



THREE AND NINE MONTHS ENDED  
SEPTEMBER 30, 2010

Q3

***DUALEx ENERGY INTERNATIONAL INC.***

***Interim Report***

***For the three and nine months ended  
September 30, 2010***

## 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, 2010 and the audited financial statements and MD&A 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.

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

The Company uses the term "funds from operations" which is not a recognized measure under Canadian generally accepted accounting principles. Management uses "funds from operations" to analyze performance and considers it a key measure as it demonstrates the Company's ability to generate cash necessary to fund future capital investments. Funds from operations has been defined by the Company as "cash flow from operating activities excluding the change in non-cash working capital related to operating activities".

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 22, 2010.

### 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					
	2010			2009		
	Hungary	North America	Total	Hungary	North America	Total
Gas production (mcf)	120,571	5,573	126,144	95,733	6,867	102,600
Mcf/d	1,311	61	1,371	1,041	75	1,115
Total Natural Gas sales	\$ 1,290,392	\$ 18,836	\$ 1,309,228	\$ 724,829	\$ 19,380	\$ 744,209
Netback (\$/mcf)						
Revenue	10.70	3.38	10.38	7.57	2.82	7.25
Royalties	(1.21)	(0.15)	(1.16)	(1.05)	(0.20)	(0.99)
Operating	(1.82)	(2.77)	(1.86)	(1.98)	(1.63)	(1.96)
Operating Netback	7.67	0.46	7.36	4.54	0.99	4.30
	Nine months ended September 30					
	2010			2009		
	Hungary	North America	Total	Hungary	North America	Total
Gas production (mcf)	181,123	18,553	199,676	179,982	20,864	200,846
Mcf/d	663	68	731	659	76	736
Total Natural Gas sales	\$ 1,940,711	\$ 76,124	\$ 2,016,835	\$ 1,613,361	\$ 78,178	\$ 1,691,539
Netback (\$/mcf)						
Revenue	10.71	4.10	10.10	8.96	3.75	8.42
Royalties	(1.26)	(0.38)	(1.18)	(1.01)	(0.44)	(0.95)
Operating	(2.43)	(1.57)	(2.35)	(2.31)	(1.53)	(2.22)
Operating Netback	7.02	2.15	6.57	5.64	1.78	5.25

## MANAGEMENT'S DISCUSSION AND ANALYSIS

For the three months ended September 30, 2010, petroleum and natural gas production averaged 1,371 mcf/d compared to 1,115 mcf/d in the comparative period in 2009. The increase in production was primarily the result of increased production in Hungary from the PEN 105 and PEN 101A wells. The decrease in production in North America is a result of natural production declines.

During the three months ended September 30, 2010 the Company generated \$1,309,228 in petroleum and natural gas sales compared to \$744,209 in the comparative period in 2009. The increase is a result of both increased production and higher prices in Hungary.

For the nine months ended September 30, 2010, the Company averaged 731 mcf/d in petroleum and natural gas production compared with 736 mcf/d in the comparative period. The Company generated \$2,016,835 in petroleum and natural gas sales compared to \$1,691,539 in the comparative period. The slightly lower average production was more than offset by higher prices received in Hungary during the period.

Gas pricing in Hungary is based on a formula which references European gas/oil and heavy fuel oil for preceding periods. The North American price is based on current natural gas sales price. The higher natural gas prices received in Hungary in 2010 is a result of an increase in both European gas/oil and heavy fuel oil prices during the preceding periods.

### Royalties

	Three months ended September 30		Nine months ended September 30	
	2010	2009	2010	2009
Total	\$ 146,897	\$ 101,525	\$ 234,840	\$ 191,029
Percentage of revenue	11%	14%	12%	11%
Per mcf	\$ 1.16	\$ 0.99	\$ 1.18	\$ 0.95

Royalties as a percentage of revenue during the three and nine months ended September 30, 2010 remained relatively constant compared to comparative periods. The base royalty rate in Hungary is 12% plus 3% when Brent crude is trading above \$US80 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. During the three months ended September 30, 2010, Brent crude on average traded less than \$US80 per barrel.

### Operating Costs

	Three months ended September 30		Nine months ended September 30	
	2010	2009	2010	2009
Total	\$ 234,734	\$ 201,076	\$ 469,984	\$ 446,758
Percentage of revenue	18%	27%	23%	26%
Per mcf	\$ 1.86	\$ 1.96	\$ 2.35	\$ 2.22

Operating costs for the three months ended September 30, 2010 increased over the comparative quarter as a result of increased production in Hungary. Operating costs during the nine months ended September 30, 2010 increased slightly due to higher marketing costs in Hungary. During the three months ended September 30, 2010 operating costs declined to \$1.86 per mcf compared to \$1.96 per mcf in the comparative quarter as a result of lower marketing and processing costs in Hungary.

# MANAGEMENT'S DISCUSSION AND ANALYSIS

## General and administrative

	Three months ended September 30		Nine months ended September 30	
	2010	2009	2010	2009
Gross general and administrative	\$ 239,345	\$ 281,199	\$ 796,578	\$ 941,200
less capitalized	(3,480)	(89,975)	(147,623)	(330,177)
General and administrative	<u>\$ 235,865</u>	<u>\$ 191,224</u>	<u>\$ 648,955</u>	<u>\$ 611,023</u>

Gross general and administrative costs decreased for the three months and nine months ended September 30, 2010 compared to the comparative periods primarily as a result of lower legal and engineering fees.

During the three and nine months ended September 30, 2010 the Company's capitalized general and administrative expenses decreased compared to the previous periods due to less time being spent on capital activities in the Company's international projects, particularly in Syria, resulting in a higher net general and administrative expense.

## Stock based compensation

Stock-based compensation costs for the three months and nine months ended September 30, 2010 amounted to \$23,298 (2009 - \$12,707) and \$70,822 (2009 - \$83,393) respectively. For the three months ended September 30, 2010 stock based compensation expense was higher than the comparative period due to lower stock based compensation expense for the three months ended September 30, 2009 as some options were cancelled as a result of an employee resignation. For the nine months ended September 30, 2010, the decrease is a result of a lower number of stock options being amortized over the vesting period as a number of stock options became fully vested in 2009. 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 stock options granted was calculated using the Black-Scholes option pricing method.

## Depletion, depreciation, accretion ("DD&A")

	Three months ended September 30		Nine months ended September 30	
	2010	2009	2010	2009
Total	<u>\$ 859,486</u>	<u>\$ 379,546</u>	<u>\$ 1,199,053</u>	<u>\$ 792,757</u>

The DD&A during the three months and nine months ended September 30, 2010 is primarily a result of Hungary production. The increase in DD&A in Hungary for the three and nine months ended September 30, 2010 is a result of an increase in the depletable base in Hungary due to the recently completed drilling program and higher production volumes.

## 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 created exchange gains and losses during the period. During the three months ended September 30, 2010 the Company experienced a foreign exchange gain of \$80,313 (2009 - \$208,314 loss). During the nine months ended September 30, 2010 the Company experienced a foreign exchange loss of \$41,740 (2009 - \$279,867 gain).

## Current taxes

The current tax relates to withholding taxes paid on the royalty income earned in the United States.

## ***Discontinued operations***

During the nine months ended September 30, 2010 following the unsuccessful testing program and subsequent abandonment of the Al-Tayr 101 well in Syria. The Company and its partners elected not to continue the production sharing contract and have surrendered the block. The expenditures incurred on the production sharing contract have been treated as discontinued operations resulting in a loss from discontinued operations of \$47,295 and \$1,569,209 for the three and nine months ended September 30, 2010 respectively.

## ***Capital expenditures***

During the three months and nine months ended September 30, 2010, the Company expended \$101,464 (2009 – \$2,195,401) and \$4,081,740 (2009 – \$3,328,097) respectively, on its petroleum and natural gas properties. Of the \$4.1M capital expended during the first nine months of 2010, \$2.3M was spent in Hungary on its drilling and tie-in program, \$1.6M was spent in Syria on the abandoned Al-Tayr 101 well, and \$0.2M was spent in Tunisia.

## ***Hungary***

DualEx owns 40.44% of PetroHungaria kft, which in turn holds a 100% interest in the Nyirseg South permit in north-eastern Hungary. The Company's efforts are concentrated in the Penészlek area, where gas is currently produced from Miocene aged volcanoclastic reservoirs, namely from the PEN-105 well (40.44% interest), which commenced production in May 2010 and the PEN-101A well (42.826% interest), which commenced production in June 2010. In October 2010, average daily gross production from these two wells was approximately 2.6 mmcfe/day (net to DualEx 1.1 mmcfe/day).

In the Panhandle region of north-east Hungary, the Company announced in early November that it has sold its 12.5% interest in the GH-1 well. DualEx received initial cash consideration of US\$185,947 and will receive additional pro rata payments of US\$185,947 when the cumulative production from GH-1 exceeds 1 billion cubic feet ("Bcf").

The Company and its partners have submitted the final exploration reports for the Nyirseg South permit to the government authorities as part of the application process for the granting of a Mining Plot (a production lease) for the productive areas within the Nyirseg South permit and anticipate further drilling activity once this has been finalized. The exploration period of the permits expired on December 31, 2009.

## ***Tunisia***

On September 11, 2009 DualEx and Tunisian government officials signed the Bouhajla Production Sharing Contract ("PSC") and associated documents. The initial term of the PSC is three years (commencing on April 30, 2010) 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 Bouhajla Permit 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 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.

The Bouhajla Permit encompasses 416 square kilometres (105,000 acres), and is located onshore in the Pelagian Basin of east central Tunisia. The Bouhajla Permit 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, which is the primary exploration target of DualEx's program. At Sidi el Kilani the Abiod reservoir consists of a fractured chalk, locally dolomitized in association with wrench tectonics. Reservoirs of this type tend to have high recovery factors accompanied by very high individual well productivity rates.

Martin & Brusset Associates ("M&B"), an independent qualified reserves evaluator and auditor, has completed an initial evaluation of undiscovered resource potential of the "Bouhajla North" prospect, the first prospect identified on the Bouhajla Exploration Permit. The evaluation is entitled "Evaluation of Undiscovered Resource Potential of North Bouhajla Anomaly East Central Tunisia Effective May 31, 2010" (the "Report") and was completed in compliance with National Instrument 51-101 – Standards of Disclosure for Oil and Gas Activities.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

M&B has estimated an unrisksed "Best Estimate" of 82,829,000 barrels of Petroleum Initially in Place as of May 31, 2010. A summary of the estimated Petroleum Initially in Place is provided in the Report and set out in the following table:

**Summary of Estimates of Petroleum Initially in Place<sup>(1)(2)(6)(7)(8)</sup>  
North Bouhajla Anomaly  
As of May 31, 2010**

<b>Category</b>	<b>Best<sup>(4)</sup> Mstb</b>	<b>High<sup>(5)</sup> Mstb</b>	<b>Low<sup>(3)</sup> Mstb</b>
	<b>82,829</b>	<b>129,090</b>	<b>49,441</b>

Notes:

(1) Petroleum Initially in Place is defined by COGEH, as that quantity of petroleum that is estimated to exist originally in naturally occurring accumulations. It includes that quantity of petroleum that is estimated, as of a given date, to be contained in known accumulations, prior to production, plus those estimated quantities in accumulations yet to be discovered (equivalent to "total resources").

(2) These are the gross volumes estimated for the Bouhajla North prospect, located on the Bouhajla Permit, without any adjustments for working interest or encumbrances.

(3) Low Estimate is considered to be a conservative estimate of the quantity of Petroleum Initially in Place. There is a 90-percent chance that an estimated quantity will be equaled or exceeded.

(4) Best Estimate is considered to be the best estimate of the quantity of Petroleum Initially in Place. There is a 50-percent chance or that it is equally likely that the actual Petroleum Initially in Place will be greater or less than the best estimate.

(5) High Estimate is considered to be an optimistic estimate of Petroleum Initially in Place. There is a 10-percent chance that an estimated quantity of Petroleum Initially in Place will be equaled or exceeded.

(6) Undiscovered Petroleum Initially in Place were estimated for the Bouhajla North Prospect only, including the Cretaceous Abiod and Eocene El Gueria formations, which estimates were combined in the above table.

(7) The resource estimate was prepared in accordance NI 51-101 and the COGE Handbook.

(8) No proved, probable or possible reserves have been assigned to the Bouhajla North prospect at this time. Undiscovered resources are those quantities of oil and gas estimated on a given date to be contained in accumulations yet to be discovered. There is no certainty that any portion of the undiscovered resources will be discovered and that, if discovered, may be economically viable or technically feasible to produce.

Along with the Bouhajla North prospect, the Company has identified several additional leads and opportunities on the Bouhajla Permit, in multiple formations. The next step in the exploration effort will involve shooting a seismic survey at Bouhajla North, in order to select a drilling location. Subject to Ministry and ETAP approval, DualEx anticipates the seismic getting underway in the first quarter of 2011. It is expected that this seismic program and the drilling of a resulting exploration well will satisfy the Company's work commitment under the PSC.

### **Syria**

During 2010, following the unsuccessful testing program and subsequent abandonment of its Al-Tayr 101 exploration well the Company and its partners elected not to continue the production sharing contract into the second exploration period, and have surrendered Block 17. DualEx no longer has any exploration interests in Syria. The costs associated with Block 17 have been accounted for as discontinued operations.

### **Asset Retirement Obligation**

The asset retirement obligations decreased to \$139,881 as at September 30, 2010 from \$305,198 as at December 31, 2009 due to the abandonment of the Al-Tayr well in Syria in the first quarter.

### **LIQUIDITY AND CAPITAL RESOURCES**

As at September 30, 2010 the Company had working capital of \$1.1 million, no debt and no near term commitments on its existing properties. The Company is planning a seismic program in Tunisia in the first quarter of 2011 which is anticipated to be funded with existing working capital and through operating cashflows. 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.

During the quarter funds from operations was a positive \$742,982.

# MANAGEMENT'S DISCUSSION AND ANALYSIS

## Share capital

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 (exercise price of \$0.60), 1,009,925 Agent Options (exercise price \$0.40) and 4,620,000 stock options (average exercise price \$0.22) 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 2010	June 30 2010	Mar 31 2010	Dec 31 2009	Sep 30 2009	Jun 30 2009	Mar 31 2009	Dec 31 2008
Total revenue	\$ 1,162,946	\$ 584,538	\$ 36,381	\$ 27,421	\$ 646,345	\$ 708,560	\$ 161,346	\$ 2,272,483
Net (Loss) income from continuing operations	(111,633)	(179,769)	(360,435)	(92,487)	493,331	15,793	(716,253)	(5,787,980)
Loss from discontinued operations	(47,295)	(83,536)	(1,438,378)	(8,794,939)	-	-	-	-
Net income (loss)	<u>(158,928)</u>	<u>(263,305)</u>	<u>(1,798,813)</u>	<u>(8,887,426)</u>	<u>493,331</u>	<u>15,793</u>	<u>(716,253)</u>	<u>(5,787,980)</u>
per share - basic and diluted								
Net (Loss) income from continuing operations	-	-	-	-	0.01	-	(0.01)	(0.09)
Loss from discontinued operations	-	-	(0.02)	(0.13)	-	-	-	-
Net (loss) income	<u>-</u>	<u>-</u>	<u>(0.02)</u>	<u>(0.13)</u>	<u>0.01</u>	<u>-</u>	<u>(0.01)</u>	<u>(0.09)</u>

Revenue in the fourth quarter of 2008 was 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 with the sidetracked PEN-104A well. The PEN-104A produced until September 2009 at which time the well was sidetracked to test a Miocene volcanoclastic prospect ("PEN-104AA"). The sidetrack proved unsuccessful and the well was abandoned in March 2010. The revenue during the quarters ended June 30, 2009 and September 30, 2009 was primarily production from the PEN-104A well in Hungary. The revenue during the second and third quarter of 2010 is primarily a result of production from the PEN-105 and PEN-101A wells beginning in Hungary in the latter part of May.

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 and a \$1.8M loss during the quarter ended March 31, 2010 primarily as a result of the property writedown in Syria which has been accounted for as discontinued operations.

## RELATED PARTY TRANSACTIONS

During the three and nine months ended September 30, 2010, the Company incurred \$Nil (2009 - \$9,000) and \$6,700 (2009 - \$55,149) 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. The legal fees charged were based on the law firm's established hourly rates and time charges based on the work performed. As at September 30, 2010, \$Nil (December 31, 2009 - \$2,651) is included in accounts payable owing to this law firm.

## CHANGES IN ACCOUNTING POLICIES

### 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.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

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During the year, the Company has made significant process on its changeover plan. The Company has completed its diagnostic assessment phase, analyzed accounting policy alternatives, drafted its preliminary IFRS accounting policies, and is in the process of completing the opening balance sheet as at January 1, 2010.

The Company's significant areas of impact include the following:

### *Property, plant and equipment*

Under Canadian GAAP, the Company follows full cost accounting in which all costs associated with the acquisition of, the exploration for, and the development of petroleum and natural gas reserves are capitalized on a country-by-country cost centre basis. Costs accumulated within each country are depleted using the unit-of-production method based on proved reserves using estimated future prices and costs. Upon transition to IFRS, the Company will be required to adopt new accounting policies for pre-acquisition costs, Exploration and Evaluation costs ("E&E"), and development costs.

Under IFRS pre-acquisition costs incurred prior to having obtained legal rights to explore an area are expensed directly to the income statement as they are incurred.

E&E costs are those expenditures for a project for which technical feasibility and commercial viability have not yet been determined. Under IFRS, the Company will capitalize these costs as E&E assets on the balance sheet. When the project is determined to be technically feasible and commercial viable, the costs will be transferred to PP&E. Unrecoverable E&E costs associated with a project will be expensed.

Development costs include those expenditures for projects where technical feasibility and commercial viability have been determined. Under IFRS, the Company will continue to capitalize these costs within PP&E on the balance sheet. However the costs will be depleted on a unit-of production basis over a cash generating unit basis instead of the county cost centre basis.

Under Canadian GAAP, proceeds of divestitures are normally deducted from the full cost pool without recognition of a gain or loss unless the deduction would result in a change to the depletion rate of 20% or greater. Under IFRS, divestitures will generally result in a gain or loss recognized in net income.

The Company plans to adopt the IFRS 1 exemption, which allows the Company to deem its January 1, 2010 IFRS costs to be equal to its Canadian GAAP historical PP&E net book value.

### *Investment in jointly controlled entity*

Under Canadian GAAP the Company's investment in an jointly controlled entity is proportionately consolidated. Under IFRS the investment in a jointly controlled entity is treated as an equity investment. As a result the amounts proportionately consolidated under Canadian GAAP, including amounts included in cash, accounts receivable, PP&E, accounts payable, and ARO are expected to be reclassified as a net amount using the balances under Canadian GAAP to investment in jointly controlled entity.

### *Investment*

Under Canadian GAAP the Company's investment in a 12.5% working interest in a well represented by shares in an entity is recorded as PP&E. Under IFRS this investment is treated as a non-controlling investment in an entity and accounted for under the cost method. As a result the amounts recorded in PP&E under Canadian GAAP are expected to be reclassified to investment at the amount that was recorded under Canadian GAAP.

### *Share based payments*

Under Canadian GAAP, the Company recognizes an expense related to their stock-based compensation on a straight-line basis through the date of full vesting and does not incorporate a forfeiture estimate. Under IFRS, the Company is required to recognize the expense over the individual vesting periods for the graded vesting awards and estimate a forfeiture rate.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

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### *Decommissioning liabilities*

Under Canadian GAAP asset retirement obligations were discounted at a credit adjusted risk free rate. Under IFRS the estimated cash flow to abandon and remediate the obligations has been risk adjusted and therefore the provision is discounted at a risk free rate. Upon transition to IFRS the Company is required to revalue its January 1, 2010 ARO balance and recognize the adjustment in retained earnings.

### **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 capital expenditure programs, reserves and 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 reserves; costs related to development of oil and gas properties will remain consistent with historical experiences; equipment and crew availability; joint venture partner financial capability; and the Company's ability to obtain additional financing on satisfactory terms.

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

Additional information related to the Company, including the Company's Annual Information Form, can be found on SEDAR at [www.sedar.com](http://www.sedar.com).



THREE AND NINE MONTHS ENDED  
SEPTEMBER 30, 2010

Q3

***DUALEx ENERGY INTERNATIONAL INC.***

***Interim Consolidated Financial  
Statements***

***For the three and nine months ended  
September 30, 2010***



## **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, 2010 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, 2010 AND DECEMBER 31, 2009**  
**UNAUDITED**

<b><u>ASSETS</u></b>	<u>September 30, 2010</u>	<u>December 31, 2009</u>
CURRENT		
Cash	\$ 1,169,289	\$ 4,620,125
Restricted cash (note 3)	-	662,916
Accounts receivable	953,257	135,086
Prepaid expenses and deposits	73,802	77,850
	<u>2,196,348</u>	<u>5,495,977</u>
PROPERTY, PLANT AND EQUIPMENT (note 4)	6,340,205	4,990,319
	<u>\$ 8,536,553</u>	<u>\$ 10,486,296</u>
 <b><u>LIABILITIES &amp; SHAREHOLDERS' EQUITY</u></b>		
CURRENT		
Accounts payable and accrued liabilities	\$ 1,051,642	\$ 685,844
Current portion of asset retirement obligation (note 5)	-	168,991
	<u>1,051,642</u>	<u>854,835</u>
ASSET RETIREMENT OBLIGATION (note 5)	139,881	136,207
	<u>1,191,523</u>	<u>991,042</u>
SHAREHOLDERS' EQUITY		
SHARE CAPITAL AND WARRANTS (note 6)	23,285,853	23,285,853
CONTRIBUTED SURPLUS (note 7)	2,574,599	2,503,777
DEFICIT	(18,515,422)	(16,294,376)
	<u>7,345,030</u>	<u>9,495,254</u>
	<u>\$ 8,536,553</u>	<u>\$ 10,486,296</u>
Commitments and Guarantees (note 8)		

See accompanying notes

**DUALEX ENERGY INTERNATIONAL INC.**  
**CONSOLIDATED STATEMENTS OF 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	
	2010	2009	2010	2009
<b>REVENUE</b>				
Petroleum and natural gas sales	\$ 1,309,228	\$ 744,209	\$ 2,016,835	\$ 1,691,539
Interest and other	615	3,661	1,870	15,741
Royalties	(146,897)	(101,525)	(234,840)	(191,029)
	<u>1,162,946</u>	<u>646,345</u>	<u>1,783,865</u>	<u>1,516,251</u>
<b>EXPENSES</b>				
Operating costs	234,734	201,076	469,984	446,758
General and administrative (note 4)	235,865	191,224	648,955	611,023
Stock based compensation	23,298	12,707	70,822	83,393
Depletion, depreciation and accretion (note 4)	859,486	379,546	1,199,053	792,757
Financing costs	-	-	-	345,762
	<u>1,353,383</u>	<u>784,553</u>	<u>2,388,814</u>	<u>2,279,693</u>
<b>LOSS FROM CONTINUING OPERATIONS BEFORE OTHER ITEMS</b>	<u>(190,437)</u>	<u>(138,208)</u>	<u>(604,949)</u>	<u>(763,442)</u>
<b>OTHER ITEMS</b>				
Gain on sales of property, plant and equipment	-	840,811	-	840,811
Foreign exchange gain (loss)	80,313	(208,314)	(41,740)	(279,867)
	<u>80,313</u>	<u>632,497</u>	<u>(41,740)</u>	<u>560,944</u>
<b>(LOSS) INCOME FROM CONTINUING OPERATIONS BEFORE TAXES</b>	<u>(110,124)</u>	<u>494,289</u>	<u>(646,689)</u>	<u>(202,498)</u>
Current taxes	<u>1,509</u>	<u>958</u>	<u>5,148</u>	<u>4,631</u>
<b>NET (LOSS) INCOME FROM CONTINUING OPERATIONS</b>	<u>(111,633)</u>	<u>493,331</u>	<u>(651,837)</u>	<u>(207,129)</u>
<b>LOSS FROM DISCONTINUED OPERATIONS (note 12)</b>	<u>(47,295)</u>	<u>-</u>	<u>(1,569,209)</u>	<u>-</u>
<b>NET (LOSS) INCOME AND COMPREHENSIVE (LOSS) INCOME</b>	<u>(158,928)</u>	<u>493,331</u>	<u>(2,221,046)</u>	<u>(207,129)</u>
<b>DEFICIT, beginning of period</b>	<u>(18,356,494)</u>	<u>(7,900,281)</u>	<u>(16,294,376)</u>	<u>(7,199,821)</u>
<b>DEFICIT, end of period</b>	<u>\$ (18,515,422)</u>	<u>\$ (7,406,950)</u>	<u>\$ (18,515,422)</u>	<u>\$ (7,406,950)</u>
<b>LOSS PER SHARE, Basic and diluted (note 6d)</b>				
Net income (loss) per share from continuing operations	\$ -	\$ -	\$ (0.01)	\$ -
Loss per share from discontinued operations	-	-	(0.02)	-
Net income (loss) per share	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (0.03)</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	
	2010	2009	2010	2009
<b>OPERATING ACTIVITIES</b>				
Net (loss) income from continuing operations	\$ (111,633)	\$ 493,331	\$ (651,837)	\$ (207,129)
Add (deduct) items not requiring cash				
Depletion, depreciation, accretion and impairment	859,486	379,546	1,199,053	792,757
Stock based compensation	23,298	12,707	70,822	83,393
Financing costs	-	-	-	345,762
Gain on sales of property, plant and equipment	-	(840,811)	-	(840,811)
Unrealized foreign exchange loss (gain)	(28,169)	117,242	44	44,408
	<u>742,982</u>	<u>162,015</u>	<u>618,082</u>	<u>218,380</u>
Settlement of asset retirement obligation (note 5)	-	-	(201,725)	-
Change in non-cash working capital items (note 9)	(146,239)	994,229	(760,246)	974,257
Continuing operations	<u>596,743</u>	<u>1,156,244</u>	<u>(343,889)</u>	<u>1,192,637</u>
<b>FINANCING ACTIVITIES</b>				
Proceeds from warrants	-	1,118,983	-	1,119,117
Continuing operations	<u>-</u>	<u>1,118,983</u>	<u>-</u>	<u>1,119,117</u>
<b>INVESTING ACTIVITIES</b>				
Additions to property, plant and equipment	(54,169)	(2,195,401)	(2,512,531)	(3,328,097)
Decrease in restricted cash	-	-	662,916	-
Proceeds from sales of property, plant and equipment	-	1,403,014	-	1,403,014
Change in non-cash working capital items (note 9)	(1,077,000)	143,696	313,497	835,870
Continuing operations	(1,131,169)	(648,691)	(1,536,118)	(1,089,213)
Discontinued operations (note 12)	(47,295)	-	(1,569,209)	-
	<u>(1,178,464)</u>	<u>(648,691)</u>	<u>(3,105,327)</u>	<u>(1,089,213)</u>
Foreign exchange loss on cash held in a foreign currency	(5,657)	(111,272)	(1,620)	(54,234)
(DECREASE) INCREASE IN CASH	(587,378)	1,515,264	(3,450,836)	1,168,307
CASH, BEGINNING OF PERIOD	1,756,667	2,203,693	4,620,125	2,550,650
CASH, END OF PERIOD	<u>\$ 1,169,289</u>	<u>\$ 3,718,957</u>	<u>\$ 1,169,289</u>	<u>\$ 3,718,957</u>

See accompanying notes

# **DUALEX ENERGY INTERNATIONAL INC.**

Notes to the September 30, 2010 Interim 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 internationally, with primary focus in the greater Mediterranean area. As at September 30, 2010, the Company held working interests in Hungary, Tunisia, 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. ACCOUNTING POLICIES**

These 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, 2009. The Company follows the Canadian full cost method of accounting for petroleum and natural gas properties. The disclosures which follow are incremental to the disclosures included in the annual consolidated financial statements. These 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, 2009.

## **3. RESTRICTED CASH**

The Company provided a letter of guarantee in respect of its work commitments in Syria. This letter expired on May 30, 2010 and the cash security was subsequently released back to the Company.

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

	September 30, 2010			December 31, 2009		
	Cost	Accumulated depletion and impairment	Net Book Value	Cost	Accumulated depletion and impairment	Net Book Value
Hungary	\$ 12,722,640	\$ 7,181,449	\$ 5,541,191	\$ 10,415,243	\$ 6,000,692	\$ 4,414,551
Tunisia	756,472	-	756,472	514,850	-	514,850
North America	137,961	111,582	26,379	147,894	103,795	44,099
Other assets	103,652	93,050	10,602	96,587	85,176	11,411
Mining properties	5,561	-	5,561	5,408	-	5,408
Syria	10,364,148	10,364,148	-	8,794,939	8,794,939	-
	<u>\$ 24,090,434</u>	<u>\$ 17,750,229</u>	<u>\$ 6,340,205</u>	<u>\$ 19,974,921</u>	<u>\$ 14,984,602</u>	<u>\$ 4,990,319</u>

The Company capitalized \$147,623 in general and administrative costs during the nine months ended September 30, 2010 (September 30, 2009 - \$330,177).

As at September 30, 2010, capital costs of \$1,200,000 (December 31, 2009 - \$3,800,000) 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.

In Syria, \$1,569,209 of expenditures incurred during the nine months ended September 30, 2010 have been recorded as discontinued operations following the unsuccessful testing program on its Al-Tayr 101 exploration well.

## **DUALEX ENERGY INTERNATIONAL INC.**

*Notes to the September 30, 2010 Interim Consolidated Financial Statements*  
*All amounts in Canadian dollars unless otherwise stated*

### **5. ASSET RETIREMENT OBLIGATION**

The following table summarizes the changes in the future asset retirement obligation:

	Nine months ended September 30, 2010	Year ended December 31, 2009
Asset retirement obligation, beginning of period	\$ 305,198	\$ 69,977
Obligations incurred with exploration activities	37,385	213,544
Obligations discharged with disposed properties	(7,398)	(7,292)
Obligations settled	(201,725)	-
Revisions to estimates	-	21,970
Accretion	6,421	6,999
Asset retirement obligation, end of period	<u>139,881</u>	<u>305,198</u>
Less current portion	<u>-</u>	<u>(168,991)</u>
	<u>\$ 139,881</u>	<u>\$ 136,207</u>

The undiscounted amount of the estimated future cash flows required to settle the obligations as at September 30, 2010 is \$229,000 (December 31, 2009 – \$432,000). These obligations are expected to be paid in the future with a weighted average life of approximately 8 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, 2009 and September 30, 2010	<u>85,818,337</u>	<u>\$ 22,131,653</u>
Fair Value of Prospectus Warrants		
Balance - December 31, 2009 and September 30, 2010	<u>-</u>	<u>1,154,200</u>
Balance - December 31, 2009 and September 30, 2010	<u>85,818,337</u>	<u>\$ 23,285,853</u>

## **DUALEX ENERGY INTERNATIONAL INC.**

Notes to the September 30, 2010 Interim Consolidated Financial Statements

All amounts in Canadian dollars unless otherwise stated

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

#### a) Stock options

	<u>Number of Options</u>	<u>Weighted Average Exercise Price</u>
Outstanding - December 31, 2009	2,300,000	\$ 0.34
Granted during 2010	<u>2,320,000</u>	\$ 0.10
Outstanding - September 30, 2010	<u><u>4,620,000</u></u>	\$ 0.22

The following table summarizes stock options outstanding as at September 30, 2010:

<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	0.67	800,000
1-Sep-06	100,000	\$ 0.40	0.92	100,000
1-Jan-07	85,000	\$ 0.68	1.25	85,000
4-Sep-07	605,000	\$ 0.24	1.92	605,000
11-Sep-08	355,000	\$ 0.30	2.92	236,666
11-Aug-09	355,000	\$ 0.30	3.83	118,333
23-Aug-10	<u>2,320,000</u>	\$ 0.10	4.83	-
	<u><u>4,620,000</u></u>	\$ 0.22	3.36	<u><u>1,944,999</u></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 23, 2010 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 – Nil.

#### b) Prospectus Warrants

	<u>Number of Warrants</u>	<u>Exercise Price</u>
Outstanding - December 31, 2009 and September 30, 2010	<u><u>7,213,750</u></u>	<u><u>\$ 0.60</u></u>

The Prospectus Warrants entitles the holder to purchase one Common Share at an exercise price of \$0.60. The Prospectus Warrants expire on 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 on the Toronto stock exchange is at \$0.80 or above for a minimum of 30 consecutive trading days.

## **DUALEX ENERGY INTERNATIONAL INC.**

*Notes to the September 30, 2010 Interim Consolidated Financial Statements*  
*All amounts in Canadian dollars unless otherwise stated*

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

c) Agent Options

	<u>Number of Agent Options</u>	<u>Exercise Price</u>
Outstanding - December 31, 2009 and September 30, 2010	<u>1,009,925</u>	<u>\$ 0.40</u>

Each Agent Option grants the holder the right to purchase one Common Share of the Company at an exercise price of \$0.40 until November 10, 2011.

d) Loss per share

Due to the loss during the three and nine months ended September 30, 2010, stock options and warrants were not included in the computation of diluted loss per share as they have an anti-dilutive effect.

### **7. CONTRIBUTED SURPLUS**

	<u>Nine months ended September 30, 2010</u>	<u>Year ended December 31, 2009</u>
Contributed surplus, beginning of period	\$ 2,503,777	\$ 1,847,938
Stock based compensation	70,822	92,626
Balance transferred from share capital on expiration of warrants	-	364,700
Exercise of stock options	-	(3,472)
Agent options	-	201,985
Contributed surplus, end of period	<u>\$ 2,574,599</u>	<u>\$ 2,503,777</u>

### **8. COMMITMENTS AND GUARANTEES**

- a) In Tunisia, the Company holds a 100% interest in a production sharing contract with the Entreprise Tunisienne d'Activites Pétrolières, the Tunisian national oil company. The initial term of the PSC is three years commencing April 30, 2010 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.
- b) During 2009, 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 \$30,000 during the remaining period in 2010 and \$51,000 in 2011.

# DUALEX ENERGY INTERNATIONAL INC.

Notes to the September 30, 2010 Interim Consolidated Financial Statements

All amounts in Canadian dollars unless otherwise stated

## 9. SUPPLEMENTAL CASH FLOW INFORMATION

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

	For the three months ended September 30		For the nine months ended September 30	
	2010	2009	2010	2009
<b>Change in non-cash working capital related to operating activities</b>				
Accounts receivable	\$ (324,481)	\$ 338,514	\$ (913,555)	\$ 980,745
Prepaid expenses and deposits	18,916	16,186	4,048	(10,907)
Accounts payable and accrued liabilities	159,326	639,529	149,261	4,419
	<u>\$ (146,239)</u>	<u>\$ 994,229</u>	<u>\$ (760,246)</u>	<u>\$ 974,257</u>
<b>Change in non-cash working capital related to investing activities</b>				
Accounts receivable	\$ -	\$ -	\$ 86,949	\$ 513,291
Accounts payable and accrued liabilities	(1,077,000)	143,696	226,548	322,579
	<u>\$ (1,077,000)</u>	<u>\$ 143,696</u>	<u>\$ 313,497</u>	<u>\$ 835,870</u>

### b) Other cash flow information

	For the three months ended September 30		For the nine months ended September 30	
	2010	2009	2010	2009
Taxes paid	<u>\$ 1,509</u>	<u>\$ 958</u>	<u>\$ 5,148</u>	<u>\$ 4,631</u>

## 10. SEGMENTED INFORMATION

The Company operates in the oil and natural gas industry. Its reportable segments are identified on a geographic basis. During the three and nine months ended September 30, 2010 the Company had operations in Syria, Hungary, Tunisia and North America. During the three and nine months ended September 30, 2009 the Company had operations in Syria, Hungary, Tunisia, Portugal, and North America. Gross revenue and net income (loss) for the three and nine months ended September 30, 2010 and September 30, 2009 and capital assets as at September 30, 2010 and December 31, 2009 are summarized on a geographic basis below:

	Hungary	Tunisia	North America	Syria	Portugal	Corporate	Total
	\$	\$	\$	\$	\$	\$	\$
<b>For the three months ended September 30, 2010</b>							
Revenue	1,144,614	-	18,027	-	-	305	1,162,946
Net Income (Loss)	87,843	(19,969)	(4,333)	(47,295)	-	(175,174)	(158,928)
<b>For the three months ended September 30, 2009</b>							
Revenue	628,255	-	18,016	-	-	74	646,345
Net Income (Loss)	44,060	-	820,962	-	(130)	(371,561)	493,331
<b>For the nine months ended September 30, 2010</b>							
Revenue	1,713,911	-	69,049	-	-	905	1,783,865
Net Income (Loss)	(72,579)	(46,389)	16,980	(1,569,209)	-	(549,849)	(2,221,046)
<b>For the nine months ended September 30, 2009</b>							
Revenue	1,439,353	-	74,854	-	-	2,044	1,516,251
Net Income (Loss)	186,893	-	782,045	-	(1,462)	(1,174,605)	(207,129)
<b>Capital assets</b>							
As at September 30, 2010	5,541,191	756,472	31,940	-	-	10,602	6,340,205
As at December 31, 2009	4,414,551	514,850	49,507	-	-	11,411	4,990,319

## **DUALEX ENERGY INTERNATIONAL INC.**

Notes to the September 30, 2010 Interim Consolidated Financial Statements

All amounts in Canadian dollars unless otherwise stated

### **11. JOINTLY CONTROLLED CORPORATION**

The Company conducts the majority of its business in Hungary through a jointly controlled corporation. The Company owns 40.44% of the jointly controlled corporation, which in turn holds a 100% interest in the permit which includes the Pen-105 and Pen-101A well. The Company's working interest in the Pen-105 well is 40.44%. The Company's interest in the Pen-101A well increased from 40.44% to 42.83% as a result of a farm-in. The Company accounts for its interest in this jointly controlled corporation using the proportionate consolidation method. The following amounts relate to the Company's interest in this corporation:

	<u>As at September 30, 2010</u>	<u>As at December 31, 2009</u>
Current assets	\$ 957,970	\$ 227,362
Property, plant and equipment	5,143,331	4,045,740
Current liabilities	278,933	506,890
Long term liabilities	114,102	115,788
	<u>Three months ended September 30, 2010</u>	<u>Nine months ended September 30, 2010</u>
Revenue	1,042,310	\$ 1,611,607
Expenses	905,400	1,513,484
Net income	136,910	98,123
Cash inflow resulting from operating activities	457,664	210,303
Cash (outflow) inflow from financing activities	(177,015)	1,988,766
Cash (outflow) resulting from investing activities	(219,367)	(2,246,303)
	<u>Three months ended September 30, 2009</u>	<u>Nine months ended 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. DISCONTINUED OPERATIONS**

During the nine months ended September 30, 2010 following the unsuccessful testing program and subsequent abandonment of the Al-Tayr 101 well in Syria. The Company and its partners elected not to continue the production sharing contract and have surrendered the block. The expenditures incurred on the production sharing contract have been treated as discontinued operations resulting in a loss from discontinued operations of \$47,295 and \$1,569,209 for the three and nine months ended September 30, 2010 respectively.

### **13. RELATED PARTY TRANSACTIONS**

During the three and nine months ended September 30, 2010, the Company incurred \$Nil (2009 - \$9,000) and \$6,700 (2009 - \$55,149) 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. The legal fees charged were based on the law firm's established hourly rates and time charges based on the work performed. As at September 30, 2010, \$Nil (December 31, 2009 - \$2,651) is included in accounts payable owing to this law firm.

# **DUALEX ENERGY INTERNATIONAL INC.**

*Notes to the September 30, 2010 Interim Consolidated Financial Statements*

*All amounts in Canadian dollars unless otherwise stated*

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## **14. CAPITAL MANAGEMENT**

The Company's objective is to maintain a strong capital structure and 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>September 30, 2010</u>	<u>December 31, 2009</u>
Shareholders' Equity	<u>\$ 7,345,030</u>	<u>\$ 9,495,254</u>

## **15. 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 90% of the Company's accounts receivable is with one company, a leading integrated oil and gas company in central and eastern Europe with annual sales revenue in excess of \$15 billion. 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 September 30, 2010, 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 associated with 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, 2010, the Company has \$1.1 million of working capital available to meet its obligations which together with expected cash flows is anticipated to be sufficient to meet the Company's commitments for the next twelve months.

# **DUALEX ENERGY INTERNATIONAL INC.**

Notes to the September 30, 2010 Interim Consolidated Financial Statements

All amounts in Canadian dollars unless otherwise stated

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

### c) Market Risk

Market risk for the Company is the risk that changes in commodity prices and foreign currency 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 or the future cash flow of financial instruments 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, 2010.

#### Foreign Currency Exchange Risk

Foreign currency exchange risk is the risk that the fair value or the future cash flow of financial instruments 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 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, 2010 the Company had working capital denominated in the following foreign currencies:

	<u>\$US</u>	<u>Euros</u>	<u>Hungarian Forints (HUF)</u>
Cash	335,768	8,529	18,466,611
Accounts receivable	67,515	-	170,746,027
Accounts payable	(721,535)	-	(55,093,312)
September 30 exchange rate	\$US to CDN 1.03	Euro to CDN 1.40	HUF to CDN 0.005063

As at September 30, 2010, assuming all other variables remain constant a strengthening of the Canadian dollar against the US dollar of 5% would result in an increase in the value of the Company's net financial instruments of approximately \$16,000. A strengthening of the Canadian dollar against the Euro of 5% would result in a decrease in the value of the Company's net financial instruments of approximately \$1,000. A strengthening of the Canadian dollar against the Hungarian Forint of 5% would result in a decrease in the value of the Company's net financial instruments of approximately \$34,000.

## **DUALEX ENERGY INTERNATIONAL INC.**

*Notes to the September 30, 2010 Interim Consolidated Financial Statements*

*All amounts in Canadian dollars unless otherwise stated*

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

#### 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:

	September 30, 2010	
	<u>Carrying Value</u>	<u>Fair Value</u>
Financial assets held-for-trading	\$ 1,169,289	\$ 1,169,289
Loans and receivables	979,233	979,233
Other liabilities	1,051,642	1,051,642

# CORPORATE INFORMATION

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## **OFFICERS**

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

Kenneth M. Tompson P. Geol  
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