December 31, 2007	25,367,192	\$ 0.45
Warrants Expired	(15,000,000)	0.55
Warrants Exercised	(1,001,025)	0.30
Outstanding - September 30, 2008	<u>9,366,167</u>	<u>\$ 0.30</u>

The remaining warrants expire on March 2, 2009. The Company has the option to require the exercise of these warrants if the Company's share price trades above \$0.40 for 20 consecutive trading days.

e) Agent Options

	Number of Agent Options	Exercise Price
Outstanding - December 31, 2007	2,671,250	\$ 0.40
Agent Options Expired	(2,671,250)	0.40
Outstanding - September 30, 2008	<u>-</u>	<u>-</u>

7. 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 3.0% - 4.4%
Expected life - 5 years
Expected volatility ranging from 50% - 167%
Expected dividend - 0%

The fair value of the stock options granted was \$485,022 or \$0.23 per option which will be recognized as an expense over the related vesting period.

DUALEX ENERGY INTERNATIONAL INC.

Notes to the September 30, 2008 Interim Consolidated Financial Statements

All amounts in Canadian dollars unless otherwise stated (unaudited)

8. CONTRIBUTED SURPLUS

	Nine months ended September 30, 2008	Year ended December 31, 2007
Contributed surplus, beginning of period	\$ 555,415	\$ 459,471
Stock based compensation	97,855	95,944
Balance transferred on expiration of warrants	1,154,250	-
Contributed surplus, end of period	<u>\$ 1,807,520</u>	<u>\$ 555,415</u>

9. SUPPLEMENTAL CASH FLOW INFORMATION

a) Changes in non-cash working capital

	For the three months ended September 30		For the nine months ended September 30	
	2008	2007	2008	2007
Change in non-cash working capital related to operating activities				
Accounts receivable	\$ (795,491)	\$ 3,863	\$ (671,995)	\$ 39,192
Prepaid expenses and deposits	28,759	132,974	43,446	76,995
Accounts payable and accrued liabilities	367,412	83,603	366,893	3,522
	<u>\$ (399,320)</u>	<u>\$ 220,440</u>	<u>\$ (261,656)</u>	<u>\$ 119,709</u>
Change in non-cash working capital related to investing activities				
Accounts receivable	\$ -	\$ 36,961	\$ -	\$ 600,944
Joint venture receivable	-	(56,044)	437,615	(436,057)
Accounts payable and accrued liabilities	(415,729)	322,275	(70,744)	937,062
	<u>\$ (415,729)</u>	<u>\$ 303,192</u>	<u>\$ 366,871</u>	<u>\$ 1,101,949</u>

b) Other Cash flow information

	For the three months ended September 30		For the nine months ended September 30	
	2008	2007	2008	2007
Taxes paid	<u>\$ 16,967</u>	<u>\$ 3,408</u>	<u>\$ 28,865</u>	<u>\$ 15,410</u>

DUALEX ENERGY INTERNATIONAL INC.

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10. 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, Tunisia, and North America. Gross revenue and net income (loss) for the three and nine months ended September 30, 2008 and capital assets as at September 30, 2008 are summarized by geographic basis below:

	North America \$	Syria \$	Portugal \$	Hungary \$	Tunisia \$	Corporate \$	Total \$
For the three months ended September 30, 2008							
Revenue	61,193	-	-	709,865	-	14,110	785,168
Net Income (Loss)	27,875	-	(107)	(75,828)	-	(118,461)	(166,521)
For the nine months ended September 30, 2008							
Revenue	206,676	-	-	709,865	-	42,733	959,274
Net Income (Loss)	632,944	-	(307)	(77,084)	-	(600,345)	(44,792)
Capital assets							
As at September 30, 2008	143,358	4,237,866	2,993,955	6,216,176	120,291	50,174	13,761,820

11. RELATED PARTY TRANSACTIONS

During the three and nine months ended September 30, 2008, the Company incurred \$3,400 (2007 - \$59,323) and \$17,300 (2007 - \$88,908) respectively, in legal fees to a law firm, of which one of the directors of the Company is a partner, for legal services rendered in respect to general corporate matters. The legal fees charged were based on the law firm's established hourly rates and time charges based on the work performed. At September 30, 2008 there was a net payable of Nil (2007 - \$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.

12. GUARANTEE

The Company has provided a \$US 0.6 million letter of guarantee in respect of the Company's work commitments in Syria. The letter is secured by a guarantee granted by Export Development Canada.

13. CAPITAL MANAGEMENT

The Company considers its current capital structure to include shareholders' equity and working capital.

The Company's objective is to maintain a strong capital structure for maintaining financial flexibility so it can continue to meet its financial obligations and to finance the planned execution of its exploration and development programs. To facilitate the Company's objective, management prepares and updates its capital and operating budget on a regular basis to forecast future cash flows to determine if any additional capital will be required to meet the Company's obligation. If required, the Company may need to carry out some form of equity or debt financing or other transaction to meet its financial and/or contractual obligations. Given the current economic climate the ability of the Company to carry out such a transaction may be limited.

DUALEX ENERGY INTERNATIONAL INC.

Notes to the September 30, 2008 Interim Consolidated Financial Statements

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14. FINANCIAL INSTRUMENTS

The Company has exposure to the following risks from its use of financial instruments:

- Credit Risk
- Liquidity Risk
- Market Risk

a) Credit Risk

Credit risk relates to the risk of loss if a partner, or counterparty to a financial instrument fails to meet its contractual obligation. This risk is related to the Company's accounts receivable. Over 90% of the Company's accounts receivable is with one company, a leading integrated oil and gas company in Central and Eastern Europe. Virtually all of the Company's receivables are with customers and partners engaged in the energy industry and are subject to normal industry credit risk. The Company has historically not experienced any collections issues with its partners or counterparties and considers any amounts outstanding greater than 90 days past due. As at September 30, 2008, the Company did not have any accounts receivable past due. The Company does not have an allowance for doubtful accounts as at September 30, 2008 nor were any receivables written off during the nine months ended September 30, 2008.

b) Liquidity Risk

Liquidity risk relates to the risk that a company will not be able to meet its financial obligations as they become due. The Company's approach to managing liquidity is to ensure that it will have sufficient liquidity to meet its liabilities when due.

The Company prepares and regularly updates its capital and operating budget to forecast future cash flows to ensure, as far as possible, the Company has the appropriate liquidity in place to meet its obligations.

DUALEX ENERGY INTERNATIONAL INC.

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All amounts in Canadian dollars unless otherwise stated (unaudited)

14. FINANCIAL INSTRUMENTS (continued)

c) Market Risk

Market risk for the Company is the risk that changes in commodity prices and foreign exchange rates will affect the Company's net earnings or the value of its financial instruments.

Commodity Price Risk

Commodity price risk is the risk that the fair value of financial instruments or future cash flows will fluctuate as a result of changes in commodity prices. The Company is subject to the risk of changes in commodity prices, primarily natural gas prices in Hungary. The Company has no derivative financial instruments as at September 30, 2008.

Assuming all other variables remain constant, a fluctuation of one dollar a mcf in the price of natural gas would impact operating cash flows and net income by \$105,000 in future quarters assuming production of 1500 mcf/d.

Foreign Currency Exchange Risk

Foreign currency exchange risk is the risk that the fair value of financial instruments or future cash flows will fluctuate as a result of changes in foreign exchange rates. The Company's financial statements are denominated in Canadian dollars. To the extent the Company generates cashflows or maintains assets or liabilities denominated in other currencies, it is exposed to foreign currency exchange risk. The majority of the Company's assets are located outside of Canada and accordingly portions of the Company's current assets and liabilities, revenue, expenses and capital expenditures are denominated in Canadian dollars, US dollars, Euros and Hungarian Forints.

In Hungary, revenue and royalties are denominated in US dollars and settled in Hungarian Forints. Operating expenses are denominated and settled in Hungarian Forints. Capital expenditures in Hungary are denominated and settled in either Euros or Hungarian Forints. The Company's capital expenditure programs in Syria and Portugal are denominated in US dollars. The Company's general and administrative expenditures are primarily denominated in Canadian dollars.

As such the Company is subject to risk of fluctuating exchange rates amongst the Canadian dollar, US dollar, Euro and Hungarian Forint. The Company mitigates this by monitoring changes to exchange rates and maintaining cash balances in currencies to assist in meeting its obligations denominated in these currencies. As at September 30, 2008 the Company had cash of \$1,600,000 in USD and 78,000 in Euros. For the nine months ended September 30, 2008, assuming all other variables remain constant, a fluctuation of five cents in the exchange rate of the US dollar to the Canadian dollar would result in an increase (decrease) on profit or loss of approximately \$90,000.

CORPORATE INFORMATION

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Executive Vice President & Chief Operating Officer

Lorne A. Morozoff, CA
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