



YEAR ENDED DECEMBER 31, 2009
ANNUAL REPORT

DUALEx ENERGY INTERNATIONAL INC.

***Annual Report
For the year ended
December 31, 2009***

MANAGEMENT'S DISCUSSION AND ANALYSIS

This Management's Discussion and Analysis ("MD&A") should be read in conjunction with the Audited Annual Consolidated Financial Statements of DualEx Energy International Inc. ("DualEx" or the "Company") for the year ended December 31, 2009. All figures have been prepared in accordance with Canadian generally accepted accounting principles and are reported in Canadian dollars unless otherwise stated.

Additional information related to the Company can be found on SEDAR at www.sedar.com.

This MD&A has been prepared as of April 20, 2010.

SELECTED FINANCIAL INFORMATION

The following table summarizes selected annual financial information for the last three years:

	2009	2008	2007
Total net revenue	\$ 1,543,672	\$ 3,231,757	\$ 302,423
Net loss	(9,094,555)	(5,832,772)	(1,177,385)
per share - basic and diluted	(0.13)	(0.09)	(0.02)
Working Capital	4,641,142	3,624,310	4,180,849
Total assets	10,486,296	13,075,202	17,863,187
Shareholders' Equity	9,495,254	11,971,735	17,369,187

RESULTS OF OPERATIONS

Production and Petroleum and Natural Gas Sales

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

	Three months ended December 31					
	2009			2008		
	Hungary	North America	Total	Hungary	North America	Total
Gas production (mcf)	-	7,119	7,119	108,417	6,917	115,334
MCF/d	-	77	77	1,178	75	1,253
Total Natural Gas sales	\$ -	\$ 26,987	\$ 26,987	\$ 2,126,097	\$ 44,785	\$ 2,170,882
Netback (\$/mcf)						
Per sales mcf	-	3.79	3.79	19.61	6.47	18.82
Royalties	(0.31)	(0.65)	(0.65)	(0.06)	(0.63)	(0.10)
Operating	-	(1.83)	1.57	(4.60)	(2.63)	(4.48)
Operating Netback	-	1.65	4.71	14.95	3.21	14.24

	Year ended December 31					
	2009			2008		
	Hungary	North America	Total	Hungary	North America	Total
Gas production (mcf)	179,982	27,983	207,965	175,047	34,927	209,974
MCF/d	493	77	570	478	95	573
Total Natural Gas sales	\$ 1,613,361	\$ 105,165	\$ 1,718,526	\$ 3,040,765	\$ 267,038	\$ 3,307,803
Netback (\$/mcf)						
Per sales mcf	8.96	3.76	8.26	17.37	7.65	15.75
Royalties	(1.02)	(0.40)	(0.94)	(1.21)	(0.82)	(1.14)
Operating	(2.17)	(1.60)	(2.09)	(4.24)	(2.77)	(3.99)
Operating Netback	5.77	1.76	5.23	11.92	4.06	10.62

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For the year ended December 31, 2009, petroleum and natural gas production averaged 570 mcf/d compared to 573 mcf/d in the comparative period. The increase in Hungary production was offset by the decrease in North American production.

For the three months ended December 31, 2009, petroleum and natural gas production averaged 77 mcf/d compared to 1253 mcf/d in the comparative quarter. The decrease in production was primarily the result of no production in Hungary in the fourth quarter of 2009 as a result of the Pen 104A well being suspended in September 2009.

During the year ended December 31, 2009 the Company generated \$1,718,526 in petroleum and natural gas sales compared to \$3,307,803 in the comparative period a decrease of 48%. The decrease is primarily due to the reduced gas price received in 2009. During 2009 gas prices in Hungary and North America were 48% and 51% lower respectively than gas prices in 2008.

During the three months ended December 31, 2009, the Company generated \$26,987 in petroleum and natural gas sales compared to \$2,170,882 in the three months ended December 31, 2008. As stated above the large decrease is a result of no production in Hungary in the fourth quarter 2009.

Gas pricing in Hungary is based on a formula which references European gas/oil and heavy fuel oil prices for preceding periods. The North American price is based on market natural gas sales price.

Interest and other revenue

During the year ended December 31, 2009 the Company earned \$20,797 in interest and other revenue compared to \$164,207 in the comparative year. The decrease is a result of lower interest rates than 2008 and lower seismic data sales in 2009. During 2009 the Company had seismic data sales of \$5,800 compared to \$94,000 in 2008.

Royalties

	Three months ended December 31		Year ended December 31	
	2009	2008	2009	2008
Total	\$ 4,622	\$ 11,256	\$ 195,651	\$ 240,253
Percentage of revenue	17%	1%	11%	7%
Per mcf	\$ 0.65	\$ 0.10	\$ 0.94	\$ 1.14

Royalties decreased 19% during the year ended December 31, 2009 compared to 2008 due to the lower natural gas price in Hungary during 2009. The base royalty rate in Hungary is 12% plus 3% when Brent crude is trading above \$80 per barrel plus another 3% when Brent crude is trading above \$90 per barrel for a maximum of 18%. The Company's effective royalty rate in Hungary may vary from period to period as the price received for natural gas sales which is based on historical prices for European gas/oil and heavy fuel oil will change at different rates from the average price of Brent crude. For the year ended December 31, 2009 the effective royalty rate paid for Hungary natural gas production was 11% compared to 7% in 2008. The royalties paid on the Company's North American production for 2008 and 2009 was approximately 11%. The Company does not pay any royalties on revenue from its royalty interest in Wyoming.

For the quarter ended December 31, 2008, the Company's effective royalty rate in Hungary was less than 1% as a result of the significant drop in the price of Brent crude during the period, and the reversal of an over-accrual of Hungary royalties from the third quarter 2008. The high royalty percentage compared to revenue for the three months ended December 31, 2009 is a result of a small adjustment to royalties made by the operator in Hungary in the quarter.

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Operating Costs

	Three months ended December 31		Year ended December 31	
	2009	2008	2009	2008
Total	\$ (11,188)	\$ 517,019	\$ 435,570	\$ 838,367
Percentage of revenue	(41%)	24%	25%	25%
Per mcf	\$ (1.57)	\$ 4.48	\$ 2.09	\$ 3.99

The decrease in operating costs in 2009 is a result of lower natural gas prices received in Hungary. A significant portion of the Company's operating costs in Hungary are marketing costs which are charged on a fixed percentage of the revenue. As revenue was lower in 2009 so was the marketing portion of the operating costs. For the year ended December 31, 2009 operating costs were \$2.17 per mcf (2008 – \$4.24) in Hungary. In North America, operating costs were \$1.60 per mcf (2008 - \$2.77). The higher North American operating costs in 2008 was the result of a one time adjustment for operating costs made by the operator in 2008.

During the three months ended December 31, 2008, the Company incurred \$517,019 in operating costs due mainly to its production in Hungary in that quarter. The credit of operating costs during the three months ended December 31, 2009 relates to an over-accrual in operating costs made by the operator in Hungary during the previous quarter.

General and administrative

	Three months ended December 31		Year ended December 31	
	2009	2008	2009	2008
Gross general and administrative	\$ 387,675	\$ 374,797	\$ 1,282,806	\$ 1,220,061
less capitalized	(76,638)	(130,653)	(360,746)	(343,858)
General and administrative	\$ 311,037	\$ 244,144	\$ 922,060	\$ 876,203

Gross general and administrative costs increased by 5% for the year ended December 31, 2009 compared to the year ended December 31, 2008. The increase during the year is primarily a result of increased general and administrative expenses in Hungary. During the three months ended December 31, 2009 gross general and administrative expenses increased slightly compared to the comparative period primarily as a result of increased accounting and legal costs partially offset by lower salary and wages.

The Company capitalizes general and administrative expenses based on the amount of time employees spend on the Company's international projects. The decline in the capitalized costs during 4th quarter 2009 compared to the 4th quarter 2008 was a result of less time being spent on the Company's international projects during the period.

Stock based compensation

Stock-based compensation costs for the year ended December 31, 2009 amounted to \$92,626 compared to \$138,273 in the prior year. During the quarter ended December 31, 2009 stock-based compensation costs decreased to \$9,233 (2008 - \$40,418). These decreases are a result of stock option expirations and forfeitures during the period. 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 was calculated using the Black-Scholes option pricing method for all stock options granted during the period.

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Depreciation, depletion and accretion (“DD&A”) and impairment

	Three months ended December 31		Year ended December 31	
	2009	2008	2009	2008
Total	\$ 8,802,753	\$ 8,194,103	\$ 9,595,510	\$ 8,224,597

DD&A and impairment increased in the three months and year ended December 31, 2009 primarily as a result of the \$8.8 million impairment recognized in Syria from the drilling and subsequent abandonment of the Al-Tayr 101 exploration well.

Financing costs

Financing costs of \$345,762 were recorded in the first quarter of 2009 to reflect the cost associated with extending the term of 9,365,155 common share purchase warrants to September 2, 2009 from March 2, 2009 and reducing the exercise price from \$0.30 to \$0.20 calculated using the Black-Scholes option pricing model. 5,599,334 of these common share purchase warrants were exercised for gross proceeds of \$1,119,867 prior to expiry.

Gain on sales of property, plant and equipment

In August 2009, the Company settled and finalized its outstanding legal claim against a third party relating to a producing gas property in southwest Saskatchewan (the “Leader Property”). Pursuant to the settlement agreement, varying working interests in rights below the base of the Milk River formation in approximately 40 sections of contiguous land in the Leader area reverted back to the Company. As part of the settlement terms, the Company agreed to fund \$528,000 of infrastructure and facility costs. In September 2009, the Company sold the Leader Property for cash proceeds of \$1,400,000 resulting in a gain on sale of \$841,000.

In November 2009, the Company sold its entire 10% working interest in the Torres Verdras-3 and Aljubarrota-3 Concessions in Portugal, for net proceeds of \$368,000 (\$US350,000), resulting in a gain of \$260,000.

During the year ended December 31, 2008 the Company disposed of properties located in Western Canada for \$1,024,000 which resulted in a gain on sale of \$591,000.

Foreign exchange

A portion of the Company's working capital is denominated in US dollars, Euros, and Hungarian Forints. The fluctuating exchange rate between these currencies and the Canadian dollar, in which the Company's financial statements are presented, created exchange gains and losses during the period. During the three months ended December 31, 2009 the Company experienced a foreign exchange loss of \$60,484 (2008 - \$306,070 gain) and a foreign exchange loss of \$340,351 (2008 - \$448,865 gain) for the year ended December 31, 2009. The losses are primarily a result of the weakening of the US dollar against the Canadian dollar. The Company manages its foreign currency exposures by retaining cash in a specified currency to support anticipated expenditures in that currency.

Current taxes

During the year ended December 31, 2009, current taxes of \$6,725 (2008 - \$27,353) were incurred. The current tax relates to withholding taxes paid on the royalty income earned in the United States.

Capital expenditures

During the year ended December 31, 2009, the Company acquired and expended \$6.6 million on its petroleum and natural gas properties compared to \$3.8 million for the year ended December 31, 2008. Of the \$6.6 million of capital expenditures during the year, \$3.4 million was spent in Syria \$2.3 million was spent in Hungary, \$0.5 million was spent in North America, and \$0.4 million was spent in Tunisia.

Hungary

DualEx, through its jointly controlled equity interest in PetroHungaria kft, holds working interests ranging between 12.5% and 42.8% in the Nyirseg permits of north-eastern Hungary. The majority of the Company's efforts are concentrated in the Penészlek area, where gas production during 2009 was from Pannonian aged sandstone reservoirs. In addition, the PEN-105 well (40.44% interest) successfully tested gas from a Miocene aged volcanoclastic reservoir, and has subsequently commenced production in March 2010. In October 2009, the Company completed the deepening of the PEN-104A sidetracked gas well to a new bottom-hole location ("PEN-104AA"). Following testing operations in March, 2010 the Company abandoned the PEN-104AA sidetrack due to low gas productivity and high watercut. In the Panhandle region, the Company participated in the successful GH-1 well (12.5% interest), which tested gas from a Pannonian sandstone reservoir, and is awaiting tie-in. In the first quarter of 2010, the Company participated in the PEN-101 well (42.8% interest), which flow tested gas from the Miocene and is awaiting remedial work due to suspected faulty cement isolation. The PEN-106 well (42.8% interest) was drilled and abandoned in April 2010 after a drillstem test showed that the target formations are water bearing at this location.

The Company and its partners will be applying for a Mining Plot (a production lease) for the productive areas within the Nyirseg permits in 2010, and anticipate further drilling activity once this has been finalized.

Tunisia

On September 11, 2009 DualEx and Tunisia government officials signed the Bouhajla Production Sharing Contract ("PSC") and associated documents. The initial term of the PSC is three years with two optional renewal periods of three years each. The Company's wholly-owned subsidiary, DualEx Tunisia Inc., has a 100% Contractor Interest in the Block with a work commitment consisting of a minimum of 100 kilometres of 2D seismic and one exploration well to test the Cretaceous Abiod formation during the initial term. The PSC and associated documents contain provisions detailing the fiscal terms of the project, which are based on a cost oil / profit oil scenario, incorporating an "R Factor" calculation.

The Bouhajla Block encompasses 416 square kilometres (105,000 acres), and is located onshore in the Pelagian Basin of east central Tunisia. The Block lies immediately west of the Sidi el Kilani field, which has produced to date approximately 48 million barrels of light oil from the Abiod formation.

The Company is currently collating, copying and beginning its interpretation of the existing legacy technical data on the Block, in advance of planning a geophysical program for later in 2010 or early 2011.

Syria

Following the unsuccessful testing program, and subsequent abandonment of its Al-Tayr 101 exploration well the Company recorded an impairment of its Syria property amounting to \$8.8 million. Subsequent to year-end the Company and its partners elected not to continue the production sharing contract into the second exploration period, and have commenced procedures to surrender Block 17. The Company estimates at December 31, 2009, its remaining share of the well costs were approximately \$1.6 million (US\$1.5 million). DualEx had a 31.67% working interest in Block 17, encompassing approximately 1.25 million gross acres.

Portugal

In November 2009 the Company sold its entire interest in Portugal for cash proceeds of \$368,000 (US\$350,000). DualEx had a 10% working interest in the Torres Vedras-3 and Aljubarrota-3 Concessions.

Western Canada

In August 2009, the Company settled and finalized its outstanding legal claim against a third party relating to a producing gas property in southwest Saskatchewan (the "Leader Property"). Pursuant to the settlement agreement, varying working interests in rights below the base of the Milk River formation in approximately 40 sections of contiguous land in the Leader area reverted back to the Company. As part of the settlement terms, the Company agreed to fund \$528,000 of infrastructure and facility costs. In September 2009, the Company sold the Leader Property for cash proceeds of \$1,400,000 resulting in a gain on sale of \$841,000.

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Asset Retirement Obligations

The asset retirement obligations increased to \$305,198 as at December 31, 2009 from \$69,977 as at December 31, 2008. The increase is primarily due to an abandonment and reclamation obligation being incurred with respect to the Al-Tayr well in Syria and an increase in liabilities assumed with the drilling of wells in Hungary.

LIQUIDITY AND CAPITAL RESOURCES

As at December 31, 2009 the Company had working capital of \$4.6 million. The Company estimates its remaining share of costs for the Al-Tayr 101 well in Syria will be approximately \$1.6 million and its Hungary drilling program to be \$2.9 million. Depending on a number of factors, including operating cashflows, the Company may need to carry out some form of financing or other transaction to meet additional requirements to the extent they exceed existing capital resources.

Share capital

The Company entered 2009 with 65,775,003 common shares, 9,365,155 warrants and 2,140,000 stock options outstanding.

On November 10, 2009 the Company closed an equity financing, pursuant to a short-form prospectus, for gross proceeds of \$5,771,000 (the "Offering"). A total of 14,427,500 units ("Units") were issued by the Corporation at a price of \$0.40 per Unit. Each Unit consists of one common share of the Company and one-half of one Common Share purchase warrant (each whole warrant a "Prospectus Warrant"). Each Prospectus Warrant entitles the holder to purchase one Common Share prior to November 10, 2011. The exercise price of the Prospectus Warrants is \$0.50 per Common Share during the first 12 month period and \$0.60 per Common Share thereafter. The Company has the option to force exercise of the Prospectus Warrants if the Company's share price trades above \$0.80 for 30 consecutive trading days.

The Agents were paid a cash commission of \$403,970 in connection with the Offering and received an aggregate of 1,009,925 compensation options ("Agent Options") to acquire that number of Common Shares at a price of \$0.40 per Common Share until November 10, 2011.

Also during the year 5,599,334 warrants from a prior transaction were exercised for gross proceeds of \$1,119,867. An additional 3,765,821 warrants expired unexercised. In addition 355,000 stock options were granted to employees and directors during the year at an exercise price of \$0.30 for five years and 178,500 stock options were forfeited or expired and 16,500 were exercised. The options vest one third each year, over a three year period.

A total of 85,818,337 common shares of the Company are outstanding as of the date hereof. In addition, the Company has 7,213,750 Prospectus Warrants, 1,009,925 Agent Options, and 2,300,000 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							
	Dec 31 2009	Sep 30 2009	Jun 30 2009	Mar 31 2009	Dec 31 2008	Sep 30 2008	June 30 2008	Mar 31 2008
Total revenue	\$ 27,421	\$ 646,345	\$ 708,560	\$ 161,346	\$ 2,272,483	\$ 785,168	\$ 76,500	\$ 97,606
Net income (loss)	(8,887,426)	493,331	15,793	(716,253)	(5,787,980)	(166,521)	(298,376)	420,105
per share - basic and diluted	(0.13)	0.01	-	(0.01)	(0.09)	-	-	0.01

The increase in revenue during the third and fourth quarters of 2008 is a result of production beginning in Hungary in August 2008 with the PEN-104 well. In January 2009 the PEN-104 well was shut-in due to a compressor failure at a third party owned processing facility. The Company took this opportunity to sidetrack the well to access additional reserves in a higher part of the structure. Gas production restarted in April 2009

MANAGEMENT'S DISCUSSION AND ANALYSIS

with the sidetracked PEN-104A well. The revenue during the quarters ended June 30, 2009 and September 30, 2009 is primarily production from the PEN-104A well in Hungary.

The Company incurred a \$5.8 million loss in the fourth quarter of 2008 primarily as a result of a writedown of exploration dry holes in Hungary (\$2.7 million) along with a writedown of its exploration property in Portugal (\$2.9 million). The Company incurred a \$8.9 million loss during the quarter ended December 31, 2009 primarily as a result of the property writedown in Syria of \$8.8 million.

RELATED PARTY TRANSACTIONS

During the year ended December 31, 2009, the Company incurred \$118,000 (2008 - \$33,106) 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 established hourly rates and time charges based on the work performed. As at December 31, 2009 \$2,651 (2008 - \$2,233) is included in accounts payable as owing to this law firm.

CHANGES IN ACCOUNTING POLICIES

Credit Risk and Fair Value of Financial Assets and Liabilities

In January 2009, the Canadian Institute of Chartered Accountants ("CICA") issued Emerging Issues Committee ("EIC") Abstract -173, Credit Risk and the Fair Value of Financial Assets and Financial Liabilities. The EIC provides guidance on how to take into account credit risk of an entity and counterparty when determining the fair value of financial assets and financial liabilities, including derivative instruments. This standard is effective for the Company's fiscal periods ending on or after January 20, 2009 with retrospective application. The application of this EIC did not have a material effect on the Company's financial statements.

Goodwill and intangible assets

In February 2008, the Accounting Standards Board ("AcSB") issued Section 3064, Goodwill and Intangible Assets, replacing sections 3062 - Goodwill and other tangible assets and 3450 - Research and Development Costs, 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 Company adopted this section effective January 1, 2009. The adoption of this new Section did not have a material impact on our financial statements.

Business Combinations

On January 1, 2009 the Company prospectively adopted Section 1582, Business Combinations. Section 1582 establishes principles and requirements of the acquisition method for business combinations and related disclosures. Adoption of this section did not have a material impact on our financial statements.

Non-Controlling Interests

On January 1, 2009 the Company adopted Sections 1601, Consolidated Financial Statements, and 1602, Non-Controlling Interests. Section 1601 establishes standards for the preparation of consolidated financial statements. Section 1602 provides guidance on accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. Adoption of these sections did not have a material impact on the Company's financial statements.

Financial Instruments

In June 2009, the CICA issued amendments to CICA Handbook Section 3862, Financial Instruments – Disclosures to require certain additional disclosures relating to the determination of fair values. The amendments require that an entity disclose a fair value hierarchy classification for each class of financial instruments recognized on the balance sheet at fair value. The Company has adopted this standard and the additional required disclosures are presented in the financial statements.

The three levels of the fair value hierarchy are:

- Level 1 – determined by reference to quoted prices in active markets for identical assets and liabilities
- Level 2 – determined by inputs other than quoted prices that are observable for the asset or liability either directly or indirectly, and;
- Level 3 – determined by inputs that are not based on observable market data.

In August 2009 the CICA issued amendments to CICA Handbook Section 3855, Financial instruments – recognition and measurement. This Section has been amended to add guidance concerning the assessment of embedded derivatives upon reclassification of a financial asset out of the held-for-trading category. These amendments apply to reclassifications made on or after July 1, 2009. Earlier adoption is permitted. Also, this Section has been amended to:

- change the categories into which a debt instrument is required or permitted to be classified;
- change the impairment model for held-to-maturity financial assets to the incurred credit loss model of IMPAIRED LOANS, Section 3025; and
- require reversal of previously recognized impairment losses on available-for sale financial assets in specified circumstances.

The adoption of this new Section did not have a material impact on the Company's financial statements.

Conversion to International Financial Reporting Standards (“IFRS”)

In February 2008, the AcSB confirmed that all Canadian publicly accountable enterprises will be required to report under IFRS for interim and annual financial statements effective for fiscal years beginning on or after January 1, 2011. The transition from current Canadian generally accepted accounting principles to IFRS is a significant undertaking that may materially affect the Company's reported financial position and operations. The Company has appointed the CFO as the lead for the IFRS conversion project and training and education sessions have been carried out and will continue throughout the conversion.

During the year the Company made progress on its changeover plan. The Company analyzed accounting policy alternatives and preliminarily drafted its IFRS accounting policies. The Company's IFRS accounting policies are expected to be finalized in the second quarter 2010. The financial impacts to the consolidated financial statements will then be determined in the latter half of 2010. The Company also presented preliminary accounting assessments on key IFRS transition issues to the Audit Committee.

These assessments include exploration for and evaluation of mineral resources, property, plant and equipment, impairments of assets, asset retirement obligation, and interest in joint ventures, and first-time adoption.

Expected Accounting Policy Impacts

The Company has determined that the most significant impact of IFRS conversion is to property and equipment (“PP&E”). Under Canadian GAAP the Company follows the full cost method of accounting for petroleum and natural gas operations, whereby all costs relating to the exploration and development of petroleum and natural gas reserves are capitalized on a country-by-country cost centre basis. Such costs include land acquisition costs, costs of drilling both productive and non-productive wells, well equipment, flow line and facility costs, geological and geophysical expenses, overhead expenses directly related to exploration and development activities and asset retirement costs. IFRS does not prescribe specific oil and gas accounting guidance other than for costs associated with the exploration and evaluation phase. Transition to IFRS may have a significant impact on how the Company accounts for costs pertaining to oil and gas activities:

Pre-exploration and evaluation costs – which are expenditures incurred prior to obtaining the legal right to explore. Currently the Company capitalizes these costs; under IFRS these costs must be expensed when incurred.

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Exploration and evaluation ("E&E") costs – under Canadian GAAP these costs are included in the PP&E balance on the Consolidated Balance Sheet, and include undeveloped land and costs relating to pre-commercial exploration. Under IFRS these costs will be reported separately as E&E assets on the balance sheet. E&E costs will not be depleted but assessed for impairment and non-recoverable costs associated with a specific area will be expensed. When a project is determined to be technically feasible and commercially viable, the costs will be moved to PP&E and depletion will commence.

Development costs – will continue to be capitalized as PP&E, however depletion will no longer be calculated at the country level but on an area level. The Company has not finalized the areas to be used in the depletion calculation. Also the level at which impairment tests are performed and the impairment testing methodology will differ under IFRS.

Asset Retirement Obligation ("ARO") - Under Canadian GAAP, the fair value of obligations associated with the retirement, removal and site restoration of long-lived assets are recorded in the period in which the liability is incurred. Existing liabilities are not re-measured using current discount rates. Under IFRS, ARO is measured at each reporting date as the best estimate of the expenditure to be incurred and requires the use of current discount rates at each remeasurement date.

IFRS 1, "First-Time Adoption of International Financial Reporting Standards", permits first time adopters of IFRS a number of exemptions. The Company expects to utilize the following exemptions:

The Company expects to utilize the deemed cost for oil and gas asset exemption which would allow the Company to allocate their oil and gas asset balance, as determined under full cost accounting at the transition date, to the IFRS categories of exploration and evaluation assets and development and producing properties on a cost centre basis. This exemption would relieve the Company from significant adjustments resulting from retrospective adoption of IFRS.

Share-based payment transactions, the Company intends to use this exemption under which stock options that vest prior to January 1, 2010 are not required to be retrospectively restated.

Business combinations exemption, which allows for an implementation of the IFRS business combination rules on a prospective basis, therefore, business combinations entered into prior to January 1, 2010 will not be retrospectively restated.

IFRS conversion will also result in other impacts, some of which may be significant in nature. The impact on the Company's Consolidated Financial Statements cannot reasonably be determined at this time.

CRITICAL ACCOUNTING ESTIMATES

Management is often required to make judgments, assumptions and estimates in the application of generally accepted accounting principles that have a significant impact on the financial results of the Company. The following is a discussion of the accounting estimates that are critical in determining the Company's financial results.

Oil and Gas Reserves

The Company's proved and probable oil and gas reserves are evaluated and reported on by independent reserve evaluators to the Reserves Committee comprised of three directors. The estimation of reserves is a subjective process. Forecasts are based on engineering data, projected future rates of production, estimated commodity price forecasts and the timing of future expenditures, all of which are subject to numerous uncertainties and various interpretations. The Company expects that its future estimates of reserves will change to reflect updated information. Reserve estimates can be revised upward or downward based on the results of future drilling, testing, production levels and economics of recovery based on cash flow forecasts.

Full cost accounting

The Company follows the full cost method of accounting for petroleum and natural gas operations, whereby all costs relating to the exploration and development of petroleum and natural gas reserves are capitalized on a country-by-country cost centre basis. Such costs include land acquisition costs, costs of drilling both productive and non-productive wells, well equipment, flow line and facility costs, geological and geophysical expenses, overhead expenses directly related to exploration and development activities and asset retirement costs.

Costs of acquiring and evaluating unproved properties are excluded from the costs subject to depletion and depreciation until it is determined whether or not proved reserves are attributable to the properties, or impairment occurs.

Unevaluated properties are assessed periodically to determine whether it is likely capitalized costs will be recovered in the future. To the extent there are costs which are unlikely to be recovered in the future, the amount of the impairment is added to costs subject to depletion.

The carrying value of petroleum and natural gas properties with proved reserves is reviewed periodically for impairment. Impairment will occur when the carrying amount of the petroleum and natural gas properties exceeds the sum of the undiscounted cash flows expected to result from the Company's proved reserves. The impairment loss is limited to the amount by which the carrying amount exceeds the sum of fair value of proved and probable reserves. Gains or losses on sales of properties are recognized only when crediting the proceeds to the recorded costs would result in a change of 20% or more in the depletion and depreciation rate.

Depletion Expense

In accordance with the full cost method of accounting for exploration and development activities, all costs associated with exploration and development are capitalized, whether successful or not. The aggregate of capitalized costs and future development costs, net of costs related to unproved properties, is depleted using the unit-of-production method based on estimated proved reserves on a country-by-country basis. Changes in estimated proved reserves or future development costs have a direct impact on depletion expense.

Asset retirement obligations

The Company recognizes the fair value of an asset retirement obligation ("ARO") in the period in which it is incurred when a reasonable estimate of fair value can be made. The obligations recognized are estimates of statutory, contractual or legal obligations that the Company will reasonably be expected to incur and then discounted to its present value using the Company's credit adjusted risk-free interest rate. The fair value of the estimated ARO is recorded as a long-term liability, with a corresponding increase in the carrying amount of the related asset. The capitalized amount of the asset is depleted on a unit-of-production basis over the life of the reserves. The liability amount is increased each reporting period due to the passage of time and the amount of this accretion is charged to earnings in the period through charges to accretion expense. Actual costs incurred upon settlement of the retirement obligation are charged against the obligation to the extent of the liability recorded. Revisions to the estimated timing of cash flows or to the original estimated undiscounted cost would also result in an increase or decrease to the ARO.

Stock-based compensation

The Company has a stock based compensation plan enabling officers, directors and employees to purchase common shares at exercise prices equal to the market price on the date the option is granted. The Company uses the fair value method for valuing stock option grants. Compensation costs attributable to share options granted are measured at their fair value at the grant date and expensed over the vesting period with a corresponding increase to contributed surplus. Upon exercise of the stock options, the consideration paid by the option holder, together with the amount previously recognized in contributed surplus, is credited to share capital. The assumptions used in calculating its stock based compensation expense are: the volatility of the stock price, risk-free rates of return and the expected lives of the options given that some will be forfeited upon termination of employment. There is significant judgement involved in determining these assumptions.

Other estimates

The accrual method of accounting will require management to incorporate certain estimates of revenues at a specific reporting date but for which actual revenue has not been received. In addition, the Company must estimate capital expenditures on capital projects that are in progress or recently completed where actual costs have not been received as of the reporting date.

BUSINESS RISKS AND UNCERTAINTIES

The Company, like all international oil and gas corporations, operates in environments subject to inherent risks. Many such uncertainties are beyond the ability of the Company to control – particularly those associated with exploring for, and developing, economic quantities of hydrocarbons; volatile commodity prices; political risks; foreign exchange rates; issues related to global supply and demand; governmental regulations; and environmental matters. The Company participates in selected international exploration ventures that entail certain political and technical business risks. Management attempts to mitigate these risks by operating in politically and economically stable countries, and by aligning itself with partners that have significant international experience.

The weak global economic environment in 2009 has resulted in a significant decline in natural gas and crude oil prices over 2008. The drop in natural gas and crude oil prices had a negative impact on the profitability of the Company which in turn impacts the operational cash flows of the Company as well as its ability to finance capital expenditures. This in turn could limit growth prospects over the short run or may even require the Company to dispose of or farmout assets or raise new equity.

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 and cashflows from production.

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 and operating 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.



YEAR ENDED DECEMBER 31, 2009
ANNUAL REPORT

DUALEx ENERGY INTERNATIONAL INC.

***Annual Consolidated Financial
Statements***

For the year ended December 31, 2009

MANAGEMENT'S REPORT

To the Shareholders of DualEx Energy International Inc.

The accompanying audited consolidated financial statements and all information in this annual report are the responsibility of management. The financial statements have been prepared in accordance with Canadian generally accepted accounting principles. Other financial information appearing throughout the report is presented on a basis consistent with the financial statements. Management has established procedures and systems of internal control designed to provide reasonable assurance that assets are safeguarded and that reliable financial information is produced in a timely manner. The financial statements have been examined by external auditors who were appointed by the Company's shareholders and whose report is set forth below. The Audit Committee of the Board of Directors has reviewed these financial statements with management and the external auditors. The financial statements have been approved by the Board of Directors on the recommendation of the Audit Committee.

(signed) "Garry Hides"
Garry Hides
President and Chief Executive Officer
April 20, 2010

(signed) "Lorne Morozoff"
Lorne Morozoff
VP Finance and Chief Financial Officer
April 20, 2010

AUDITORS' REPORT

To the Shareholders of DualEx Energy International Inc.

We have audited the consolidated balance sheets of DualEx Energy International Inc. as at December 31, 2009 and 2008 and the consolidated statements of loss and comprehensive loss, and deficit and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2009 and 2008 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

(signed) "Deloitte & Touche LLP"
Chartered Accountants
Calgary, Alberta
April 20, 2010

DUALEX ENERGY INTERNATIONAL INC.
CONSOLIDATED BALANCE SHEETS
AS AT DECEMBER 31

<u>ASSETS</u>	<u>2009</u>	<u>2008</u>
CURRENT		
Cash	\$ 4,620,125	\$ 2,550,650
Restricted cash (note 4)	662,916	-
Accounts receivable	135,086	2,034,838
Prepaid expenses and deposits	77,850	72,312
	<u>5,495,977</u>	<u>4,657,800</u>
PROPERTY, PLANT AND EQUIPMENT (note 5)	4,990,319	8,417,402
	<u>\$ 10,486,296</u>	<u>\$ 13,075,202</u>
 <u>LIABILITIES & SHAREHOLDERS' EQUITY</u>		
CURRENT		
Accounts payable and accrued liabilities	\$ 685,844	\$ 1,033,490
Current portion of asset retirement obligations (note 6)	168,991	-
	<u>854,835</u>	<u>1,033,490</u>
ASSET RETIREMENT OBLIGATIONS (note 6)	136,207	69,977
	<u>991,042</u>	<u>1,103,467</u>
SHAREHOLDERS' EQUITY		
SHARE CAPITAL AND WARRANTS (note 8)	23,285,853	17,323,618
CONTRIBUTED SURPLUS (note 9)	2,503,777	1,847,938
DEFICIT	(16,294,376)	(7,199,821)
	<u>9,495,254</u>	<u>11,971,735</u>
	<u>\$ 10,486,296</u>	<u>\$ 13,075,202</u>
Commitments and Guarantees (note 10)		

See accompanying notes

(signed) "Garry Hides"
Garry Hides, Director

(signed) "David Rain"
David Rain, Director

DUALEX ENERGY INTERNATIONAL INC.
CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS AND DEFICIT
FOR THE YEARS ENDED DECEMBER 31

	2009	2008
REVENUE		
Petroleum and natural gas sales	\$ 1,718,526	\$ 3,307,803
Interest and other	20,797	164,207
Royalties	(195,651)	(240,253)
	<u>1,543,672</u>	<u>3,231,757</u>
EXPENSES		
Operating costs	435,570	838,367
General and administrative (note 5)	922,060	876,203
Stock based compensation (note 8e)	92,626	138,273
Depletion, depreciation and accretion and impairment (note 5)	9,595,510	8,224,597
Financing costs (note 8b)	345,762	-
	<u>11,391,528</u>	<u>10,077,440</u>
LOSS BEFORE OTHER ITEMS	<u>(9,847,856)</u>	<u>(6,845,683)</u>
OTHER ITEMS		
Gain on sales of property, plant and equipment (note 5)	1,100,377	591,399
Foreign exchange (loss) gain	(340,351)	448,865
	<u>760,026</u>	<u>1,040,264</u>
LOSS BEFORE TAXES	(9,087,830)	(5,805,419)
Current taxes	6,725	27,353
NET LOSS AND COMPREHENSIVE LOSS	(9,094,555)	(5,832,772)
DEFICIT, beginning of year	(7,199,821)	(1,367,049)
DEFICIT, end of year	<u>\$ (16,294,376)</u>	<u>\$ (7,199,821)</u>
LOSS PER SHARE		
Basic and diluted	<u>\$ (0.13)</u>	<u>\$ (0.09)</u>

See accompanying notes

DUALEX ENERGY INTERNATIONAL INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31

	2009	2008
OPERATING ACTIVITIES		
Net loss	\$ (9,094,555)	\$ (5,832,772)
Add (deduct) items not requiring cash		
Depletion, depreciation, accretion and impairment	9,595,510	8,224,597
Stock based compensation	92,626	138,273
Financing costs	345,762	-
Gain on sales of property, plant and equipment	(1,100,377)	(591,399)
Unrealized foreign exchange loss (gain)	19,746	(189,287)
	(141,288)	1,749,412
 Change in non-cash working capital items (note 11)	 593,737	 (359,357)
	452,449	1,390,055
 FINANCING ACTIVITIES		
Proceeds from warrants (note 8b)	1,119,117	297,047
Proceeds from financing (note 8a)	5,056,609	-
Proceeds from exercise of stock options (note 8d)	3,960	-
	6,179,686	297,047
 INVESTING ACTIVITIES		
Additions to property, plant and equipment	(6,597,324)	(3,816,285)
Proceeds from sales of		
property, plant and equipment (note 5)	1,764,495	1,024,000
Increase in restricted cash (note 4)	(662,916)	-
Change in non-cash working capital items (note 11)	956,900	(357,283)
	(4,538,845)	(3,149,568)
 Foreign exchange (loss) gain on cash held in a foreign currency	 (23,815)	 129,605
 INCREASE (DECREASE) IN CASH	 2,069,475	 (1,332,861)
 CASH, BEGINNING OF YEAR	 2,550,650	 3,883,511
 CASH, END OF YEAR	 \$ 4,620,125	 \$ 2,550,650

See accompanying notes

DUALEX ENERGY INTERNATIONAL INC.

Notes to the December 31, 2009 Annual Consolidated Financial Statements

All amounts in Canadian dollars unless otherwise stated

1. NATURE OF OPERATIONS AND BASIS OF PRESENTATION

DualEx Energy International Inc. (the "Company") 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. As at December 31, 2009, the Company held working interests in Hungary, Tunisia, Syria and North America. The success of the Company's exploration and development of its petroleum and natural gas properties will be influenced by significant financial, 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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements are prepared in accordance with Canadian generally accepted accounting principles. The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results may differ from these estimates. By their nature, these estimates are subject to measurement uncertainty and the effect on the financial statements of changes in such estimates in future periods could be significant. The consolidated financial statements include accruals based on the terms of existing joint venture agreements. Due to varying interpretations of the definition of terms in these agreements the accruals made by management in this regard may be different from those determined by the Company's joint venture partners. The effect on the consolidated financial statements resulting from such adjustments, if any, will be reflected prospectively.

a) Principles of consolidation

The consolidated financial statements include the accounts of the Company and its subsidiaries. All intercompany accounts and transactions have been eliminated.

b) Revenue recognition

Revenues associated with the sale of the Company's natural gas, natural gas liquids, and crude oil are recognized when title passes from the Company to its customers. Royalty revenue is recognized in the same period in which the related crude oil, natural gas and natural gas liquids is sold.

Interest and other income is recognized when earned.

c) Petroleum and natural gas properties

The Company follows the full cost method of accounting for petroleum and natural gas operations, whereby all costs relating to the exploration and development of petroleum and natural gas reserves are capitalized on a country-by-country cost centre basis. Such costs include land acquisition costs, costs of drilling both productive and non-productive wells, well equipment, flow line and facility costs, geological and geophysical expenses, overhead expenses directly related to exploration and development activities and asset retirement costs.

Costs of acquiring and evaluating unproved properties are excluded from the costs subject to depletion and depreciation until it is determined whether or not proved reserves are attributable to the properties, or impairment occurs.

Unevaluated properties are assessed periodically on a country-by-country cost centre basis to determine whether it is likely capitalized costs will be recovered in the future. To the extent there are costs which are unlikely to be recovered in the future, the amount of the impairment is added to costs subject to depletion.

DUALEX ENERGY INTERNATIONAL INC.

Notes to the December 31, 2009 Annual Consolidated Financial Statements

All amounts in Canadian dollars unless otherwise stated

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The carrying value of petroleum and natural gas properties with proved reserves is reviewed periodically for impairment on a country-by-country cost centre basis. Impairment will occur when the carrying amount of the petroleum and natural gas properties exceeds the sum of the undiscounted cash flows expected to result from the Company's proved reserves. The impairment loss is limited to the amount by which the carrying amount exceeds the fair value of proved and probable reserves.

Gains or losses on sales of properties are recognized only when crediting the proceeds to the recorded costs would result in a change of 20% or more in the depletion and depreciation rate.

d) Depletion and depreciation

Petroleum and natural gas properties and facilities costs, net of estimated salvage values, are depleted on a country-by-country cost centre basis using the unit-of-production method based on estimated proved reserves of petroleum and natural gas before royalties as determined by independent petroleum engineers. For purposes of this calculation proved natural gas reserves and production are converted to equivalent volumes of crude oil based on the approximate energy equivalent ratio of six thousand cubic feet of natural gas to one barrel of crude oil.

Other assets consist of office and computer equipment and are depreciated using the straight line method over a three to five year term.

e) Asset retirement obligations

The fair value of obligations associated with the retirement, removal and site restoration of long-lived assets are recorded in the period in which the liability is incurred. The obligations recognized are estimates of statutory, contractual or legal obligations that the Company will reasonably be expected to incur and then discounted to their present value using the Company's credit adjusted risk-free interest rate. The corresponding amount increases the carrying amount of the related asset. The liability is accreted over time for changes in the fair value of the liability through charges to accretion expense. The liability is also adjusted due to revisions in either the timing or amount of the original estimated cash flows associated with the liability. The costs capitalized to the related assets are amortized to earnings in a manner consistent with the depreciation and depletion of the underlying asset. Actual costs incurred upon settlement of the retirement obligation are charged against the obligation to the extent of the liability estimated with gains or losses being recognized in income on a cost center by cost center basis.

f) Joint venture activities and joint controlled operations.

Substantially all of the Company's exploration, development and production activities are conducted with joint venture partners. These financial statements reflect only the Company's proportionate interest in such activities. The Company conducts a portion of its business through a jointly controlled corporation and accounts for this corporation using the proportionate consolidation method.

g) Per share amounts

Basic per share amounts are calculated using the weighted average number of shares outstanding during the year. Diluted per share amounts are calculated based on the treasury-stock method. This method assumes that any proceeds obtained on the exercise of options and warrants, plus unrecognized stock compensation costs, would be used to purchase common shares at the average market price during the period.

DUALEX ENERGY INTERNATIONAL INC.

Notes to the December 31, 2009 Annual Consolidated Financial Statements

All amounts in Canadian dollars unless otherwise stated

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

h) Income taxes

The Company follows the liability method of accounting for income taxes. Under this method the Company records future income tax assets and liabilities based on "temporary differences" (differences between the accounting basis and the tax basis of the assets and liabilities) measured using the currently enacted, or substantively enacted tax rates and laws expected to apply when these differences reverse. The effect of a change in substantively enacted income tax rates on future income tax assets and liabilities is recognized in income in the period that the change occurs.

i) Stock-based compensation plan, warrants and agent options

The Company has a stock based compensation plan enabling officers, directors and employees to purchase common shares at exercise prices equal to the market price on the date the option is granted. Stock options are accounted for based on fair values estimated as at the date of grant. The fair value of the stock based compensation is recognized over the vesting period of the stock options granted and is recorded as compensation expense with an equivalent amount credited to contributed surplus. Any consideration paid to the Company on the exercise of stock options, along with amounts previously credited to contributed surplus, is credited to share capital. Forfeitures are accounted for as they occur as a reduction of stock based compensation expense.

The Company may issue warrants and agent options in conjunction with financings. The value of options issued as compensation to financing agents is recorded as a cost of financing. The fair value of the warrants attached to shares as a part of financing is recorded in shareholders' equity. Any consideration paid to the Company on the exercise of warrants is credited to share capital. The fair value of the agent options is recorded as an increase in contributed surplus and accounted as a share issuance cost. Any consideration paid to the Company on the exercise of agent options, along with amounts previously recognized in contributed surplus, is credited to share capital.

The Company may revise the exercise price and/or extend the exercise period of previously issued warrants and agent options. The fair value of the revision is treated as financing costs and a corresponding increase in share capital.

The fair value of the warrants, options, and revisions is estimated using a Black-Scholes model that takes into account as of the grant date: exercise price, expected life, current price, expected volatility, expected dividends and risk free interest rates.

j) Foreign Currency

The Company follows the temporal method when translating foreign currency transactions and the financial statements of its integrated subsidiaries. Under this method, foreign currency denominated assets and liabilities are translated at the exchange rate prevailing at the balance sheet date for monetary items and at the transaction date for non-monetary items. Revenues and expenses, except depletion and depreciation, are translated at average exchange rates for the period. Depletion and depreciation are translated at the same rate as the related assets. Exchange gains or losses arising from the translation of current and non-current monetary items are included in the determination of net loss.

DUALEX ENERGY INTERNATIONAL INC.

Notes to the December 31, 2009 Annual Consolidated Financial Statements

All amounts in Canadian dollars unless otherwise stated

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

k) Financial Instruments

i) Financial Instruments

All financial instruments are initially recognized at their fair value on the balance sheet. The Company has classified each of its financial instruments into one of the five categories: 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 after initial recognition is contingent upon initial classification.

For all financial assets and financial liabilities that are not classified as held for trading, the transaction costs that are directly attributable to the acquisition or issue of a financial asset or financial liability are added to or subtracted from the fair value initially recognized for that financial instrument and are amortized over the term of these instruments using the effective interest rate method and are recognized within interest expense. Held for trading financial assets and financial liabilities are measured at fair value and changes in fair value are recognized in net income. Transaction costs related to financial instruments classified as held for trading are recorded in net income.

Unrealized 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 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

The Company may use derivative instruments to manage its exposure to the volatility in commodity prices. These derivatives are accounted for as held for trading. 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. The Company has no derivative instruments outstanding as at December 31, 2009 or 2008.

iii) Embedded Derivatives

Derivatives may be embedded in other financial and non-financial instruments or contracts ("host contracts"). 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. The Company did not have any embedded derivatives as at December 31, 2009 and December 31, 2008.

l) Comprehensive Income

Comprehensive income is the change in shareholders' equity resulting from transactions and events from sources other than the Company's shareholders. These transactions and events include changes in currency translation adjustments and unrealized gains and losses resulting from changes in fair value of available for sale financial assets.

DUALEX ENERGY INTERNATIONAL INC.

Notes to the December 31, 2009 Annual Consolidated Financial Statements

All amounts in Canadian dollars unless otherwise stated

3. ACCOUNTING CHANGES AND NEW ACCOUNTING PRONOUNCEMENTS

a) Credit Risk and Fair Value of Financial Assets and Liabilities

In January 2009, the Canadian Institute of Chartered Accountants ("CICA") issued Emerging Issues Committee ("EIC") Abstract - 173, Credit Risk and the Fair Value of Financial Assets and Financial Liabilities. The EIC provides guidance on how to take into account credit risk of an entity and counterparty when determining the fair value of financial assets and financial liabilities, including derivative instruments. This standard is effective for the Company's fiscal periods ending on or after January 20, 2009. The application of this EIC did not have a material effect on the Company's financial statements.

b) Goodwill and intangible assets

In February 2008, the Accounting Standards Board ("AcSB") issued Section 3064, Goodwill and Intangible Assets, replacing Sections 3062 – Goodwill and other tangible assets and 3450 – Research and Development Costs, 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 Company adopted this Section effective January 1, 2009. The adoption of this new Section did not have a material impact on the Company's financial statements.

c) Business Combinations

On January 1, 2009 the Company prospectively adopted CICA Section 1582, Business Combinations. Section 1582 establishes principles and requirements of the acquisition method for business combinations and related disclosures. Adoption of this section did not have a material impact on the Company's financial statements.

d) Non-Controlling Interests

On January 1, 2009 the Company adopted Sections 1601, Consolidated Financial Statements, and 1602, Non-Controlling Interests. Section 1601 establishes standards for the preparation of consolidated financial statements. Section 1602 provides guidance on accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. Adoption of these sections did not have a material impact on the Company's financial statements.

DUALEX ENERGY INTERNATIONAL INC.

Notes to the December 31, 2009 Annual Consolidated Financial Statements

All amounts in Canadian dollars unless otherwise stated

3. ACCOUNTING CHANGES AND NEW ACCOUNTING PRONOUNCEMENTS (continued)

e) Financial Instruments

In June 2009, the CICA issued amendments to CICA Handbook Section 3862, Financial Instruments – Disclosures to require certain additional disclosures relating to the determination of fair values. The amendments require that an entity disclose a fair value hierarchy classification for each class of financial instruments recognized on the balance sheet at fair value. The Company has adopted this standard and the additional required disclosures are presented in Note 16d.

The three levels of the fair value hierarchy are:

- Level 1 – determined by reference to quoted prices in active markets for identical assets and liabilities
- Level 2 – determined by inputs other than quoted prices that are observable for the asset or liability either directly or indirectly, and;
- Level 3 – determined by inputs that are not based on observable market data.

In August 2009 the CICA issued amendments to CICA Handbook Section 3855, Financial instruments – recognition and measurement. This Section has been amended to add guidance concerning the assessment of embedded derivatives upon reclassification of a financial asset out of the held-for-trading category. These amendments apply to reclassifications made on or after July 1, 2009. Earlier adoption is permitted. Also, this Section has been amended to:

- change the categories into which a debt instrument is required or permitted to be classified;
- change the impairment model for held-to-maturity financial assets to the incurred credit loss model of IMPAIRED LOANS, Section 3025; and
- require reversal of previously recognized impairment losses on available-for sale financial assets in specified circumstances.

The adoption of this new Section did not have a material impact on the Company's financial statements.

f) International Financial Reporting Standards ("IFRS")

In February 2008, the AcSB confirmed that all Canadian publicly accountable enterprises will be required to report under IFRS for interim and annual financial statements effective for fiscal years beginning on or after January 1, 2011.

4. RESTRICTED CASH

The Company has provided a \$662,916 (\$US633,400) letter of guarantee in respect of its work commitments in Syria. This letter expires May 30, 2010 and is secured by cash.

DUALEX ENERGY INTERNATIONAL INC.

Notes to the December 31, 2009 Annual Consolidated Financial Statements

All amounts in Canadian dollars unless otherwise stated

5. PROPERTY, PLANT AND EQUIPMENT

The Company's property, plant and equipment as at December 31 is as follows:

	December 31, 2009			December 31, 2008		
	Cost	Accumulated depletion and impairment	Net Book Value	Cost	Accumulated depletion and impairment	Net Book Value
Hungary	\$ 10,415,243	\$ 6,000,692	\$ 4,414,551	\$ 8,026,277	\$ 5,256,909	\$ 2,769,368
Syria	8,794,939	8,794,939	-	5,201,678	-	5,201,678
Portugal	-	-	-	2,993,427	2,885,595	107,832
North America	147,894	103,795	44,099	191,185	77,882	113,303
Tunisia	514,850	-	514,850	182,434	-	182,434
Other assets	96,587	85,176	11,411	95,587	58,055	37,532
Mining properties	5,408	-	5,408	5,255	-	5,255
	<u>\$ 19,974,921</u>	<u>\$ 14,984,602</u>	<u>\$ 4,990,319</u>	<u>\$ 16,695,843</u>	<u>\$ 8,278,441</u>	<u>\$ 8,417,402</u>

The Company capitalized \$361,000 in general and administrative costs during the year ended December 31, 2009 (2008 - \$344,000).

As at December 31, 2009, capital costs of \$3,781,000 (December 31, 2008 - \$7,968,238) relating to the exploration and development of international properties have been excluded from costs subject to depletion as these costs relate to unproved properties.

The Company recorded an impairment of \$8,794,939 on its property in Syria following the unsuccessful testing program on its Al-Tayr 101 exploration well. Subsequent to year-end the Company relinquished its interest in Block 17 in Syria.

In August 2009, the Company settled and finalized its outstanding legal claim relating to a producing gas property in southwest Saskatchewan (the "Leader Property"). Pursuant to the settlement agreement, varying working interests in rights below the base of the Milk River formation in approximately 40 sections of contiguous land in the Leader area reverted back to the Company. As part of the settlement terms, the Company agreed to fund \$528,000 of infrastructure and facility costs. In September 2009, the Company sold the Leader Property for cash proceeds of \$1,403,000 resulting in a gain on sale of \$841,000.

In November 2009 the Company sold its entire interest in Portugal for cash proceeds of \$368,000 (US\$350,000) resulting in a gain on sale of \$259,000.

During 2008 the Company disposed of Western Canadian properties for cash consideration of \$1,024,000.

The Company assessed its other properties and determined they were not impaired as at December 31, 2009.

DUALEX ENERGY INTERNATIONAL INC.

Notes to the December 31, 2009 Annual Consolidated Financial Statements

All amounts in Canadian dollars unless otherwise stated

5. PROPERTY, PLANT AND EQUIPMENT (continued)

The following table outlines benchmark prices used in the impairment test for the Company's Western Canada and Hungarian properties at December 31, 2009:

Year	AECO Natural Gas \$/MMBTU	Hungarian Natural Gas \$/MMBTU
2010	5.50	8.86
2011	6.25	10.13
2012	6.75	10.56
2013	7.25	11.05
2014	7.60	11.42
2015	7.80	11.67
2016	8.00	11.91
2017	8.20	12.16
2018	8.40	12.40
2019	8.60	12.65
2020	8.80	12.89
Thereafter	2%/Year	2%/Year

The price received for natural gas produced in Hungary is determined with reference to a pricing formula derived primarily from the benchmark price for European gas/oil and heavy fuel oil.

6. ASSET RETIREMENT OBLIGATIONS

The following table summarizes the asset retirement obligations for the years ended December 31.

Asset Retirement Obligations

	Year ended December 31	
	2009	2008
Asset retirement obligations, beginning of period	\$ 69,977	\$ 74,226
Obligations incurred with exploration activities	213,544	-
Obligations discharged with disposed properties	(7,292)	(8,636)
Revisions to estimates	21,970	-
Accretion	6,999	4,387
Asset retirement obligations, end of period	305,198	69,977
Less current portion	(168,991)	-
	<u>\$ 136,207</u>	<u>\$ 69,977</u>

The undiscounted amount of the estimated future cash flows required to settle the obligations is \$432,000 (2008 – \$242,000). These obligations are expected to be paid in the future with a weighted average life of approximately 4 years. The estimated future cash flows have been discounted at a credit-adjusted risk free rate of 9% and an inflation rate of 2%.

DUALEX ENERGY INTERNATIONAL INC.

Notes to the December 31, 2009 Annual Consolidated Financial Statements

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7. INCOME TAXES

- a) Significant components of the Company's Canadian future income tax asset as at December 31 include the following:

Nature of temporary differences	31-Dec-09	31-Dec-08
Book value of assets in excess of tax value	\$ (22,429)	\$ 188,829
Share issue costs and finance fees	229,603	133,620
Non-capital losses	1,191,584	1,939,984
Valuation Allowance	(1,398,758)	(2,262,433)
	<u>\$ -</u>	<u>\$ -</u>

A future income tax asset has not been recognized as management does not currently believe it is more likely than not that the Company will realize the asset.

- b) Income tax expense differs from that which would be expected from applying the combined effective Canadian federal and provincial corporate income tax rates of 29% (2008 - 29.5%) to loss before income taxes as follows:

	2009	2008
Computed Canadian expected income tax recovery	\$ (2,635,471)	\$ (1,712,475)
Rate differential for loss in foreign jurisdictions	2,486,653	496,781
Non-deductible stock-based compensation	26,862	40,791
Change in tax rates	-	323,717
Other	1,763	76,472
Change in valuation allowance and future tax rates	126,918	802,067
Current taxes	<u>\$ 6,725</u>	<u>\$ 17,602</u>

DUALEX ENERGY INTERNATIONAL INC.

Notes to the December 31, 2009 Annual Consolidated Financial Statements

All amounts in Canadian dollars unless otherwise stated

7. INCOME TAXES (continued)

- c) The Company has the following Canadian non-capital loss carry forwards for which no benefit has been recognized in the consolidated financial statements.

<u>Year of Expiry</u>	<u>Amount</u>
2026	723,254
2027	1,549,421
2028	321,176
2029	850,840
No Expiry	1,739,006
	<u>\$ 5,183,697</u>

- d) Hungary

The Hungarian operations are not expected to generate current income taxes for the next several years based upon current capital expenditure plans. The present income tax rate on corporate net profits in Hungary is 27%.

Tunisia and Syria

The Company is tax protected under the terms of the production sharing contracts in Tunisia and Syria. In accordance with the terms of the production sharing contracts, the Company determines the liability for income tax which would otherwise be payable in connection with its Tunisia or Syria operations. Any such tax determined in connection with the Company's operations is paid by the Tunisian or Syrian authorities from their share of production and the Company retains no liability for payment of income or other taxes.

DUALEX ENERGY INTERNATIONAL INC.

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8. SHARE CAPITAL

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.

Issued

	<u>Number of Shares</u>	<u>Stated Value</u>
Common Shares		
Balance - December 31, 2007	64,772,966	\$ 16,404,540
Shares issued on exercise of warrants (note 8b)	1,002,037	357,169
Balance - December 31, 2008	<u>65,775,003</u>	<u>16,761,709</u>
Fair Value of Warrants		
Balance - December 31, 2007		1,776,281
Warrants exercised (note 8b)		(60,122)
Warrants expired (note 8b)		(1,154,250)
Balance - December 31, 2008		<u>561,909</u>
Balance - December 31, 2008	<u>65,775,003</u>	<u>\$ 17,323,618</u>
Common Shares		
Balance - December 31, 2008	65,775,003	\$ 16,761,709
Shares issued on exercise of warrants (note 8b)	5,599,334	1,662,088
Shares issued on financing, net (note 8a)	14,427,500	3,700,424
Shares issued on the exercise of stock options (note 8d)	16,500	7,432
Balance - December 31, 2009	<u>85,818,337</u>	<u>22,131,653</u>
Fair Value of Warrants		
Balance - December 31, 2008		561,909
Revision of Warrants (note 8b)		345,762
Warrants exercised		(542,971)
Warrants expired		(364,700)
Prospectus Warrants granted (note 8a)		1,154,200
Balance - December 31, 2009		<u>1,154,200</u>
Balance December 31, 2009	<u>85,818,337</u>	<u>\$ 23,285,853</u>

DUALEX ENERGY INTERNATIONAL INC.

Notes to the December 31, 2009 Annual Consolidated Financial Statements

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8. SHARE CAPITAL (continued)

a. Short form prospectus offering

On November 10, 2009 the Company closed a short form prospectus offering issuing 14,427,500 units ("Units") for gross proceeds of \$5,771,000 (\$5,056,610 net of issuance costs). Each Unit consists of one common share of the Company and one-half of one Common Share purchase warrant (each whole warrant a "Prospectus Warrant"). Each Prospectus Warrant entitles the holder to purchase one Common Share at an exercise price of \$0.50 during the first year and an exercise price of \$0.60 during the second year. The Prospectus Warrants expire before the earlier of November 10, 2011 or 30 days after the giving of notice of early termination by the Company which may be given by the Company if the closing price of the Common Shares trades at \$0.80 or above for a minimum of 30 consecutive trading day.

The Prospectus Warrants have been assigned a value of \$1,154,200 using a Black-Scholes model with the following assumptions: expected life 2 years, expected volatility 100%, risk-free interest rate of 1.4%, and a zero dividend yield.

As part of the short form prospectus offering 1,009,925 agent options ("Agent Options") were granted as compensation to brokers. Each Agent Option grants the agent the right to purchase one Common Share of the Company at an price of \$0.40 until November 10, 2011. The Agent Options have been assigned a value of \$201,985 using the Black-Scholes model with the following assumptions: expected life 2 years, expected volatility 100%, risk-free interest rate of 1.4%, and a zero dividend yield. This amount has been recorded as a share issuance cost with a corresponding increase in contributed surplus.

b) Warrants and Prospectus 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	(1,002,037)	0.30
Outstanding - December 31, 2008	9,365,155	0.30
Warrants Exercised	(5,599,334)	0.20
Warrants Expired	(3,765,821)	0.20
Prospectus Warrants Granted (note 8a)	7,213,750	0.50
Outstanding - December 31, 2009	7,213,750	\$ 0.50

In February 2009, the Company re-priced and extended the expiry date of its 9,365,155 outstanding common share purchase warrants. The exercise price was re-priced from \$0.30 per common share to \$0.20 per common share and the term of the warrants was extended from March 2, 2009 to September 2, 2009. The fair value of the revision was calculated to be \$345,762 based on a Black Scholes model using the following assumptions: expected volatility – 100%, risk free interest rate 1.17%, expected life 6.5 months, and a zero dividend yield.

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8. SHARE CAPITAL (continued)

c) Agent Options

	Number of Agent Options	Exercise Price
Outstanding - December 31, 2007	2,671,250	\$ 0.40
Expired	<u>(2,671,250)</u>	0.40
Outstanding December 31, 2008	-	-
Granted (note 8a)	<u>1,009,925</u>	0.40
Outstanding - December 31, 2009	<u><u>1,009,925</u></u>	<u><u>\$ 0.40</u></u>

d) Stock options

The Company has a stock option plan under which options to purchase common shares may be granted to officers, directors, employees and consultants. The Board has approved a policy of reserving up to 10% of the outstanding common shares for issuance to eligible participants. Under the plan, all options have a maximum term of five years. All options awarded to date vest 1/3 per year on the anniversary date of the grant for the next three years.

	Number of Options	Weighted Average Exercise Price
Outstanding - December 31, 2007	1,740,000	\$ 0.35
Granted	<u>400,000</u>	0.30
Outstanding - December 31, 2008	2,140,000	0.34
Granted	355,000	0.30
Expired or Forfeited	(178,500)	0.32
Exercised	(16,500)	0.24
Outstanding - December 31, 2009	<u><u>2,300,000</u></u>	<u><u>\$ 0.34</u></u>

The following table summarizes stock options outstanding as at December 31, 2009:

Date of Grant	Number Outstanding	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life in Years	Options Exercisable
9-Jun-06	800,000	\$ 0.40	1.42	800,000
1-Sep-06	100,000	\$ 0.40	1.67	100,000
1-Jan-07	85,000	\$ 0.68	2.00	56,667
4-Sep-07	605,000	\$ 0.24	2.67	416,517
11-Sep-08	355,000	\$ 0.30	3.67	118,333
11-Aug-09	355,000	\$ 0.30	4.58	-
	<u><u>2,300,000</u></u>			<u><u>1,491,517</u></u>

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8. SHARE CAPITAL (continued)

e) 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 a Black-Scholes option-pricing model. The following assumptions have been used:

	<u>2009</u>	<u>2008</u>
Risk free rate	2.5%	3.0%
Expected life	5 years	5 years
Expected volatility	100%	100%
Expected dividend	0%	0%

The total fair value of the stock options granted in, 2009 is \$80,109 (2008 - \$83,664). During the year ended December 31, 2009, \$92,626 (2008 - \$138,273) was recognized as an expense.

f) Net loss per share

Net loss per share has been calculated using the weighted average number of shares outstanding during the period of 69,733,579. The exercise of warrants, Prospectus Warrants, Agent Options and stock options would not be dilutive for the years ended December 31, 2008 and 2009 as the Company is in a loss position.

9. CONTRIBUTED SURPLUS

	December 31	
	<u>2009</u>	<u>2008</u>
Contributed surplus, beginning of year	\$ 1,847,938	\$ 555,415
Stock based compensation	92,626	138,273
Balance transferred from share capital		
on expiration of warrants	364,700	1,154,250
Exercise of Stock options	(3,472)	-
Agent options (note 8a)	201,985	-
Contributed surplus, end of year	<u>\$ 2,503,777</u>	<u>\$ 1,847,938</u>

10. COMMITMENTS AND GUARANTEES

- a) In Tunisia, the Company holds a 100% interest in a production sharing contract with the Entreprise Tunisienne d'Activites Petrolieres. The initial term of the PSC is three years with a work commitment consisting of a minimum of 100 kilometres of 2D seismic and one exploration well. The Company has provided a \$US1.0 million letter of guarantee in respect of the above mentioned work commitment. This letter is secured by a guarantee granted by Export Development Canada.

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Notes to the December 31, 2009 Annual Consolidated Financial Statements

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10. COMMITMENTS AND GUARANTEES(continued)

- b) As at December 31, 2009, in Syria, the Company held a 31.67% participating interest in a production sharing contract ("PSC") with the Syrian Petroleum Company and the Syrian government, pertaining to the exploration and production rights on Block 17, onshore Syria. The Company had a remaining work obligation comprised of the drilling of one exploratory well. Subsequent to December 31, 2009, following the unsuccessful testing and abandonment of the Al-Tayr 101 exploration well the Company relinquished its interest in Block 17 in Syria. The Company estimates that its remaining share of the exploratory well and office shut down costs will be \$1.6 million (US\$1.5 million) as at December 31, 2009.

The Company has provided a \$US 0.6 million letter of guarantee in respect of the above mentioned work commitments in Syria. This letter is secured by cash. It is the opinion of management that the Company has met it's work commitment and the letter of guarantee will be released in 2010.

- c) During the year the Company entered into a lease agreement whereby the Company will lease office space until May 31, 2011. The Company has committed to future payments under this lease agreement of \$122,000 in 2010, and \$51,000 in 2011.

11. SUPPLEMENTAL CASH FLOW INFORMATION

- a) Changes in non-cash working capital

	For the year ended December 31	
	2009	2008
Change in non-cash working capital related to operating activities		
Accounts receivable	\$ 1,472,612	\$ (1,315,186)
Prepaid expenses and deposits	(5,538)	58,976
Accounts payable and accrued liabilities	(873,337)	896,853
	<u>\$ 593,737</u>	<u>\$ (359,357)</u>
Change in non-cash working capital related to investing activities		
Accounts receivable	\$ 426,342	\$ (75,676)
Accounts payable and accrued liabilities	530,558	(281,607)
	<u>\$ 956,900</u>	<u>\$ (357,283)</u>

- b) Other cash flow information

	For the year ended December 31	
	2009	2008
Taxes paid	<u>\$ 6,725</u>	<u>\$ 27,353</u>

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12. SEGMENTED INFORMATION

The Company operates in the oil and natural gas industry. Its reportable segments are identified on a geographic basis. During the year the Company had operations in Syria, Portugal, Hungary, Tunisia and North America. Gross revenue and net income (loss) for the years ended December 31, 2009 and December 31, 2008 and capital assets as at December 31, 2009 and December 31, 2008 are summarized on a geographic basis below:

	North America	Syria	Portugal	Hungary	Tunisia	Corporate	Total
	\$	\$	\$	\$	\$	\$	\$
For the year ended December 31, 2009							
Revenue	94,632	-	-	1,441,820	-	7,220	1,543,672
Net Income (Loss)	790,476	(8,836,299)	258,165	144,275	-	(1,451,172)	(9,094,555)
For the year ended December 31, 2008							
Revenue	332,617	-	-	2,829,078	-	70,062	3,231,757
Net Income (Loss)	679,032	-	(2,886,031)	(3,170,898)	-	(454,875)	(5,832,772)
Capital assets							
As at December 31, 2009	49,507	-	-	4,414,551	514,850	11,411	4,990,319
As at December 31, 2008	118,558	5,201,678	107,832	2,769,368	182,434	37,532	8,417,402

13. JOINTLY CONTROLLED CORPORATION

The Company conducts a portion of its business through a jointly controlled corporation in Hungary. The joint control was established in 2008 and as a result the Company accounts for its 37.5% interest in this joint controlled corporation using the proportionate consolidation method. The total amounts and the major components of each of the following relate to the Company's interest in this corporation:

	December 31, 2009		December 31, 2008	
	\$		\$	
Current assets		227,362		1,614,091
Property, plant and equipment		4,045,740		2,769,368
Current liabilities		506,890		891,651
Long term liabilities		115,788		49,953
Year ended				
	December 31, 2009		December 31, 2008	
	\$		\$	
Revenue		1,441,820		2,829,078
Expenses		1,303,968		5,999,976
Net income (loss)		137,852		(3,170,898)
Cash inflow resulting from operating activities		1,089,563		1,793,447
Cash outflow resulting from investing activities		1,154,766		1,587,669

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14. RELATED PARTY TRANSACTIONS

During the year ended December 31, 2009, the Company incurred \$118,000 (2008 - \$33,106) 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 established hourly rates and time charges based on the work performed. As at December 31, 2009 \$2,651 (2008 - \$2,233) is included in accounts payable as owing to this law firm.

15. CAPITAL MANAGEMENT

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 obligations. The Company is not subject to any externally imposed covenant requirements. 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. The Board of Directors has not established a definitive return on capital criteria for management.

The Company defines and computes its capital as follows:

	<u>December 31, 2009</u>	<u>December 31, 2008</u>
Shareholders' Equity	<u>\$ 9,495,254</u>	<u>\$ 11,971,735</u>

16. 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 obligations. This risk is related to the Company's accounts receivable, cash and deposits. The maximum credit risk corresponds to the carrying value of these financial assets. 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 collection issues with its partners or counterparties and considers any amounts outstanding greater than 90 days to be past due. As at December 31, 2009, the Company has \$6,000 in accounts receivable past due. The Company has recorded an allowance for this amount. The Company minimizes the credit risk of cash by depositing only with reputable institutions.

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16. FINANCIAL INSTRUMENTS(continued)

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. As at December 31, 2009, the Company has \$4.6 million of working capital available to meet its obligations which together with expected cash flows is projected to be sufficient to meet the Company's 2010 commitments.

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.

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 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 the price received for its natural gas production in Hungary. The Company has no commodity price-based derivative financial instruments as at December 31, 2009.

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 program in Syria is denominated in US dollars. The Company's general and administrative expenditures are primarily denominated in Canadian dollars.

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16. FINANCIAL INSTRUMENTS (continued)

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 December 31, 2009 the Company had working capital denominated in the following foreign currencies:

	<u>\$US</u>	<u>Euros</u>	<u>Hungarian Forints</u>
Cash	991,000	176,000	25,278,000
Accounts receivable	-	-	10,465,000
Accounts payable	(23,000)	-	(106,407,900)
Year end exchange rate	USD to CDN 1.05	Euro to CDN 1.50	HUF to CDN 0.005549

As at December 31, 2009, 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 the value of the Company's financial instruments of approximately \$51,000. A fluctuation of five cents in the exchange rate of the Euro to the Canadian dollar would result in an increase (decrease) on the value of the Company's financial instruments of approximately \$13,000. A fluctuation of 5% in the exchange rate of the Hungarian Forint to the Canadian dollar would result in an increase (decrease) on the value of the Company's financial instruments of \$20,000.

d) Fair Value of Financial Instruments

The Company's financial instruments recognized in the consolidated balance sheet consist of cash, restricted cash, accounts receivable, deposits, and accounts payable and accrued liabilities. Cash and restricted cash is classified as held for trading. Accounts receivable and deposits are classified as loans and receivables. Accounts payable and accrued liabilities is classified as other liabilities. The Company's financial instruments that are held for trading have been classified as Level 1 in the fair value hierarchy.

Carrying value and fair value of financial assets and liabilities are summarized as follows:

	<u>December 31, 2009</u>	
	<u>Carrying Value</u>	<u>Fair Value</u>
Financial assets held-for-trading	\$ 5,283,041	\$ 5,283,041
Loans and receivables	150,337	150,337
Other liabilities	685,844	685,844

C O R P O R A T E I N F O R M A T I O N

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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

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