



THREE AND NINE MONTHS ENDED  
SEPTEMBER 30, 2009

Q3

***DUALEX ENERGY INTERNATIONAL INC.***

***Interim Report***

***For the three and nine months ended  
September 30, 2009***

## MANAGEMENT'S DISCUSSION AND ANALYSIS

This Management's Discussion and Analysis ("MD&A") should be read in conjunction with the unaudited interim financial statements of DualEx Energy International Inc. ("DualEx" or the "Company") for the three and nine months ended September 30, 2009 and the audited financial statements and MD&A for the year ended December 31, 2008. All figures have been prepared in accordance with Canadian generally accepted accounting principles and are reported in Canadian dollars unless otherwise stated. DualEx is an international company engaged in the exploration for and development of petroleum and natural gas properties, with a primary focus in the greater Mediterranean area.

Additional information related to the Company can be found on SEDAR at [www.sedar.com](http://www.sedar.com).

This MD&A has been prepared as of November 26, 2009.

### RESULTS OF OPERATIONS

#### Production and Petroleum and Natural Gas Sales

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

	Three months ended September 30					
	2009			2008		
	Hungary	North America	Total	Hungary	North America	Total
Gas production (mcf)	95,733	6,867	102,600	66,630	8,470	75,100
MCF/d	1,041	75	1,115	724	92	816
Total Natural Gas sales	\$ 724,829	\$ 19,380	\$ 744,209	\$ 914,668	\$ 68,059	\$ 982,727
Netback (\$/mcf)						
Per sales mcf	7.57	2.82	7.25	13.73	8.04	13.09
Royalties	(1.05)	(0.20)	(0.99)	(3.07)	(0.86)	(2.82)
Operating	(1.98)	(1.63)	(1.96)	(3.64)	(1.68)	(3.42)
Operating Netback	\$ 4.54	\$ 0.99	\$ 4.30	\$ 7.02	\$ 5.50	\$ 6.85
	Nine months ended September 30					
	2009			2008		
	Hungary	North America	Total	Hungary	North America	Total
Gas production (mcf)	179,982	20,864	200,846	66,630	28,010	94,640
MCF/d	659	76	736	243	102	345
Total Natural Gas sales	\$ 1,613,361	\$ 78,178	\$ 1,691,539	\$ 914,668	\$ 222,253	\$ 1,136,921
Netback (\$/mcf)						
Per sales mcf	8.96	3.75	8.42	13.73	7.93	12.01
Royalties	(1.01)	(0.44)	(0.95)	(3.07)	(0.86)	(2.42)
Operating	(2.31)	(1.53)	(2.22)	(3.64)	(2.81)	(3.40)
Operating Netback	\$ 5.64	\$ 1.78	\$ 5.25	\$ 7.02	\$ 4.26	\$ 6.19

For the three months ended September 30, 2009, natural gas production averaged 1,115 mcf/d (2008 – 816 mcf/d) and 736 mcf/d (2008 - 345 mcf/d) for the nine months ended September 30, 2009. The increase in production in Hungary was the result of production from the Pen-104A well which commenced production in April 2009. The decrease in production in North America is a result of natural production declines.

During the three months ended September 30, 2009 the Company generated \$744,209 (2008 - \$982,727) in natural gas sales and \$1,691,539 (2008 - \$1,136,921) for the nine months ended September 30, 2009. The decrease in revenue for the three months ended September 30, 2009 is due to the reduced gas price somewhat offset by the increased production in the period. Revenue increased for the nine months ended September 30, 2009 compared to the same period in 2008 as increased production more than offset the decrease in prices.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

In September 2009, the Company suspended production from the Pannonian sandstone reservoir in the PEN-104A well, the Company's only producing well in Hungary, and commenced a deepening of the wellbore to test a Miocene prospect at a depth of approximately 1500 metres ("PEN-104AA"). In October 2009, the Company finished this deepening and, based on good mudlog formation gas shows and open-hole well log evaluation, the well was completed with a slotted liner and external casing packers. The well will be tested once equipment becomes available and, pending favorable results, it is anticipated production in Hungary should resume in December.

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 current natural gas sales prices.

### **Interest and other revenue**

During the three months ended September 30, 2009 the Company earned \$3,661 in interest and other revenue compared to \$14,550 in the comparative period. During the nine months ended September 30, 2009 the Company earned \$15,741 in interest and other revenue compared to \$51,350 in the comparative period. The decrease is a result of lower interest rates during the periods along with lower cash balances as the Company used its cash balances to fund its exploration program.

### **Royalties**

	Three months ended September 30		Nine months ended September 30	
	2009	2008	2009	2008
Total	\$ 101,525	\$ 212,109	\$ 191,029	\$ 228,997
Percentage of revenue	14%	22%	11%	20%
Per mcf	\$ 0.99	\$ 2.82	\$ 0.95	\$ 2.42

Royalties decreased during the three and nine months ended September 30, 2009 compared to the comparative periods due to a higher royalty rate in the comparative periods. The base royalty rate applied to natural gas production 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%. During the three and nine months ended September 30, 2008 Brent crude was trading above \$90 per barrel and thus the base royalty was 18%. During the three and nine months ended September 30, 2009 Brent was trading below \$80 per barrel and thus the base royalty was 12%. The Company's effective royalty rate in Hungary may vary from period to period as the price received for natural gas sales is based on historical prices for European gas/oil and heavy fuel oil which will not move in a consistent manner with the average price of Brent crude.

### **Operating Costs**

	Three months ended September 30		Nine months ended September 30	
	2009	2008	2009	2008
Total	\$ 201,076	\$ 257,021	\$ 446,758	\$ 321,348
Percentage of revenue	27%	26%	26%	28%
Per mcf	\$ 1.96	\$ 3.42	\$ 2.22	\$ 3.40

During the nine months ended September 30, 2009 operating costs increased as a result of increased production. This was somewhat offset by a lower operating cost per mcf from \$3.40/mcf to \$2.22/mcf. Approximately 30% of the operating costs in Hungary are variable costs and increase or decrease depending on the price received per mcf. As price was lower in 2009 so was the variable portion of the operating costs. In addition, during the nine months ended September 30, 2008 operating costs in North America were higher than the same period in 2009 as a result of a one time adjustment for operating costs made by the operator.

During the three months ended September 30, 2009, operating costs decreased compared to the previous quarter. As explained above the main reason for the decrease was the lower variable portion of the operating costs in the period compared to the similar period in 2008.

As a percentage of revenue operating costs remained consistent during the periods.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### **General and administrative**

	Three months ended September 30		Nine months ended September 30	
	2009	2008	2009	2008
Gross general and administrative	\$ 281,199	\$ 260,615	\$ 941,200	\$ 845,264
less capitalized	(89,975)	(117,055)	(330,177)	(213,205)
General and administrative	<u>\$ 191,224</u>	<u>\$ 143,560</u>	<u>\$ 611,023</u>	<u>\$ 632,059</u>

Gross general and administrative costs increased by 11% during the nine months ended September 30, 2009 compared to the comparative period primarily as a result of increased general and administrative costs related to Hungary, salary and wages, and professional fees.

During the three months ended September 30, 2009 gross general and administrative costs increased 8% compared to the comparative quarter primarily as a result of increased general and administrative costs in Hungary and professional fees.

During the nine months ended September 30, 2009 the Company capitalized more general and administrative expenses compared to the comparative period as the Company spent more time developing its international projects. During the three months ended September 30, 2009 capitalized general and administrative expenses decreased as there was more time spent on corporate matters and thus reduced time spent on the Company's international projects.

### **Stock based compensation**

Stock-based compensation costs for the three months ended September 30, 2009 amounted to \$12,707 (2008 - \$34,588) and \$83,393 (2008 - \$97,855) for the nine months ended September 30, 2009. The reduction in the stock-based compensation costs is a result of certain options that have been fully expensed and some options that have been cancelled as a result of employee movements. Stock-based compensation costs attributable to share options granted are 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.

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

	Three months ended September 30		Nine months ended September 30	
	2009	2008	2009	2008
Total	<u>\$ 379,546</u>	<u>\$ 620,189</u>	<u>\$ 792,757</u>	<u>\$ 658,133</u>

DD&A increased during the nine months ended September 30, 2009 compared to the comparative period as a result of increased gas production in Hungary offset by lower costs subject to depletion. During the three months ended September 30, 2009, DD&A was lower as the lower costs subject to depletion more than offset the increase in production.

### **Financing costs**

Financing costs of \$354,762 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 sale 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.

During the nine months ended September 30, 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 gain (loss)***

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 September 30, 2009 the Company experienced a foreign exchange loss of \$208,314 (2008 - \$120,616 gain) and a foreign exchange loss of \$279,867 (2008 - \$142,795 gain) for the nine months ended September 30, 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***

The current taxes relate to withholding taxes paid on the royalty interest in the United States.

## ***Capital expenditures***

During the three and nine months ended September 30, 2009, the Company incurred capital expenditures of \$2.2 million (2008 - \$0.2 million) and \$3.3 million (2008 - \$1.6 million) respectively. During the three months ended September 30, 2009 the Company spent \$1.0 million in Hungary, \$0.7 million in Syria and \$0.5 million on the Leader, Saskatchewan property in North America. During the nine months ended September 30, 2009 the Company spent \$1.5 million in Hungary, \$1.1 million in Syria, \$0.3 million in Tunisia and \$0.5 million in North America.

## ***Hungary***

In August 2009, the Company participated as to its 12.5% working interest in the Gorbhaza #1 ("GH-1") well in the Panhandle region of the Corporation's Nyirseg North permit. GH-1 was drilled to a depth of 1,300 metres and was successfully completed and tested. GH-1 encountered two Pannonian gas-bearing sandstone reservoirs totaling 5.75 metres and the stratigraphically lower zone of the two has been completed. The shallower sand will be completed and put on production once the lower zone has been depleted. GH-1 is planned to be tied-in to the third-party-owned Hajdunanas Gas Production Facility 2.5 kilometres to the north in the first quarter 2010.

In September 2009 the Company concluded the drilling and initial completion operations on the PEN-105 well in the Peneszlek area of northeast Hungary. The well was drilled to a depth of 1,487 metres to test a structure which tested gas from the base of the Miocene volcanoclastics in a well drilled in 1982. Nine metres of reservoir were perforated over three intervals in the target formation at PEN-105 and all three zones flowed gas, two with condensate. Permitting of the pipeline that will be used to bring the gas to market is underway and construction is planned so that gas sales from this well can commence early in 2010.

In October 2009, the Company completed the deepening of the PEN-104A sidetracked gas well ("PEN 104AA"). Based on good mudlog formation gas shows and open-hole well log evaluation, PEN-104AA was completed with a slotted liner and external casing packers, and will be tested once equipment becomes available and, pending favorable results, it is anticipated production in Hungary should resume in December.

## **Syria**

Following the interpretation of the Company's 2007 2D seismic survey (1,105 kilometres) the Company and its partners approved a drilling location at Al Tayr-101 on the Jebel Nasrani prospect in Block 17. The drilling contract originally entered into by the operator of this project was terminated as a result of the drilling contractor being unable to meet the timing set out in the contract. The Company had until June 7, 2009 to meet its commitment to commence drilling one exploratory well on Block 17, however, it received formal approval from the Syrian authorities for a four month extension, until October 7, 2009. A new drilling contract was entered into, and the well spudded on October 7, 2009. The \$0.7M in expenditures incurred in the quarter were primarily for rig mobilization and surface lease preparation.

The Company expects that Al Tayr-101 will be drilled to a depth of approximately 3,000 metres and will test a large structure at the Triassic Kurrachine level. Similar structures are known to host substantial gas/condensate reserves in several fields immediately north of the Syrian Exploration Interests. The Al Tayr- 101 well, expected to take approximately 80 days to drill, is prognosed to fully penetrate the Kurrachine carbonates and is being drilled on the first of eight closed Kurrachine level structures currently mapped by the Company. The Company estimates that its remaining share of the exploratory well costs as at September 30, 2009 is approximately \$2.5 million. DualEx has a 31.67% working interest in Block 17, encompassing approximately 1.25 million gross acres.

## **Tunisia**

The Company signed the Bouhajla Production Sharing Contract ("PSC") and associated documents on September 11, 2009. The initial term of the PSC is three years from the date of ratification by the Tunisian government, which is expected prior to the end of 2009, with two optional renewal periods of three years each.

The Company has a 100% Contractor Interest in the Tunisian Exploration Interests 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 Bouhajla block encompasses 416 square kilometres (105,000 acres), and is located onshore in the Pelagian Basin of east central Tunisia. The Bouhajla 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.

## **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.

## **Portugal**

Effective November 25, 2009, DualEx sold its entire 10% working interest in the Torres Vedras-3 and Aljubarrota-3 Concessions, for net proceeds of US\$ 350,000. The net book value of the Company's interest in Portugal was \$107,832 at September 30, 2009.

## **Asset Retirement Obligations**

The asset retirement obligations increased to \$141,322 as at September 30, 2009 from \$69,977 as at December 31, 2008 primarily as an increase in liabilities assumed with the drilling of wells in Hungary.

# MANAGEMENT'S DISCUSSION AND ANALYSIS

## LIQUIDITY AND CAPITAL RESOURCES

As at September 30, 2009, the Company had working capital of approximately \$3.0 million. The Company estimated its remaining share of costs for the well in Syria to be approximately \$2.5 million, and its share of the program in Hungary to be approximately \$0.4 million.

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 "Warrant"). Each Warrant entitles the holder to purchase one Common Share prior to November 10, 2011. The exercise price of the 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 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. The Company granted to the Agents an over-allotment option to issue an additional 2,164,125 units for a period of 30 days after the closing date.

The Company has no debt outstanding. Upon closing of the Offering, the Company had approximately, \$7.0 million of working capital.

### Share capital

During the nine months ended September 30, 2009 5,599,334 warrants were exercised for gross proceeds of \$1,119,867. An additional 3,765,821 warrants expired unexercised. Also during the nine months ended September 30, 2009, 355,000 stock options were granted to employees and directors at an exercise price of \$0.30 for five years and 111,666 stock options were forfeited. The options vest one third each year, over a three year period.

A total of 85,801,837 common shares of the Company are outstanding as of the date hereof. In addition, the Company has 7,213,750 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							
	Sep 30 2009	Jun 30 2009	Mar 31 2009	Dec 31 2008	Sep 30 2008	June 30 2008	Mar 31 2008	Dec 31 2007
Total revenue	646,345	\$ 708,560	\$ 161,346	\$ 2,272,483	\$ 785,168	\$ 76,500	\$ 97,606	\$ 110,064
Net income (loss)	493,331	15,793	(716,253)	(5,787,980)	(166,521)	(298,376)	420,105	(377,805)
per share - basic and diluted	0.01	-	(0.01)	(0.09)	-	-	0.01	(0.01)

The increase in revenue over the past five quarters is a result of the commencement of production in Hungary in August 2008. The Company incurred a \$5.8 million dollar 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 reduction in revenue in the first quarter of 2009 is a result of the Pen-104 well being shut-in in January due to infrastructure repairs and maintenance at a third-party-owned facility. Production re-commenced at the Pen-104A well in April 2009. Included in the net income for the quarter ended September 30, 2009 is a \$841,000 gain on the sale of the Leader property.

## **RELATED PARTY TRANSACTIONS**

During the three and nine months ended September 30, 2009, the Company incurred \$9,000 (2008 - \$3,400) and \$55,149 (2008 - \$17,300) respectively, in legal fees to a law firm, of which one of the directors of the Company is a partner, for legal services rendered in respect of general corporate matters. As at September 30, 2009, \$5,900 (December 31, 2008 – \$2,233) is included in accounts payable owing to this law firm. All related party transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties and is similar to amounts negotiated independently with third parties.

## **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 for the periods ended September 30, 2009.

### ***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 results of operations or financial position.

### ***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 our results of operations or financial position.

## ***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. The amendments are effective for annual financial statements ending on or after September 30, 2009.

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.

These amendments apply to annual financial statements relating to fiscal years beginning on or after November 1, 2008.

## ***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 a project lead for the IFRS conversion project and training and education sessions have been carried out and will continue throughout the conversion.

The Company has completed its initial scoping phase and has identified the key areas impacted by IFRS which include property, plant and equipment as it relates to the Company's policy of full-cost accounting for its exploration assets, functional currency of foreign subsidiaries, and income taxes. IFRS will also result in other impacts, some of which may be significant in nature. The impact on the Company's consolidated financial statements cannot be reasonably determined at this time.

## ***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 current weak global economic environment has resulted in a significant decline in natural gas and crude oil prices over the last year. The drop in natural gas and crude oil prices has 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; cashflows from production; depletion; regulatory decisions and government approvals.

With respect to forward-looking statements listed above and contained in the MD&A, the Company has made assumptions regarding, among other things: the legislative and regulatory environment; commodity prices; estimated proven reserves; costs related to development of oil and gas properties will remain consistent with historical experiences; equipment and crew availability; joint venture partner financial 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](http://www.sedar.com).



THREE AND NINE MONTHS ENDED  
SEPTEMBER 30, 2009

Q3

***DUALEx ENERGY INTERNATIONAL INC.***

***Interim Consolidated Financial  
Statements***

***For the three months and nine months ended  
September 30, 2009***



## **NOTICE OF NO AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS**

Under National Instrument 51-102, Part 4, subsection 4.3(3)(a), if an auditor has not performed a review of the interim financial statements, they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

The accompanying unaudited interim financial statements of the company for the three and nine months ended September 30, 2009 have been prepared by and are the responsibility of the company's management.

The company's independent auditor has not performed a review of these financial statements in accordance with the standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity's auditor.

*Signed "Garry T. Hides"*  
President and Chief Executive Officer

*Signed "Lorne A. Morozoff"*  
Vice President and Chief Financial Officer

**DUALEX ENERGY INTERNATIONAL INC.**  
**CONSOLIDATED BALANCE SHEETS**  
**AS AT SEPTEMBER 30, 2009 AND DECEMBER 31, 2008**  
**UNAUDITED**

<b><u>ASSETS</u></b>	<u>September 30, 2009</u>	<u>December 31, 2008</u>
CURRENT		
Cash	\$ 3,718,957	\$ 2,550,650
Accounts receivable	534,795	2,034,838
Prepaid expenses and deposits	83,219	72,312
	<u>4,336,971</u>	<u>4,657,800</u>
PROPERTY, PLANT AND EQUIPMENT (note 4)	10,461,884	8,417,402
	<u>\$ 14,798,855</u>	<u>\$ 13,075,202</u>
 <b><u>LIABILITIES &amp; SHAREHOLDERS' EQUITY</u></b>		
CURRENT		
Accounts payable and accrued liabilities	\$ 1,344,655	\$ 1,033,490
ASSET RETIREMENT OBLIGATIONS (note 5)	141,322	69,977
	<u>1,485,977</u>	<u>1,103,467</u>
SHAREHOLDERS' EQUITY		
SHARE CAPITAL (note 6)	18,423,797	17,323,618
CONTRIBUTED SURPLUS (note 7)	2,296,031	1,847,938
DEFICIT	(7,406,950)	(7,199,821)
	<u>13,312,878</u>	<u>11,971,735</u>
	<u>\$ 14,798,855</u>	<u>\$ 13,075,202</u>
Commitment (note 8)		
Subsequent event (note 15)		

See accompanying notes

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

	Three months ended September 30		Nine months ended September 30	
	2009	2008	2009	2008
<b>REVENUE</b>				
Petroleum and natural gas sales	\$ 744,209	\$ 982,727	\$ 1,691,539	\$ 1,136,921
Interest and other	3,661	14,550	15,741	51,350
Royalties	(101,525)	(212,109)	(191,029)	(228,997)
	<u>646,345</u>	<u>785,168</u>	<u>1,516,251</u>	<u>959,274</u>
<b>EXPENSES</b>				
Operating costs	201,076	257,021	446,758	321,348
General and administrative	191,224	143,560	611,023	632,059
Stock based compensation	12,707	34,568	83,393	97,855
Depletion, depreciation and accretion	379,546	620,189	792,757	658,133
Financing costs (note 6b)	-	-	345,762	-
	<u>784,553</u>	<u>1,055,338</u>	<u>2,279,693</u>	<u>1,709,395</u>
LOSS BEFORE OTHER ITEMS	(138,208)	(270,170)	(763,442)	(750,121)
<b>OTHER ITEMS</b>				
Gain on sales of property, plant and equipment (note 4)	840,811	-	840,811	591,399
Foreign exchange (loss) gain	(208,314)	120,616	(279,867)	142,795
	<u>632,497</u>	<u>120,616</u>	<u>560,944</u>	<u>734,194</u>
NET INCOME (LOSS) BEFORE TAXES	494,289	(149,554)	(202,498)	(15,927)
Current taxes	958	16,967	4,631	28,865
NET INCOME (LOSS) AND COMPREHENSIVE INCOME (LOSS)	493,331	(166,521)	(207,129)	(44,792)
DEFICIT, beginning of period	(7,900,281)	(1,245,320)	(7,199,821)	(1,367,049)
DEFICIT, end of period	<u>\$ (7,406,950)</u>	<u>\$ (1,411,841)</u>	<u>\$ (7,406,950)</u>	<u>\$ (1,411,841)</u>
<b>NET INCOME (LOSS) PER SHARE</b>				
Basic and diluted	<u>\$ 0.01</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

See accompanying notes

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

	Three months ended September 30		Nine months ended September 30	
	2009	2008	2009	2008
<b>OPERATING ACTIVITIES</b>				
Net income (loss)	\$ 493,331	\$ (166,521)	\$ (207,129)	\$ (44,792)
Add (deduct) items not requiring cash				
Depletion, depreciation and accretion	379,546	620,189	792,757	658,133
Stock based compensation	12,707	34,568	83,393	97,855
Financing costs	-	-	345,762	-
Gain on sales of property, plant and equipment	(840,811)	-	(840,811)	(591,399)
Unrealized foreign exchange loss (gain)	117,242	(61,728)	44,408	(81,605)
	<u>162,015</u>	<u>426,508</u>	<u>218,380</u>	<u>38,192</u>
Change in non-cash working capital items (note 9a)	994,229	(399,320)	974,257	(261,656)
	<u>1,156,244</u>	<u>27,188</u>	<u>1,192,637</u>	<u>(223,464)</u>
<b>FINANCING ACTIVITIES</b>				
Proceeds from warrants	1,118,983	293,621	1,119,117	296,743
<b>INVESTING ACTIVITIES</b>				
Additions to property, plant and equipment	(2,195,401)	(224,971)	(3,328,097)	(1,595,477)
Proceeds from sales of property, plant and equipment	1,403,014	-	1,403,014	1,024,000
Change in non-cash working capital items (note 9a)	143,696	(415,729)	835,870	366,871
	<u>(648,691)</u>	<u>(640,700)</u>	<u>(1,089,213)</u>	<u>(204,606)</u>
Foreign exchange (loss) gain on cash held in a foreign currency	(111,272)	56,465	(54,234)	82,253
<b>INCREASE (DECREASE) IN CASH</b>	1,515,264	(263,426)	1,168,307	(49,074)
<b>CASH, BEGINNING OF PERIOD</b>	2,203,693	4,097,863	2,550,650	3,883,511
<b>CASH, END OF PERIOD</b>	<u>\$ 3,718,957</u>	<u>\$ 3,834,437</u>	<u>\$ 3,718,957</u>	<u>\$ 3,834,437</u>

See accompanying notes

# **DUALEX ENERGY INTERNATIONAL INC.**

*Notes to the September 30, 2009 Interim Consolidated Financial Statements*

*All amounts in Canadian dollars unless otherwise stated (unaudited)*

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## **1. NATURE OF OPERATIONS AND BASIS OF PRESENTATION**

DualEx Energy International Inc. (“DualEx” or 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. The Company currently holds working interests in Hungary, Syria, Portugal and North America and operations in Tunisia. The success of the Company’s exploration and development of its petroleum and natural gas properties will be influenced by significant financial risks, legal and political risks, fluctuations in commodity prices and currency exchange rates, varying levels of taxation and the ability of the Company to discover economically recoverable reserves and to bring such reserves into production on an economic basis. If necessary, the Company may be required to obtain additional financing to develop its properties. While the Company seeks to manage these risks, many of these factors are beyond its control.

## **2. ACCOUNTING POLICIES**

The interim consolidated financial statements of the Company have been prepared in accordance with generally accepted accounting principles (“GAAP”) in Canada, which are the same accounting policies and methods of computation as those used to prepare the consolidated financial statements as at December 31, 2008 except as described below in note 3. The Company follows the Canadian full cost method of accounting for petroleum and natural gas properties. The disclosure which follows is incremental to the disclosure included in the annual consolidated financial statements. The interim consolidated financial statements should be read in conjunction with the Company’s consolidated financial statements and notes thereto for the year ended December 31, 2008. The results of operations and cash flows are not necessarily indicative of the results for a full year.

## **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 with retrospect application. 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 its 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 our results of operations or financial position.

## **DUALEX ENERGY INTERNATIONAL INC.**

Notes to the September 30, 2009 Interim Consolidated Financial Statements

All amounts in Canadian dollars unless otherwise stated (unaudited)

### **3. ACCOUNTING CHANGES AND NEW ACCOUNTING PRONOUNCEMENTS (continued)**

#### 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 our results of operations or financial position.

#### 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. The amendments are effective for annual financial statements ending on or after September 30, 2009.

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.

These amendments apply to annual financial statements relating to fiscal years beginning on or after November 1, 2008.

### **4. PROPERTY, PLANT AND EQUIPMENT**

	September 30, 2009			December 31, 2008		
	Cost	Accumulated depletion and impairment	Net Book Value	Cost	Accumulated depletion and impairment	Net Book Value
Hungary	\$ 9,567,707	\$ 6,000,692	\$ 3,567,015	\$ 8,026,277	\$ 5,256,909	\$ 2,769,368
Syria	6,268,934	-	6,268,934	5,201,678	-	5,201,678
Portugal	2,993,427	2,885,595	107,832	2,993,427	2,885,595	107,832
North America	147,148	103,795	43,353	191,185	77,882	113,303
Tunisia	452,798	-	452,798	182,434	-	182,434
Other assets	96,587	80,043	16,544	95,587	58,055	37,532
Mining properties	5,408	-	5,408	5,255	-	5,255
	<u>\$ 19,532,009</u>	<u>\$ 9,070,125</u>	<u>\$ 10,461,884</u>	<u>\$ 16,695,843</u>	<u>\$ 8,278,441</u>	<u>\$ 8,417,402</u>

The Company capitalized \$330,177 in general and administrative costs during the nine months ended September 30, 2009 (September 30, 2008 - \$213,205).

As at September 30, 2009, capital costs of \$10,254,204 (December 31, 2008 - \$7,968,238) relating to the exploration and development of its international properties have been excluded from costs subject to depletion, as these costs relate to unproved properties.

# DUALEX ENERGY INTERNATIONAL INC.

Notes to the September 30, 2009 Interim Consolidated Financial Statements

All amounts in Canadian dollars unless otherwise stated (unaudited)

## 4. PROPERTY, PLANT AND EQUIPMENT (continued)

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 \$528,213 of infrastructure and facility costs. In September 2009, the Company sold the Leader Property for cash proceeds of \$1,403,014 resulting in a gain on sale of \$840,811.

## 5. ASSET RETIREMENT OBLIGATIONS

The following table summarizes changes in future asset retirement obligations:

	September 30, 2009	December 31, 2008
Asset retirement obligations, beginning of period	\$ 69,977	\$ 74,226
Obligations assumed with exploration activities	44,552	-
Obligations discharged with disposed properties	-	(8,636)
Revisions to estimates	21,970	-
Accretion	4,823	4,387
Asset retirement obligations, end of period	<u>\$ 141,322</u>	<u>\$ 69,977</u>

The undiscounted amount of the estimated future cash flows required to settle the obligations as at September 30, 2009 is \$279,000 (December 31, 2008 – \$242,000). These obligations are expected to be paid in the future with a weighted average life of approximately 9 years. The estimated future cash flows have been discounted at a credit-adjusted risk free rate of 9% and reflect an inflation rate of 2%.

## 6. 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

	Number of Shares	Stated Value
Common Shares		
Balance - December 31, 2008	65,775,003	\$ 16,761,709
Shares issued on exercise of warrants	5,599,334	1,662,088
Balance - September 30, 2009	<u>71,374,337</u>	<u>18,423,797</u>
Fair Value of Warrants		
Balance - December 31, 2008		561,909
Revision of Warrants (note b)		345,762
Warrants exercised		(542,971)
Warrants expired		(364,700)
Balance - September 30, 2009		<u>-</u>
Balance September 30, 2009	<u>71,374,337</u>	<u>\$ 18,423,797</u>

## **DUALEX ENERGY INTERNATIONAL INC.**

Notes to the September 30, 2009 Interim Consolidated Financial Statements

All amounts in Canadian dollars unless otherwise stated (unaudited)

### **6. SHARE CAPITAL (continued)**

#### a) Stock options

	<u>Number of Options</u>	<u>Weighted Average Exercise Price</u>
Outstanding - December 31, 2008	2,140,000	\$ 0.34
Granted	355,000	\$ 0.30
Forfeited	(111,666)	\$ 0.32
	<u>2,383,334</u>	<u>\$ 0.34</u>

The following table summarizes stock options outstanding as at September 30, 2009:

<u>Date of Grant</u>	<u>Number Outstanding</u>	<u>Weighted Average Exercise Price</u>	<u>Weighted Average Remaining Contractual Life in Years</u>	<u>Options Exercisable</u>
9-Jun-06	800,000	\$ 0.40	1.67	800,000
1-Sep-06	100,000	\$ 0.40	1.92	100,000
1-Oct-06	66,667	\$ 0.42	2.00	66,667
1-Jan-07	85,000	\$ 0.68	2.25	56,667
4-Sep-07	621,667	\$ 0.24	2.92	416,517
11-Sep-08	355,000	\$ 0.30	3.92	118,333
11-Aug-09	355,000	\$ 0.30	4.83	-
	<u>2,383,334</u>	\$ 0.34	2.84	<u>1,558,184</u>

The fair value of each option granted is estimated on the date of the grant using the Black-Scholes option-pricing model. For the August 11, 2009 option grant the fair value was calculated using the following assumptions: expected volatility – 100%, risk free rate 2.45%, expected life 5 years, and expected dividend – 0.

#### b) Warrants

	<u>Number of Warrants</u>	<u>Weighted Average Exercise Price</u>
Outstanding - December 31, 2008	9,365,155	\$ 0.30
Warrants Exercised	(5,599,334)	0.20
Warrants Expired	(3,765,821)	0.20
Outstanding - September 30, 2009	<u>-</u>	<u>\$ -</u>

In February 2009, the Company re-priced and extended the expiry date of its 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 the Black Scholes model using the following assumptions: expected volatility – 100%, risk free rate 1.17%, expected life 6.5 months, and expected dividend – 0.

# DUALEX ENERGY INTERNATIONAL INC.

Notes to the September 30, 2009 Interim Consolidated Financial Statements

All amounts in Canadian dollars unless otherwise stated (unaudited)

## 7. CONTRIBUTED SURPLUS

	<u>September 30, 2009</u>	<u>December 31, 2008</u>
Contributed surplus, beginning of period	\$ 1,847,938	\$ 555,415
Stock based compensation	83,393	138,273
Balance transferred from share capital on expiration of warrants	364,700	1,154,250
Contributed surplus, end of period	<u>\$ 2,296,031</u>	<u>\$ 1,847,938</u>

## 8. COMMITMENT

There were no significant changes in the Company's commitments from those disclosed in the consolidated financial statements as at December 31, 2008 except as follows. The Company holds 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. Under the terms of the PSC, the company has a remaining work obligation comprising the drilling of one exploratory well. The Company has until October 7, 2009 to commence drilling a well to meet its commitment. The Company and its partners to the PSC commenced drilling one exploratory well on Block 17 on October 7, 2009. The Company estimates that its remaining share of the exploratory well costs is \$2.5 million.

## 9. SUPPLEMENTAL CASH FLOW INFORMATION

### a) Changes in non-cash working capital

	<u>For the three months ended September 30</u>		<u>For the nine months ended September 30</u>	
	2009	2008	2009	2008
<b><i>Change in non-cash working capital related to operating activities</i></b>				
Accounts receivable	\$ 338,514	\$ (795,491)	\$ 980,745	\$ (671,995)
Prepaid expenses and deposits	16,186	28,759	(10,907)	43,446
Accounts payable and accrued liabilities	639,529	367,412	4,419	366,893
	<u>\$ 994,229</u>	<u>\$ (399,320)</u>	<u>\$ 974,257</u>	<u>\$ (261,656)</u>
<b><i>Change in non-cash working capital related to investing activities</i></b>				
Accounts receivable	\$ -	\$ -	\$ 513,291	\$ 437,615
Accounts payable and accrued liabilities	143,696	(415,729)	322,579	(70,744)
	<u>\$ 143,696</u>	<u>\$ (415,729)</u>	<u>\$ 835,870</u>	<u>\$ 366,871</u>

### b) Other cash flow information

	<u>For the three months ended September 30</u>		<u>For the nine months ended September 30</u>	
	2009	2008	2009	2008
Taxes paid	\$ 958	\$ 16,967	\$ 4,631	\$ 28,865

# DUALEX ENERGY INTERNATIONAL INC.

Notes to the September 30, 2009 Interim Consolidated Financial Statements

All amounts in Canadian dollars unless otherwise stated (unaudited)

## 10. SEGMENTED INFORMATION

The Company operates in the oil and natural gas industry. Its reportable segments are identified on a geographic basis. The Company has operations in Syria, Portugal, Hungary, Tunisia and North America. Gross revenue and net income (loss) for the three and nine months ended September 30, 2009 and capital assets as at September 30, 2009 and as at December 31, 2008 are summarized on a geographic basis below:

	North America	Syria	Portugal	Hungary	Tunisia	Corporate	Total
	\$	\$	\$	\$	\$	\$	\$
<b>For the three months ended September 30, 2009</b>							
Revenue	18,016	-	-	628,255	-	74	646,345
Net Income (Loss)	820,962	-	(130)	44,060	-	(371,561)	493,331
<b>For the three months ended September 30, 2008</b>							
Revenue	61,193	-	-	709,865	-	14,110	785,168
Net Income (Loss)	27,875	-	(107)	(75,828)	-	(118,461)	(166,521)
<b>For the nine months ended September 30, 2009</b>							
Revenue	74,854	-	-	1,439,353	-	2,044	1,516,251
Net Income (Loss)	782,045	-	(1,462)	186,893	-	(1,174,605)	(207,129)
<b>For the nine months ended September 30, 2008</b>							
Revenue	206,676	-	-	709,865	-	42,733	959,274
Net Income (Loss)	632,944	-	(307)	(77,084)	-	(600,345)	(44,792)
<b>Capital assets</b>							
As at September 30, 2009	48,761	6,268,934	107,832	3,567,015	452,798	16,544	10,461,884
As at December 31, 2008	118,558	5,201,678	107,832	2,769,368	182,434	37,532	8,417,402

## **DUALEX ENERGY INTERNATIONAL INC.**

Notes to the September 30, 2009 Interim Consolidated Financial Statements

All amounts in Canadian dollars unless otherwise stated (unaudited)

### **11. 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:

	<u>As at September 30, 2009</u>	<u>As at December 31, 2008</u>
Current assets	1,025,372	1,614,091
Property, plant and equipment	3,567,015	2,769,368
Current liabilities	1,003,565	891,651
Long term liabilities	113,950	43,953
	<u>Three months ended</u>	<u>Nine months ended</u>
	<u>September 30, 2009</u>	<u>September 30, 2009</u>
Revenue	628,255	1,439,353
Expenses	584,195	1,252,460
Net Income	44,060	186,893
Cash inflow resulting from operating activities	118,684	511,597
Cash outflow resulting from investing activities	435,144	997,105

### **12. RELATED PARTY TRANSACTIONS**

During the three and nine months ended September 30, 2009, the Company incurred \$9,000 (2008 - \$3,400) and \$55,149 (2008 - \$17,300) respectively, in legal fees to a law firm, of which one of the directors of the Corporation is a partner, for legal services rendered in respect of general corporate matters. As at September 30, 2009, \$5,900 (December 31, 2008 - \$2,233) is included in accounts payable owing to this law firm. All related party transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties and is similar to amounts negotiated independently with third parties.

### **13. 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 does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management to sustain future development of the business.

The Company defines and computes its capital as follows:

	<u>September 30, 2009</u>	<u>December 31, 2008</u>
Shareholders' Equity	<u>\$ 13,312,878</u>	<u>\$ 11,971,735</u>

# **DUALEX ENERGY INTERNATIONAL INC.**

*Notes to the September 30, 2009 Interim Consolidated Financial Statements*

*All amounts in Canadian dollars unless otherwise stated (unaudited)*

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## **14. FINANCIAL INSTRUMENTS**

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

- Credit Risk
- Liquidity Risk
- Market Risk

### a) Credit Risk

Credit risk relates to the risk of loss if a partner, or counterparty to a financial instrument fails to meet its contractual obligations. This risk is related to the Company's accounts receivable cash and deposits. Over 87% of the Company's accounts receivable is with one company, a leading integrated oil and gas company in Central and Eastern Europe. Virtually all of the Company's receivables are with customers and partners engaged in the energy industry and are subject to normal industry credit risk. The Company has historically not experienced any collection issues with its partners or counterparties and considers any amounts outstanding greater than 90 days to be past due. As at September 30, 2009, the Company has \$6,000 in accounts receivable past due. The Company does not have an allowance for doubtful accounts as at September 30, 2009. The Company minimizes the credit risk of cash by depositing only with reputable institutions.

### 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 September 30, 2009, the Company has \$3.0 million of working capital available to meet its obligations.

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 net earnings or the value of its financial instruments.

#### Commodity Price Risk

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

## **DUALEX ENERGY INTERNATIONAL INC.**

Notes to the September 30, 2009 Interim Consolidated Financial Statements

All amounts in Canadian dollars unless otherwise stated (unaudited)

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### **14. FINANCIAL INSTRUMENTS (continued)**

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

The Company is subject to risk of fluctuating exchange rates amongst the Canadian dollar, US dollar, Euro and Hungarian Forint. The Company mitigates this by monitoring changes to exchange rates and maintaining cash balances in currencies to assist in meeting its obligations denominated in these currencies. As at September 30, 2009 the Company had working capital denominated in the following foreign currencies:

	<u>\$US</u>	<u>Euros</u>	<u>\$US equivalent in Hungarian Forints</u>
Cash	2,055,000	202,000	487,000
Accounts Receivable	-	-	469,000
Accounts Payable	(301,000)	-	(936,000)

As at September 30, 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 profit or loss of approximately \$89,000. Similarly a fluctuation of five cents in the exchange rate of the Euro to the Canadian dollar would result in an increase (decrease) on profit or loss of approximately \$10,000.

#### d) Fair Value of Financial Instruments

The Company's financial instruments recognized in the consolidated balance sheet consist of cash, accounts receivable, deposits, and accounts payable and accrued liabilities. The carrying value of these balances approximates their fair value due to their short term nature. 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.

### **15. SUBSEQUENT EVENT**

On November 10, 2009 the Company closed an equity financing for gross proceeds of \$5,771,000 (the "Offering"). A total of 14,427,500 units ("Units") were issued by the Company 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 "Warrant"). Each Warrant entitles the holder to purchase one Common prior to November 10, 2011. The exercise price of the 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 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 to acquire that number of Common Shares at a price of \$0.40 per Common Share until November 10, 2011. The Company granted to the Agents an over-allotment option to issue an additional 2,164,125 units for a period of 30 days after the closing date.

Effective November 25, 2009, DualEx has sold its entire 10% working interest in the Torres Vedras-3 and Aljubarrota-3 Concessions, for net proceeds of \$US 350,000.

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

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### **OFFICERS**

Garry T. Hides P. Land  
*President & Chief Executive Officer*

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

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

### **DIRECTORS**

Garry T. Hides, P. Land  
*Chestermere, AB*  
President & Chief Executive Officer  
DualEx Energy International Inc.

Kenneth M. Tompson, P. Geol  
*Calgary, AB*  
Executive Vice President and  
Chief Operating Officer  
DualEx Energy International Inc.

David J. Rain, CA  
*Calgary, AB*  
Director and CFO  
Caribou Capital Corp.

Roy H. Hudson, LLB  
*Calgary, AB*  
Partner  
Davis LLP

John Nelson, M. Sc., P. Geol  
*Calgary, AB*  
Independent Businessman

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### **STOCK LISTING**

TSX Venture Exchange  
Trading Symbol "DXE"

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### **REGISTRAR AND TRANSFER AGENT**

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