



THREE MONTHS ENDED
MARCH 31, 2011

Q1

DUALEX ENERGY INTERNATIONAL INC.

Interim Report

For the three months ended March 31, 2011

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 months ended March 31, 2011 and the audited financial statements and MD&A for the year ended December 31, 2010. The interim consolidated financial statements have been prepared in accordance with International Accounting Standard 34 "Interim Financial Reporting". Previously, the Company prepared its interim and annual consolidated financial statements in accordance with Canadian Generally Accepted Accounting Principles ("Canadian GAAP"). The adoption of International Financial Reporting Standards (IFRS) has not had an impact on the Company's operations or strategic decisions. 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. Mcf's may be misleading, particularly if used in isolation. A mcf 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.

Management uses "cash flow 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. Cash flow 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 and settlement of decommissioning liabilities".

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

This MD&A has been prepared as of June 27, 2011.

CHANGE IN ACCOUNTING POLICIES

On January 1, 2011, the Company adopted IFRS for financial reporting purposes, using a transition date of January 1, 2010. The Condensed Consolidated Interim Financial Statements ("Financial Statements") for the three months ended March 31, 2011, including the required comparative information, have been prepared in accordance with IFRS 1 "First-Time Adoption of IFRS", and with International Accounting Standard (IAS) 34 "Interim Financial Reporting", as issued by the International Accounting Standards Board (IASB). Previously, the Company prepared its interim and annual consolidated financial statements in accordance with Canadian generally accepted accounting principles (GAAP). Further information on the IFRS impacts is provided in the Critical Accounting Policies and Estimates section of this MD&A, including reconciliations between Canadian GAAP and IFRS.

MANAGEMENT'S DISCUSSION AND ANALYSIS

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 March 31					
	2011			2010		
	Hungary	North America	Total	Hungary	North America	Total
Gas production (mcf)	96,115	5,512	101,627	826	6,482	7,308
Mcf/d	1,068	61	1,105	9	72	81
Total Natural Gas sales	\$ 1,065,639	\$ 21,229	\$ 1,086,868	\$ 8,228	\$ 32,174	\$ 40,402
Netback (\$/mcf)						
Revenue	11.09	3.85	10.69	9.96	4.96	5.53
Royalties	(2.39)	(0.27)	(2.28)	(1.20)	(0.61)	(0.68)
Operating	(2.29)	(1.42)	(2.24)	(50.07)	(1.34)	(6.85)
Operating Netback	6.41	2.16	6.17	(41.31)	3.01	(2.00)

For the three months ended March 31, 2011, petroleum and natural gas production averaged 1,105 mcf/d compared to 81 mcf/d in the comparative period. During the first quarter 2011 the producing wells in Hungary were on production for the entire period as compared to the first quarter 2010 where one well came on production in the latter part of March. The decrease in production in North America is a result of natural production declines. Production in Hungary for the month of May 2011 was approximately 700 mcf/d.

During the three months ended March 31, 2011 the Company generated \$1,086,868 in petroleum and natural gas sales compared to \$40,402 in the comparative period due to an increase in both production and natural gas prices in Hungary.

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.

Royalties

	Three months ended March 31	
	2011	2010
Total	\$ 231,213	\$ 4,953
Percentage of revenue	21%	12%
Per mcf	\$ 2.28	\$ 0.68

Royalties increased during the three months ended March 31, 2011 primarily due to higher prices in Hungary.

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 to 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 is based on historical prices for European gas/oil and heavy fuel oil whereas the royalty paid is based on the average price of Brent crude for the month. During the three months ended March 31, 2011, Brent crude on average traded above \$US90 per barrel resulting in an 18% royalty rate. In addition, the average price of Brent crude over the period was above the historical prices the Company received for its natural gas sales which increased the effective royalty rate from 18% to 21%.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Operating Costs

	Three months ended March 31	
	2011	2010
Total	\$ 227,523	\$ 50,065
Percentage of revenue	21%	123.92%
Per mcf	\$ 2.24	\$ 6.85

The increase in operating costs during the three months ended March 31, 2011 is a result of increased production in Hungary during the period. On an mcf/d basis operating costs were lower in the quarter ended March 31, 2011 due to fixed costs being allocated over higher production in Hungary.

General and administrative

	Three months ended March 31	
	2011	2010
Gross general and administrative	\$ 300,235	\$ 270,328
less capitalized	(9,975)	(42,710)
General and administrative	<u>\$ 290,260</u>	<u>\$ 227,618</u>

Gross general and administrative costs increased for the three months ended March 31, 2011 by 11% compared to the comparative quarter primarily due to increased travel and office costs during the period.

During the three months ended March 31, 2011 the Company's capitalized general and administrative expenses decreased compared to the three months ended March 31, 2010 as more time was devoted to operating activities in Hungary and less time was incurred on capital activities.

Stock based compensation

Stock-based compensation costs for the three months ended March 31, 2011 amounted to \$22,780 compared to \$19,690 in the comparative period. The increase is a result of a higher number of stock options being amortized over the vesting period. Stock-based compensation costs attributable to share options granted were measured at their fair value at the grant date and amortized over the vesting period with a corresponding increase to contributed surplus. The fair value of stock options granted was calculated using the Black-Scholes option pricing method.

Depletion, and depreciation

	Three months ended March 31	
	2011	2010
Total	<u>\$ 190,727</u>	<u>\$ 7,611</u>

Depletion and depreciation increased during the three months ended March 31, 2011 due to the production increase in Hungary.

Impairment of exploration and evaluation

In Hungary, during the three months ended March 31, 2010 the Company abandoned the PEN-104AA well resulting in a charge to the consolidated statement of net income (loss) of \$1,407,651

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 March 31, 2011 the Company experienced a foreign exchange loss of \$10,888 (2010 - \$387,159). The losses are primarily a result of the strengthening of the Canadian dollar against the other currencies.

Current taxes

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

Discontinued operations

During the three months ended March 31, 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 for the three months ended March 31, 2010 of \$1,446,509.

Capital expenditures

During the three months ended March 31, 2011, the Company expended \$58,963 on its exploration and evaluation assets compared to \$1,189,320 in the comparative quarter. The Company did not incur any capital expenditures on property, plant, and equipment during the three months ended March 31, 2011 (2010 - \$277,697) During the quarter ended March 31, 2011 all of the exploration and evaluation expenditures were incurred in Tunisia.

Hungary

DualEx owns 40.44% of PetroHungaria kft, which in turn holds a 100% interest in the Penészlek II Mining Plot (production concession), encompassing an area of 43.37 km², where gas is currently produced from Miocene aged volcanoclastic reservoirs, namely from the PEN-105 well (40.44% interest), which commenced production in March 2010 and the PEN-101A well (42.826% interest), which commenced production in June 2010. The structure on which PEN-105 is located is bisected by a fault which effectively splits the accumulation into two parts. The Company anticipates drilling a sidetrack from the PEN-105 well to access that part of the reservoir not currently being drained. It is expected that this operation will be undertaken during 2011 once existing production from PEN-105 has been fully depleted.

The PEN-9 project in the northern part of the Mining Plot is still under consideration. PEN-9 tested gas when it was originally drilled in 1985 but certain restrictions have so far prevented re-entry and testing of this well. The Company and its partners are hopeful these restrictions will be removed in the near future.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Tunisia

Located in the western region of the Pelagian Basin of north eastern Tunisia, DualEx's Bouhajla Permit comprises 416 km² (105,000 acres). DualEx, through its wholly-owned subsidiary DualEx Tunisia Inc., holds 100% of the Contractor interest in the Permit. The permit carries a three year initial term which commenced on April 30, 2010 with two optional additional exploration periods of three years each. During the initial term, DualEx is committed to recording 100 line kilometres of new 2D seismic and drilling one exploration well to a depth sufficient to test the Upper Cretaceous Abiod formation. The Production Sharing Contract and associated documents governing the permit contain a cost oil/profit oil arrangement incorporating an "R" factor calculation. The work commitment is secured by a \$US1.0 million letter of guarantee underwritten by Export Development Canada.

The primary objective underlying the Bouhajla Permit is the Upper Cretaceous (Maastrichtian) Abiod formation at a depth of approximately 2200 metres. The Abiod is a recognized producer within the Pelagian Basin and constitutes the producing zone in the Sidi el Kilani field immediately east of the Bouhajla Permit.

Secondary targets at Bouhajla include the Eocene El Gueria nummulitic limestone and the Birsia sandstone, both at shallower depths than the Abiod. Like the Abiod, both of these secondary zones are represented in the list of producing horizons within the Pelagian Basin.

In addition to the Bouhajla North prospect which will be the initial focus of DualEx's exploration effort, two other prospects have been developed; Bouhajla Northeast and Bouhajla Southeast, each involving structures related to salt diapirism.

Notwithstanding the Company's commitment to record 2D seismic, it has determined that 3D seismic will be a more effective tool in imaging the Bouhajla North structure, and will meet the contractual requirements. The Company is currently in the tendering stage to record a 3D survey, which it anticipates commencing as soon a contract can be finalized and conditions permit.

In March 2011, the Corporation announced that Martin & Brusset Associates ("M&B"), an independent qualified reserves evaluator and auditor, completed an initial evaluation of undiscovered resource potential of the Bouhajla Northeast and Bouhajla Southeast prospects, the second and third prospects identified on the Company's Bouhajla Exploration Block. The evaluation is entitled "Evaluation of Undiscovered Resource Potential, Bouhajla NE and SE Anomalies, East Central Tunisia, Effective March 1, 2011" and was completed in compliance with National Instrument 51-101 – Standards of Disclosure for Oil and Gas Activities. In June, 2010 M&B prepared a similar evaluation of the Company's Bouhajla North prospect. That evaluation is entitled "Evaluation of Undiscovered Resource Potential of North Bouhajla Anomaly East Central Tunisia Effective May 31, 2010" and was also completed in compliance with National Instrument 51-101 – Standards of Disclosure for Oil and Gas Activities.

M&B has estimated an unrisksed "Best Estimate" of over one billion barrels of Petroleum Initially in Place for the three Bouhajla prospects. A summary of the estimated Petroleum Initially in Place is provided in the M&B reports and set out in the following table.

Summary of Estimates of Petroleum Initially in Place(1)(2)(6)(7)
As of March 1, 2011 and (for Bouhajla North) May 31, 2010

	Best(4) Mstb	High(5) Mstb	Low(3) Mstb
Bouhajla Northeast	590,912	930,457	354,289
Bouhajla Southeast	358,878	565,094	215,170
Bouhajla North	<u>82,829</u>	<u>129,090</u>	<u>49,441</u>
Total	1,032,619	1,624,641	618,900

MANAGEMENT'S DISCUSSION AND ANALYSIS

Notes:

- (1) Petroleum Initially in Place is defined by Canadian Oil and Gas Evaluation Handbook ("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 (including the State's share) estimated for the Bouhajla North, Northeast and Southeast Prospects located on the Bouhajla Permit, assuming a successful discovery and 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. It is likely that the 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. It is equally likely that the estimated quantity of Petroleum Initially in Place will be greater than or less than the actual quantity discovered.
- (5) High Estimate is considered to be an optimistic estimate of Petroleum Initially in Place. It is unlikely that the estimated quantity of Petroleum Initially in Place will be equaled or exceeded.
- (6) Undiscovered Petroleum Initially in Place were estimated for the Bouhajla North, Northeast and Southeast Prospects only, including the Cretaceous Abiod and, in the case of Bouhajla North, the 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 COGEH Handbook.

No proved, probable or possible reserves have been assigned to the Bouhajla North, Northeast, and Southeast prospects 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.

Decommissioning liabilities

The decommissioning liabilities increased slightly from \$171,764 as at December 31, 2010 to \$176,522 as at March 31, 2011, primarily as a result of a foreign exchange loss on consolidation.

LIQUIDITY AND CAPITAL RESOURCES

During the quarter ended March 31, 2011 the Company generated cash flow from operations of \$385,882 compared to the previous year of a negative \$348,618. As at March 31, 2011 the Company had working capital of \$1.6 million (Dec 31, 2010 - \$1.3 million). The Company has no debt and no near term commitments on its existing properties. The Company is planning to spend between \$1 and \$2 million dollars on its Tunisia project in 2011, including a 3D seismic program over the Bouhajla North prospect. In Hungary, the Company is planning to spend an estimated \$500,000 on the sidetrack from the PEN-105 well. These expenditures are anticipated to be funded with existing working capital and through operating cashflows.

The Company's operating cash requirements including amounts projected to complete the Company's existing capital expenditure program are continuously monitored and adjusted as variables change. These variables include but are not limited to, oil and natural gas production, commodity prices, and expenditures on capital projects. Management has planned its 2011 operations based on their best estimates of projected business activity and estimated future cash flows. Depending on a number of factors, including operating cashflows, the Company may need to carry out some form of financing or other transaction to meet additional requirements to the extent they exceed existing capital resources.

Share capital

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 3,820,000 stock options (average exercise price \$0.18) outstanding as of the date hereof.

MANAGEMENT'S DISCUSSION AND ANALYSIS

SUMMARY OF QUARTERLY INFORMATION

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

	Quarter ended							
	Mar 31 2011	Dec 31 2010	Sep 30 2010	June 30 2010	Mar 31 2010	Dec 31 ¹ 2009	Sep 30 ¹ 2009	Jun 30 ¹ 2009
Total revenue	\$ 856,320	\$ 861,358	\$ 1,162,946	\$ 584,538	\$ 36,381	\$ 27,421	\$ 646,345	\$ 708,560
Net income (loss) from continuing operations	112,312	(130,707)	335,521	(1,769,661)	(2,065,525)	(92,487)	493,331	15,793
Net Income (Loss) from discontinued operations	-	27,756	(47,295)	(83,536)	(1,446,509)	(8,794,939)	-	-
Net income (loss)	112,312	(102,951)	288,226	(1,853,197)	(3,512,034)	(8,887,426)	493,331	15,793
per share - basic and diluted								
Net (Loss) income from continuing operations	-	-	-	(0.02)	(0.02)	-	0.01	-
Loss from discontinued operations	-	-	-	-	(0.02)	(0.13)	-	-
Net (loss) income	-	-	-	(0.02)	(0.04)	(0.13)	0.01	-

¹ 2009 comparative figures are prepared in accordance with previous Canadian GAAP.

Revenue for the second and third quarters in 2009 was gas production from the PEN-104A well in Hungary. 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 last three quarters of 2010 and first quarter of 2011 is primarily a result of production from the PEN-105 and PEN-101A wells beginning in Hungary in the latter part of May.

The loss from continued operations of \$2.1 million and \$1.8 million in the quarters ended March 31, 2010 and June 30, 2010 respectively is primarily a result of impairments of exploration wells in Hungary. PEN-104AA was written off in the first quarter 2010 and PEN-102 and PEN-106 were written off in the second quarter of 2010.

The Company incurred a \$8.9 million loss from discontinued operations during the quarter ended December 31, 2009 and a \$1.4M loss during the quarter ended March 31, 2010 as a result of the property writedown in Syria.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

IFRS First Time Adoption

The Financial Statements represent the Company's initial presentation of the financial results of operations and financial position under IFRS for the period ended March 31, 2011 in conjunction with the Company's annual audited Consolidated Financial Statements to be issued under IFRS as at and for the year ended December 31, 2011. As a result, these Financial Statements have been prepared in accordance with IFRS 1, "First-time Adoption of International Financial Reporting Standards" and with IAS 34, "Interim Financial Reporting", as issued by the IASB. Previously, the Company prepared its interim and annual Consolidated Financial Statements in accordance with Canadian GAAP

IFRS 1 requires the presentation of comparative information as at the January 1, 2010 transition date and subsequent comparative periods as well as the consistent and retrospective application of IFRS accounting policies. To assist with the transition, the provisions of IFRS 1 allow for certain mandatory and optional exemptions for first-time adopters to alleviate the retrospective application of all IFRSs. The significant exemptions applied under IFRS 1 in preparing these Financial Statements are set out below.

Deemed cost election for oil and gas properties

Under Canadian GAAP, the company followed the “full cost accounting” method of accounting for oil and gas activities in which all costs directly associated with the acquisition of, the exploration for, and the development of oil and natural gas reserves were capitalized on a country-by-country cost centre basis. Costs accumulated within each country cost centre were depleted using the unit-of-production method based on proved reserves determined using estimated future prices and costs.

Upon transition to IFRS, the company was required to adopt new accounting policies for oil and gas activities, including exploration and evaluation costs and development costs. Under IFRS, exploration and evaluation costs are those expenditures for an area where technical feasibility and commercial viability has not yet been determined, are presented separately on the balance sheet as exploration and evaluation assets and may or may not be amortized based on the company’s accounting policy. Development costs include those expenditures for areas where technical feasibility and commercial viability has been determined, are presented as a part of property, plant and equipment on the balance sheet and are depleted and depreciated on an area-by-area level. The company adopted the IFRS 1 exemption whereby the company deemed its January 1, 2010 IFRS oil and gas costs to be equal to its Canadian GAAP historical property, plant and equipment net book value. Accordingly, exploration and evaluation costs were deemed equal to the unproved properties balance and the development costs were deemed equal to the full cost pool balance. The development costs were allocated to the underlying property, plant and equipment assets on a pro rata basis using recoverable reserves at the transition date.

Decommissioning liabilities

As the Company elected the IFRS 1 exemption, the decommissioning liabilities exemption available to full cost entities was also elected. This exemption allows for the re-measurement of decommissioning liabilities on IFRS transition with the offset to retained earnings.

Business combinations

The Company has elected the IFRS 1 optional exemption that allows an entity to use the IFRS rules for business combinations on a prospective basis rather than re-stating all business combinations. As a result, IFRS 3, “Business Combinations” has not been applied to business combinations that occurred before the transition date.

Stock based compensation

The Company has elected the IFRS 1 exemption that allows the Company an exemption on IFRS 2 “Share-Based Payments” to equity instruments which vested and settled before the Company’s transition date to IFRS.

Cumulative foreign currency translation differences

As permitted under IFRS 1, the Company elected to apply the foreign currency translation adjustment exemption and as a result of the election, the accounts of the Company have not been retrospectively restated using the IFRS foreign currency principles.

The following reconciliations present the adjustments made to the Company’s Canadian GAAP financial results of operations and financial position to comply with IFRS 1. A summary of the significant accounting policy changes and applicable exemptions are discussed following the reconciliations.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Presented below are reconciliations to IFRS of the consolidated statements of financial position of the Company from the amounts reported under Canadian GAAP.

As at January 1, 2010

	<u>Canadian GAAP</u>	<u>Effect of transition to IFRS</u>	<u>IFRS</u>
Current assets	\$ 5,495,977	\$ -	\$ 5,495,977
Non-current assets	4,990,319	(15,984)	4,974,335
Total Assets	<u>\$ 10,486,296</u>	<u>\$ (15,984)</u>	<u>\$ 10,470,312</u>
Current liabilities	\$ 854,835		\$ 854,835
Non-current liabilities	136,207	47,073	183,280
Shareholders' equity	9,495,254	(63,057)	9,432,197
Total liabilities and shareholders' equity	<u>\$ 10,486,296</u>	<u>\$ (15,984)</u>	<u>\$ 10,470,312</u>

As at March 31, 2010

	<u>Canadian GAAP</u>	<u>Effect of transition to IFRS</u>	<u>IFRS</u>
Current assets	\$ 3,424,171	\$ -	\$ 3,424,171
Non-current assets	6,534,255	(1,844,433)	4,689,822
Total Assets	<u>\$ 9,958,426</u>	<u>\$ (1,844,433)</u>	<u>\$ 8,113,993</u>
Current liabilities	\$ 2,102,669	\$ -	\$ 2,102,669
Non-current liabilities	135,553	34,511	170,064
Shareholders' equity	7,720,204	(1,878,944)	5,841,260
Total liabilities and shareholders' equity	<u>\$ 9,958,426</u>	<u>\$ (1,844,433)</u>	<u>\$ 8,113,993</u>

As at December 31, 2010

	<u>Canadian GAAP</u>	<u>Effect of transition to IFRS</u>	<u>IFRS</u>
Current assets	\$ 2,237,910	\$ (88,455)	\$ 2,149,455
Non-current assets	5,548,800	(2,556,944)	2,991,856
Total Assets	<u>\$ 7,786,710</u>	<u>\$ (2,645,399)</u>	<u>\$ 5,141,311</u>
Current liabilities	\$ 883,831	\$ (6,374)	\$ 877,457
Non-current liabilities	113,905	57,859	171,764
Shareholders' equity	6,788,974	(2,696,884)	4,092,090
Total liabilities and shareholders' equity	<u>\$ 7,786,710</u>	<u>\$ (2,645,399)</u>	<u>\$ 5,141,311</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS

Presented below are reconciliations to IFRS of the consolidated statement of net loss and comprehensive loss of the Company from the amounts reported under Canadian GAAP.

CONSOLIDATED STATEMENTS OF NET LOSS AND COMPREHENSIVE LOSS THREE MONTHS ENDED MARCH 31, 2010

	<u>Canadian GAAP</u>	<u>Effect of transition to IFRS</u>	<u>IFRS</u>
Revenue	\$ 36,381	-	\$ 36,381
Expenses	395,121	1,705,090	2,100,211
Net loss from continuing operations before tax	<u>(358,740)</u>	<u>(1,705,090)</u>	<u>(2,063,830)</u>
Current taxes	(1,695)	-	(1,695)
Net loss from continuing operations	<u>(360,435)</u>	<u>(1,705,090)</u>	<u>(2,065,525)</u>
Net loss from discontinued operations	<u>(1,438,378)</u>	<u>(8,131)</u>	<u>(1,446,509)</u>
Net loss	<u>(1,798,813)</u>	<u>\$ (1,713,221)</u>	<u>(3,512,034)</u>
Other comprehensive loss	-	(98,593)	(98,593)
Comprehensive loss	<u><u>\$ (1,798,813)</u></u>	<u><u>\$ (1,811,814)</u></u>	<u><u>\$ (3,610,627)</u></u>

YEAR ENDED DECEMBER 31, 2010

	<u>Canadian GAAP</u>	<u>Effect of transition to IFRS</u>	<u>IFRS</u>
Revenue	\$ 2,645,223	(129,948)	\$ 2,515,275
Expenses	3,853,595	2,311,372	6,164,967
Net loss from continuing operations before tax and other	<u>(1,208,372)</u>	<u>(2,441,320)</u>	<u>(3,649,692)</u>
Other items	-	68,964	68,964
Net loss from continuing operations before tax	<u>(1,208,372)</u>	<u>(2,372,356)</u>	<u>(3,580,728)</u>
Current taxes	(49,644)	-	(49,644)
Net loss from continuing operations	<u>(1,258,016)</u>	<u>(2,372,356)</u>	<u>(3,630,372)</u>
Net loss from discontinued operations	<u>(1,541,453)</u>	<u>(8,131)</u>	<u>(1,549,584)</u>
Net loss	<u>(2,799,469)</u>	<u>\$ (2,380,487)</u>	<u>(5,179,956)</u>
Other Comprehensive loss	-	(240,197)	(240,197)
Comprehensive loss	<u><u>\$ (2,799,469)</u></u>	<u><u>\$ (2,620,684)</u></u>	<u><u>\$ (5,420,153)</u></u>

The following discussion explains the significant differences between the Company's Canadian GAAP accounting policies and those applied by the Company under IFRS. IFRS policies have been retrospectively and consistently applied except where specific IFRS 1 optional and mandatory exemptions permitted an alternative treatment upon transition to IFRS for first-time adopters.

IFRS adjustments

a) Exploration and Evaluation ("E&E")

E&E assets on January 1, 2010 were deemed to be \$3,588,386, representing the unproved properties balance under Canadian GAAP. This resulted in a reclassification from Property, Plant and Equipment ("PP&E") to E&E on the Company's Consolidated Balance Sheet as at January 1, 2010.

Under Canadian GAAP, E&E costs were capitalized as property, ("PP&E") in accordance with the CICA's full cost accounting guidelines. Under IFRS the Company capitalizes these costs as E&E assets. Once technical feasibility and commercial viability has been determined, the capitalized costs are transferred from E&E assets to PP&E.

MANAGEMENT'S DISCUSSION AND ANALYSIS

During the three months ended March 31, 2010 the Company impaired \$1,407,651 of E&E assets. During the year ended December 31, 2010, the Company transferred \$1,371,802 of E&E assets to PP&E and impaired \$3,118,540 of capitalized E&E assets. Under Canadian GAAP the costs associated the impairment were capitalized in PP&E as permitted under full cost accounting.

b) Investment

Under Canadian GAAP the Company's shares in a foreign corporation representing a 12.5% working interest in an oil and gas well was recorded as an oil and gas asset in PP&E. The Company also recorded its 12.5% share of the decommissioning liabilities on the well. Under IFRS the shares of the foreign corporation, representing a 12.5% equity interest are treated as a non-controlling investment in an entity and accounted for using the cost method. The development costs relating to this investment amounting to \$140,368 were allocated to the investment based on the recoverable reserves of the remaining properties included in PP&E, after removing the E&E asset as explain in (a) above. In addition the decommissioning liabilities for the Company's 12.5% share of the well amounting to \$15,984 was removed and credited to investment.

Under Canadian GAAP the Company accrued its share of revenue and expenses from gas production in the well which started producing in August 2010. This resulted in a net receivable to the Company of \$88,455 for its share of production from this well. In addition, the Company accrued its remaining share of capital expenditures of \$6,374 in this well. Under IFRS, using the cost method, the Company recognizes income from the investment only to the extent that the Company receives distributions from accumulated profits from the investment. As a result the accounts receivable of \$88,455 and accounts payable of \$6,374 were removed along with the related revenues and expenses.

In October 2010 the Company sold its shares of the foreign corporation for cash and recorded a gain of \$68,964. Under Canadian GAAP the sale proceeds was treated as a credit to PP&E.

c) Decommissioning liabilities

Under Canadian GAAP, the decommissioning liabilities were measured at the estimated fair value of the retirement and decommissioning expenditures expected to be incurred. Liabilities were not remeasured to reflect period end discount rates.

Under IFRS, the decommissioning liabilities are measured as the best estimate of the expenditure to be incurred and requires that the decommissioning liabilities be remeasured using the period end discount rate. In conjunction with the IFRS 1 exemption relating to oil and gas assets, the Company was required to remeasure its decommissioning liabilities upon transition to IFRS and recognize the difference in retained earnings.

Under Canadian GAAP decommissioning liabilities were discounted at a credit adjusted risk free rate of 9%. Under IFRS the estimated cash flow to abandon and remediate the obligations has been risk adjusted; therefore the provision is discounted at a risk free rate of 4%. Upon transition to IFRS this resulted in an increase of \$63,057 in the decommissioning liabilities with a corresponding decrease in retained earnings.

In addition, under IFRS changes in estimates are recognized prospectively, with the corresponding adjustments to the provision and the associated asset.

d) Share based payments

Under Canadian GAAP, the Company recognized an expense related to their share-based payments on a straight-line basis through the date of full vesting and did not incorporate a forfeiture rate at the grant date. 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 at the date of grant. The impact on transition was an increase in contributed surplus of \$40,359 with a corresponding decrease in retained earnings. During the three months ended March 31, 2010 and year ended December 31, 2010 stock based compensation expense decreased \$4,073 and \$13,143, respectively.

e) Capitalized costs

Under IFRS, employee costs included in general and administrative charges and share-based payments are capitalized only to the extent they are directly attributable to PP&E and E&E. For the three months ended March 31, 2010 and the year ended December 31, 2010, \$62,569 and \$93,188 respectively, are expensed under IFRS that were previously capitalized under Canadian GAAP.

f) Depletion policy

Upon transition to IFRS, the Company adopted a policy of depleting its oil properties on a unit of production basis over the Company's best estimate of recoverable reserves. The depletion policy under Canadian GAAP was based on units of production over proved reserves. There was no impact of this difference on adoption of IFRS at January 1, 2010 as a result of the IFRS 1 election as previously discussed.

For the three months ended March 31, 2010, depleting the oil properties over the Company's best estimate of recoverable reserves resulted in a decrease to depletion of \$5,910. For the year ended December 31, 2010, depletion and depreciation was reduced by \$1,105,885.

g) Foreign Currency Translation

Under Canadian GAAP all foreign currency translation gains or losses, were recorded in the consolidated statement of net income (loss). IFRS requires that the functional currency of each entity in a consolidated group be determined separately and the translation gain or loss be recorded in the entity.

For consolidation purposes each entity whose functional currency is different from the presentation currency are translated as follows, assets and liabilities of are translated at the current period end rate and revenue and expenses are translated at the period average rate. The resulting translation gains or losses is recorded as a foreign currency translation adjustment in shareholders' equity and included in the consolidated statement of comprehensive income (loss). Under Canadian GAAP non-monetary assets and liabilities were consolidated using historical rates.

Use of estimates and judgments

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results could differ from these estimates. Significant estimates and judgments made by Management in the preparation of these Financial Statements are summarized below:

Amounts recorded for depreciation, depletion and amortization and amounts recorded for impairment calculations are based on estimates of natural gas and liquids reserves. By their nature, the estimates of reserves, including the estimates of future prices, costs, discount rates and the related future cash flows, are subject to measurement uncertainty.

Oil and natural gas assets are aggregated into cash-generating units based on their ability to generate largely independent cash flows and are used for impairment testing. The determination of the Company's cash-generating units is subject to Management's judgment.

The decision to transfer assets from exploration and evaluation to property, plant and equipment is based on the estimated proved reserves used in the determination of an area's technical feasibility and commercial viability. As such there is judgment in determining the timing of these transfers.

Amounts recorded for decommissioning liabilities and the related accretion expense requires the use of estimates with respect to the amount and timing of asset retirements, site remediation, legal requirements and related cash flows. Other provisions are recognized in the period when it becomes probable that there will be a future cash outflow.

Compensation costs accrued for long-term stock-based compensation plans are subject to the estimation of what the ultimate payout will be using pricing models such as the Black-Scholes model which is based on significant assumptions such as volatility, dividend yield, expected term and forfeitures.

Using different assumptions in making any of these determinations would result in different values than those recorded, and could be materially different.

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 and cashflows from operations.

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 experience; 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.



DUALEx ENERGY INTERNATIONAL INC.

Interim Report

For the three months ended March 31, 2011

DUALEX ENERGY INTERNATIONAL INC.
CONDENSED CONSOLIDATED INTERIM BALANCE SHEETS
(UNAUDITED, expressed in Canadian dollars)

<u>ASSETS</u>	As at March 31, 2011	As at December 31, 2010	As at January 1, 2010
CURRENT			
Cash	\$ 1,498,732	\$ 1,405,778	\$ 4,620,125
Restricted cash (note 4)	-	-	662,916
Accounts receivable	733,261	678,359	135,086
Prepaid expenses and deposits	46,457	65,318	77,850
	<u>2,278,450</u>	<u>2,149,455</u>	<u>5,495,977</u>
EVALUATION AND EXPLORATION (note 5)	981,802	934,260	3,588,386
PROPERTY, PLANT AND EQUIPMENT (note 6)	1,932,574	2,057,596	1,261,565
INVESTMENT (note 7)	-	-	124,384
	<u>\$ 5,192,826</u>	<u>\$ 5,141,311</u>	<u>\$ 10,470,312</u>
 <u>LIABILITIES & SHAREHOLDERS' EQUITY</u>			
CURRENT			
Accounts payable and accrued liabilities	\$ 688,852	\$ 877,457	\$ 685,844
Current portion of decommissioning liabilities	-	-	168,991
	<u>688,852</u>	<u>877,457</u>	<u>854,835</u>
DECOMMISSIONING LIABILITIES (note 8)	176,522	171,764	183,280
	<u>865,374</u>	<u>1,049,221</u>	<u>1,038,115</u>
SHAREHOLDERS' EQUITY			
SHARE CAPITAL AND WARRANTS (note 9)	23,285,853	23,285,853	23,285,853
CONTRIBUTED SURPLUS	2,646,962	2,624,182	2,544,136
ACCUMULATED OTHER COMPREHENSIVE LOSS	(139,927)	(240,197)	-
DEFICIT	(21,465,436)	(21,577,748)	(16,397,792)
	<u>4,327,452</u>	<u>4,092,090</u>	<u>9,432,197</u>
	<u>\$ 5,192,826</u>	<u>\$ 5,141,311</u>	<u>\$ 10,470,312</u>
Commitments and Guarantees (note 10)			

See accompanying notes

DUALEX ENERGY INTERNATIONAL INC.
CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CHANGES IN EQUITY
(UNAUDITED, expressed in Canadian dollars)

	Number of shares	Share Capital and Warrants	Contributed Surplus	Accumulated Other Comprehensive Loss	Deficit	Total
Balance January 1, 2010	85,818,337	\$ 23,285,853	\$ 2,544,136	\$ -	\$ (16,397,792)	\$ 9,432,197
Stock based compensation	-	-	19,690	-	-	19,690
Foreign currency translation adjustment	-	-	-	(98,593)	-	(98,593)
Net loss for the period	-	-	-	-	(3,512,034)	(3,512,034)
Balance March 30, 2010	<u>85,818,337</u>	<u>\$ 23,285,853</u>	<u>\$ 2,563,826</u>	<u>(98,593)</u>	<u>(19,909,826)</u>	<u>5,841,260</u>
Stock based compensation	-	-	60,356	-	-	60,356
Foreign currency translation adjustment	-	-	-	(141,604)	-	(141,604)
Net loss for the period	-	-	-	-	(1,667,922)	(1,667,922)
Balance December 31, 2010	<u>85,818,337</u>	<u>23,285,853</u>	<u>2,624,182</u>	<u>(240,197)</u>	<u>(21,577,748)</u>	<u>4,092,090</u>
Stock based compensation	-	-	22,780	-	-	22,780
Foreign currency translation adjustment	-	-	-	100,270	-	100,270
Net income for the period	-	-	-	-	112,312	112,312
Balance March 31, 2011	<u><u>85,818,337</u></u>	<u><u>\$ 23,285,853</u></u>	<u><u>\$ 2,646,962</u></u>	<u><u>\$ (139,927)</u></u>	<u><u>\$ (21,465,436)</u></u>	<u><u>\$ 4,327,452</u></u>

See accompanying notes

DUALEX ENERGY INTERNATIONAL INC.
CONDENSED CONSOLIDATED INTERIM STATEMENTS OF NET INCOME (LOSS) AND DEFICIT
FOR THE THREE MONTHS ENDED MARCH 31
(UNAUDITED, expressed in Canadian dollars)

	2011	2010
REVENUE		
Petroleum and natural gas sales	\$ 1,086,868	\$ 40,402
Royalties	(231,213)	(4,953)
Interest and other	665	932
	<u>856,320</u>	<u>36,381</u>
EXPENSES		
Operating costs	227,523	50,065
General and administrative	290,260	227,618
Stock based compensation (note 9e)	22,780	19,690
Depletion and depreciation (note 6)	190,727	7,611
Accretion of decommissioning liabilities (note 8)	411	417
Impairment of exploration and evaluation (note 5)	-	1,407,651
Foreign exchange loss	10,888	387,159
	<u>742,589</u>	<u>2,100,211</u>
NET INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE TAXES	113,731	(2,063,830)
Current taxes (note 11b)	1,419	1,695
	<u>112,312</u>	<u>(2,065,525)</u>
NET INCOME (LOSS) FROM CONTINUING OPERATIONS	112,312	(2,065,525)
LOSS FROM DISCONTINUED OPERATIONS (note 14)	-	(1,446,509)
	<u>112,312</u>	<u>(3,512,034)</u>
NET INCOME (LOSS)	112,312	(3,512,034)
DEFICIT, beginning of period	(21,577,748)	(16,397,792)
DEFICIT, end of period	<u>\$ (21,465,436)</u>	<u>\$ (19,909,826)</u>
NET INCOME (LOSS) PER SHARE, Basic and diluted (note 9f)		
Loss per share from continuing operations	\$ -	\$ (0.02)
Loss per share from discontinued operations	-	(0.02)
Loss per share	<u>\$ -</u>	<u>\$ (0.04)</u>

See accompanying notes

CONDENSED CONSOLIDATED INTERIM STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
FOR THE THREE MONTHS ENDED MARCH 31
(UNAUDITED, expressed in Canadian dollars)

	2011	2010
NET INCOME (LOSS)	\$ 112,312	\$ (3,512,034)
Other Comprehensive Income (loss)		
Foreign Currency Translation Adjustment	100,270	(98,593)
COMPREHENSIVE INCOME (LOSS)	<u>\$ 212,582</u>	<u>\$ (3,610,627)</u>

See accompanying notes

DUALEX ENERGY INTERNATIONAL INC.
CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CASH FLOWS
FOR THE THREE MONTHS ENDED MARCH 31
(UNAUDITED, expressed in Canadian dollars)

	2011	2010
OPERATING ACTIVITIES		
Net income (loss) from continuing operations	\$ 112,312	\$ (2,065,525)
Add (deduct) items not requiring cash		
Depletion and depreciation	190,727	7,611
Accretion of decommissioning liabilities	411	417
Stock based compensation	22,780	19,690
Impairment of exploration and evaluation	-	1,407,651
Unrealized foreign exchange loss	59,652	281,538
	<u>385,882</u>	<u>(348,618)</u>
Settlement of decommissioning liabilities (note 8)	-	(201,725)
Change in non-cash working capital items (note 11)	<u>(2,844)</u>	<u>(34,302)</u>
Cashflow from continuing operations	<u>383,038</u>	<u>(584,645)</u>
INVESTING ACTIVITIES		
Exploration and evaluation expenditures	(58,963)	(1,189,320)
Additions to property, plant and equipment	-	(277,697)
Change in non-cash working capital items (note 11)	<u>(203,346)</u>	<u>1,210,542</u>
Cashflow from continuing operations	<u>(262,309)</u>	<u>(256,475)</u>
Cashflow from discontinued operations (note 14)	-	(1,446,509)
	<u>(262,309)</u>	<u>(1,702,984)</u>
Foreign exchange loss on cash held in a foreign currency	<u>(27,775)</u>	<u>(44,090)</u>
INCREASE (DECREASE) IN CASH	92,954	(2,331,719)
CASH, BEGINNING OF PERIOD	1,405,778	4,620,125
CASH, END OF PERIOD	<u>\$ 1,498,732</u>	<u>\$ 2,288,406</u>

See accompanying notes

DUALEX ENERGY INTERNATIONAL INC.

Notes to the March 31, 2011 Condensed Consolidated Interim Financial Statements
(Unaudited, All amounts in Canadian dollars unless otherwise stated)

1. GENERAL INFORMATION

DualEx Energy International Inc. (“DualEx”, the “Company” or the “Group”) 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, Tunisia and North America. The Company was incorporated under the Alberta Business Corporations Act on March 20, 2006. The Company’s head office is located at Suite 200, 521 – 3rd Avenue S.W., Calgary, Alberta T2P 3T3. The registered office of the Company is located at 1000, 250 - 2nd Street S.W., Calgary, Alberta T2P 0C1.

2. BASIS OF PREPARATION

a) Statement of compliance

These condensed consolidated interim financial statements (“Financial Statements”) are unaudited and have been prepared in accordance with IAS 34 ‘Interim Financial Reporting’ (“IAS 34”) using accounting policies consistent with the International Financial Reporting Standards (“IFRS”) issued by the International Accounting Standards Board and Interpretations of the International Financial Reporting Interpretations Committee (“IFRIC”).

These are the Company’s first Financial Statements under IFRS for part of the period covered by the first IFRS consolidated annual financial statements and IFRS 1 “First-time Adoption of IFRS” has been applied. Previously, the Company prepared its annual and interim consolidated financial statements in accordance with Canadian Generally Accepted Accounting Principles (“Canadian GAAP”).

The preparation of these Financial Statements resulted in selected changes to the Company’s accounting policies as compared to those disclosed in the Company’s annual audited Consolidated Financial Statements for the period ended December 31, 2010 issued under Canadian GAAP. A summary of the significant changes to the Company’s accounting policies is disclosed in Note 18 along with reconciliations presenting the impact of the transition to IFRS for the comparative periods as at January 1, 2010, as at and for the three months ended March 31, 2010, and as at and for the twelve months ended December 31, 2010

A summary of the Company’s significant accounting policies under IFRS is presented in Note 3. These policies have been retrospectively and consistently applied except where specific exemptions permitted an alternative treatment upon transition to IFRS in accordance with IFRS 1 as disclosed in Note 18.

b) Basis of measurement

The Financial Statements have been prepared using the historical cost basis. The comparative figures presented in these consolidated financial statements are in accordance with IFRS.

These Financial Statements have been prepared on a going concern basis, which contemplates the realization of assets and settlement of liabilities in the normal course of business.

c) Functional and presentation currency

The Financial Statements are presented in Canadian dollars, which is the functional currency of DualEx Energy International Inc. The functional currency of the Company’s foreign subsidiaries are US dollars except for DualEx Nyirseg Inc. whose functional currency is Euros and Petrohungaria kft whose functional currency is Hungarian Forints.

DUALEX ENERGY INTERNATIONAL INC.

Notes to the March 31, 2011 Condensed Consolidated Interim Financial Statements
(Unaudited, All amounts in Canadian dollars unless otherwise stated)

2. BASIS OF PREPARATION (continued)

d) Use of estimates and judgments

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results could differ from these estimates. Significant estimates and judgments made by Management in the preparation of these Financial Statements are summarized below:

Amounts recorded for depreciation, depletion and amortization and amounts recorded for impairment calculations are based on estimates of natural gas and liquids reserves. By their nature, the estimates of reserves, including the estimates of future prices, costs, discount rates and the related future cash flows, are subject to measurement uncertainty.

Oil and natural gas assets are aggregated into cash-generating units based on their ability to generate largely independent cash flows and are used for impairment testing. The determination of the Company's cash-generating units is subject to Management's judgment.

The decision to transfer assets from exploration and evaluation to property, plant and equipment is based on the estimated proved reserves used in the determination of an area's technical feasibility and commercial viability. As such there is judgment in determining the timing of these transfers.

Amounts recorded for decommissioning liabilities and the related accretion expense requires the use of estimates with respect to the amount and timing of asset retirements, site remediation, legal requirements and related cash flows. Other provisions are recognized in the period when it becomes probable that there will be a future cash outflow.

Compensation costs accrued for long-term stock-based compensation plans are subject to the estimation of what the ultimate payout will be using pricing models such as the Black-Scholes model which is based on significant assumptions such as volatility, dividend yield, expected term and forfeitures.

Using different assumptions in making any of these determinations would result in different values than those recorded, and could be materially different.

3. SIGNIFICANT ACCOUNTING POLICIES

The principle accounting policies adopted are set out below.

a) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled or jointly controlled by the Company (as detailed in Note 17). Control is achieved where the Company has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities. Consistent accounting policies have been used to prepare the consolidated Financial Statements. Intercompany balances and transactions are eliminated on consolidation.

DUALEX ENERGY INTERNATIONAL INC.

Notes to the March 31, 2011 Condensed Consolidated Interim Financial Statements
(Unaudited, All amounts in Canadian dollars unless otherwise stated)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

b) Interests in Joint ventures

A portion of the Company's exploration, development and production activities are conducted with joint venture partners. A joint venture is a contractual arrangement whereby the Company and other parties undertake an economic activity that is subject to joint control.

Where a group company undertakes its activities under joint venture arrangements directly, the Company's share of jointly controlled assets and any liabilities incurred jointly with other venturers are recognized in the financial statements of the relevant company and classified according to their nature.

Liabilities and expenses incurred directly in respect of interests in jointly controlled assets are accounted for on an accrual basis. Income from the sale or use of the Company's shares of the output of jointly controlled assets, and its share of joint venture expenditures, are recognized when it is probable that the economic benefits associated with the transactions will flow to/from the group and their amount can be measured reliably.

c) Investment

The Company has a non-controlling interest in a private corporation in Hungary. The Company reports its investment under the cost method. Under the cost method the Company recognizes income from the investment only to the extent that the Company receives distributions from accumulated profits from the investment. Any distribution received in excess of such profits is regarded as a recovery of investment and is recognized as a reduction of the cost of the investment.

d) Investment in jointly controlled entity

Joint venture arrangements which involve the establishment of a separate entity in which each venturer has an interest are referred to as jointly controlled entities. The Company reports its interests in a jointly controlled entity using the proportionate consolidation method. Under the proportionate consolidation method the Company records its proportionate share of revenue, expenses, assets and liabilities.

e) Revenue Recognition

Revenues associated with the sale of the Company's natural gas and natural gas liquids are recognized when title passes from the Company to its customers and it is probable that the economic benefits associated with the transactions will flow to the group and their amount can be measured reliably. Royalty revenue is recognized in the same period in which the related natural gas and natural gas liquids is sold.

Interest revenue is recognised when it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably. Interest revenue is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

f) Property, Plant and Equipment ("PP&E") and Exploration and Evaluation ("E&E")

E&E expenditures

Exploration and evaluation costs are those expenditures for an area where technical feasibility and commercial viability has not yet been determined. Costs incurred prior to having obtained legal rights to explore an area are charged directly to the consolidated statement of net income (loss) as exploration and evaluation expense.

DUALEX ENERGY INTERNATIONAL INC.

Notes to the March 31, 2011 Condensed Consolidated Interim Financial Statements
(Unaudited, All amounts in Canadian dollars unless otherwise stated)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

E&E costs are initially capitalized within intangible assets. Such E&E costs may include costs of license acquisition, technical services and studies, seismic acquisition, exploration drilling and testing.

E&E assets related to each exploration prospect are not amortized and are carried forward until the existence of commercial reserves has been determined. If commercial reserves have been discovered, the related E&E assets are assessed for impairment and impairment losses, if any, are recognized in the consolidated statement of net income (loss). For purposes of impairment testing, E&E assets are allocated to cash-generating units ("CGU"). The carrying value, after impairment loss, of the relevant E&E assets is then reclassified as development and production assets within property, plant and equipment.

PP&E

All costs directly associated with the development of natural gas and liquids reserves are capitalized on an area-by-area basis. Development costs include expenditures for areas where technical feasibility and commercial viability has been determined. These costs include proved property acquisitions, development drilling, completion, gathering and infrastructure, decommissioning liabilities and transfers of exploration and evaluation assets.

Costs incurred subsequent to the determination of technical feasibility and commercial viability are recognized as oil and natural gas interests only when they increase the future economic benefits to the specific asset to which they relate. All other expenditures are recognized in the consolidated statement of net income (loss) as incurred.

Gains and losses on disposal of an item of PP&E, including oil and natural gas assets, are determined by comparing the proceeds from disposal with the carrying amount of the PP&E and are recognized net within "other income" or "other expenses" in the consolidated statement of net income (loss).

Depletion of developed oil and gas assets

Oil and natural gas properties are depleted using a unit-of-production method based on estimated recoverable reserves using estimated future prices and costs. Costs subject to depletion include estimated future costs to be incurred in developing these reserves.

PP&E other than oil and gas assets

Property, plant and equipment other than oil and gas assets are stated at cost, less accumulated depreciation, and any provision for impairment. Depreciation is provided at rates estimated to write off the cost, less estimated residual value of each asset over its expected useful life as follows:

Computer and office equipment – 3-5 years straight line.

g) Impairment of Long-Term Assets

The carrying value of long-term assets is reviewed each reporting period for indicators that the carrying value of an asset or cash-generating unit may not be recoverable. If indicators of impairment exist, the recoverable amount of the asset or cash-generating unit is estimated. If the carrying value of the asset or cash-generating unit exceeds the recoverable amount, the asset or cash-generating unit is written down with an impairment recognized in the consolidated statement of net income (loss).

E&E costs and development costs, are aggregated into cash generating units based on their ability to generate largely independent cash flows. The recoverable amount of an asset or cash generating

DUALEX ENERGY INTERNATIONAL INC.

Notes to the March 31, 2011 Condensed Consolidated Interim Financial Statements
(Unaudited, All amounts in Canadian dollars unless otherwise stated)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

unit is the greater of its fair value less costs to sell and its value in use. Fair value is determined to be the amount for which the asset could be sold in an arm's length transaction. For oil and gas assets fair value less costs to sell may be determined using discounted future net cash flows of estimated recoverable reserves using forecast prices and costs. Value in use is determined by estimating the present value of the future net cash flows expected to be derived from the continued use of the asset or cash-generating unit.

Reversals of impairments are recognized when there has been reversal of the impairment indicators and a subsequent increase in the recoverable amount. In this event, the carrying amount of the asset or cash-generating unit is increased to its revised recoverable amount with an impairment reversal recognized in the consolidated statement of net income (loss). The recoverable amount is limited to the original carrying amount less depreciation, depletion and amortization as if no impairment had been recognized for the asset or cash generating unit for prior periods.

h) Decommissioning liabilities

Decommissioning liabilities are recognized when the Company has an obligation to dismantle and remove a facility, or abandon a well and restore the site on which it is located. The amount recognized is the present value of the estimated future expenditure determined in accordance with local conditions and requirements using a risk free rate. An equivalent amount is capitalized as part of the cost of the related asset. Period charges for changes in the net present value of the decommissioning provision arising from discounting are included in finance costs. Changes in estimates are recognized prospectively, with the corresponding adjustment to the provision and the associated asset. Actual expenditures incurred are charged against the accumulated decommissioning liabilities.

i) Foreign currencies

The functional currency for each entity is the currency of the primary economic environment in which it operates. Foreign currency denominated transactions are translated into the entity's functional currency as follows; monetary items denominated in foreign currencies are translated into its functional currency at the rates of exchange at the period end date. Non-monetary items are translated to the functional currency at the historical exchange rate. Any gains or losses are recorded in the consolidated statement of net income (loss).

For the purpose of the consolidated financial statements, the results and financial position of each group entity are expressed in Canadian dollars. For the accounts of foreign operations, assets and liabilities are translated to Canadian dollars at rates prevailing at the period end date. Revenues and expenses are translated to Canadian dollars using the average rate over the period. Translation gains or losses relating to the foreign operations are included in the consolidated statement of comprehensive income (loss) and accumulated in shareholders' equity on the balance sheet.

j) Stock based compensation

Stock based compensation to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date. The fair value determined at the grant date of the stock options is expensed over the vesting period, based on the Company's estimate of equity instruments that will eventually vest. At the end of each reporting period, the Company revises its estimate of the number of stock options expected to vest. The impact of the revision of the original estimates, if any, is recognised in the consolidated statement of net income (loss) such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to contributed surplus.

DUALEX ENERGY INTERNATIONAL INC.

Notes to the March 31, 2011 Condensed Consolidated Interim Financial Statements
(Unaudited, All amounts in Canadian dollars unless otherwise stated)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

k) Taxation

Income tax expense comprises current and deferred tax. Income tax expense is recognized in the consolidated statement of net income (loss) except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognized using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized on the initial recognition of assets or liabilities in a transaction that is not a business combination. In addition, deferred tax is not recognized for taxable temporary differences arising on the initial recognition of goodwill. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

l) Earnings per share

Basic earnings per common share is computed by dividing the net income (loss) by the weighted average number of common shares outstanding during the period. For the diluted net earnings per common share calculation, the weighted average number of shares outstanding is adjusted for the potential number of shares which may have a dilutive effect on net earnings per share. The weighted average number of diluted shares is calculated in accordance with the treasury stock method. The treasury stock method assumes that the proceeds received from the exercise of all potentially dilutive shares are used to repurchase common shares at the average market price.

m) Leases

Leases or other arrangements entered into for the use of an asset are classified as either finance or operating leases. Finance leases transfer to the Company substantially all of the risks and benefits incidental to ownership of the leased item. Finance leases are capitalized at the commencement of the lease term at the lower of the fair value of the leased asset or the present value of the minimum lease payments. Capitalized leased assets are amortized over the shorter of the estimated useful life of the assets and the lease term. All other leases are classified as operating leases and the payments are amortized on a straight-line basis over the lease term.

n) Financial Instruments

i) Non-derivative Financial Instruments

All non-derivative financial instruments are initially recognized at fair value, net of transaction costs. Measurement in subsequent periods depends on whether the financial instrument has been classified as "fair value through profit or loss", "loans and receivables",

DUALEX ENERGY INTERNATIONAL INC.

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3. SIGNIFICANT ACCOUNTING POLICIES (continued)

“available-for-sale”, “held-to-maturity”, or “financial liabilities measured at amortized cost”. Financial assets and financial liabilities at “fair value through profit or loss” are either classified as “held for trading” or “designated at fair value through profit or loss” and are measured at fair value with changes in those fair values recognized in net earnings. Non-derivative financial instruments consist of financial assets and financial liabilities.

Financial assets comprise cash, restricted cash and accounts receivable. Cash and restricted cash are classified as held for trading. Accounts receivable are classified as loans and receivables and recorded at amortized cost less any impairment.

Financial liabilities are comprised of accounts payable and accrued liabilities which are classified as financial liabilities measured at amortized cost using the effective interest rate method.

ii) Derivative Instruments

The Company had no derivative instruments outstanding as at March 31, 2011, December 31, 2010 or January 1, 2010.

iii) Embedded Derivatives

The Company did not have any embedded derivatives as at March 31, 2011, December 31, 2010 or January 1, 2010.

o) Future accounting pronouncements

The company has reviewed new and revised accounting pronouncements that have been issued but are not yet effective and determined that the following may have an impact on the company:

i) IAS 28 Investments in Associates and Joint Ventures (“IAS 28”)

IAS 28 was amended in 2011 which prescribes the accounting for investments in associates and sets out the requirements for the application of the equity method when accounting for investments in associates and joint ventures. IAS 28 is effective for annual periods beginning on or after January 1, 2013. Earlier application is permitted. The company is currently evaluating the impact of this amendment to IAS 28 on its consolidated financial statements.

ii) IFRS 9 Financial Instruments (“IFRS 9”)

IFRS 9 was issued in November 2009 and is the first step to replace current IAS 39, “Financial Instruments: Recognition and Measurement”. IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. The new standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39. IFRS 9 is effective for annual periods beginning on or after January 1, 2013. The company is currently evaluating the impact of IFRS 9 on its consolidated financial statements.

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Notes to the March 31, 2011 Condensed Consolidated Interim Financial Statements
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3. SIGNIFICANT ACCOUNTING POLICIES (continued)

iii) IFRS 10 Consolidated Financial Statements (“IFRS 10”)

IFRS 10 establishes principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities. IFRS 10 supersedes IAS 27 “Consolidated and Separate Financial Statements” and SIC-12 “Consolidation—Special Purpose Entities” and is effective for annual periods beginning on or after January 1, 2013. Earlier application is permitted. The company is currently evaluating the impact of this standard on its consolidated financial statements.

iv) IFRS 11 Joint Arrangements (“IFRS 11”)

IFRS 11 establishes principles for financial reporting by parties to a joint arrangement. IFRS 11 supersedes current IAS 31 “Interests in Joint Ventures and SIC-13 Jointly Controlled Entities—Non-Monetary Contributions by Venturers” and is effective for annual periods beginning on or after January 1, 2013. Earlier application is permitted. The company is currently evaluating the impact of this standard on its consolidated financial statements.

v) IFRS 12 Disclosure of Interests in Other Entities (“IFRS 12”)

IFRS 12 applies to entities that have an interest in a subsidiary, a joint arrangement, an associate or an unconsolidated structured entity. IFRS 12 is effective for annual periods beginning on or after January 1, 2013. Earlier application is permitted. The company is currently evaluating the impact of this standard on its consolidated financial statements.

vi) IFRS 13 Fair Value Measurements (“IFRS 13”)

IFRS 13 defines fair value, sets out in a single IFRS framework for measuring fair value and requires disclosures about fair value measurements. The IFRS 13 applies to IFRSs that require or permit fair value measurements or disclosures about fair value measurements (and measurements, such as fair value less costs to sell, based on fair value or disclosures about those measurements), except in specified circumstances. IFRS 13 is to be applied for annual periods beginning on or after January 1, 2013. Earlier application is permitted. The company is currently evaluating the impact of this standard on its consolidated financial statements.

4. 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.

DUALEX ENERGY INTERNATIONAL INC.

Notes to the March 31, 2011 Condensed Consolidated Interim Financial Statements
(Unaudited, All amounts in Canadian dollars unless otherwise stated)

5. EXPLORATION AND EVALUATION ASSETS

	<u>Hungary</u>	<u>Tunisia</u>	<u>Corporate & Other</u>	<u>Total</u>
Balance January 1, 2010	\$ 3,068,128	\$ 514,850	\$ 5,408	\$ 3,588,386
Capital expenditures	1,976,158	264,406	153	2,240,717
Transfers to property, plant and equipment (note 6)	(1,371,802)	-	-	(1,371,802)
Impairment of exploration and evaluation	(3,118,540)	-	(5,561)	(3,124,101)
Foreign exchange loss	<u>(366,211)</u>	<u>(32,729)</u>	<u>-</u>	<u>(398,940)</u>
As at December 31, 2010	187,733	746,527	-	934,260
Capital expenditures	-	58,963	-	58,963
Foreign exchange	<u>6,532</u>	<u>(17,953)</u>	<u>-</u>	<u>(11,421)</u>
As at March 31, 2011	<u>\$ 194,265</u>	<u>\$ 787,537</u>	<u>\$ -</u>	<u>\$ 981,802</u>

During 2010, the Company determined certain properties in Hungary were technically feasible and commercially viable. Accordingly, \$1,371,802 of accumulated exploration and evaluation costs were transferred to property, plant and equipment.

During 2010, the Company determined certain exploration and evaluation costs to be unsuccessful and not recoverable. Accordingly \$3,124,101 (\$1,407,651 for the three months ended March 31, 2010) in capitalized costs were recognized as an impairment of exploration and evaluation.

DUALEX ENERGY INTERNATIONAL INC.

Notes to the March 31, 2011 Condensed Consolidated Interim Financial Statements
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6. PROPERTY, PLANT AND EQUIPMENT

	<u>Hungary</u>	<u>Canada</u>	<u>Equipment and furniture</u>	<u>Total</u>
Cost or deemed cost:				
Balance January 1, 2010	\$ 1,206,055	\$ 44,099	\$ 11,411	\$ 1,261,565
Capital expenditures	404,849	(502)	7,065	411,412
Divestitures	-	(14,284)	-	(14,284)
Transfer in from exploration and evaluation (note 5)	1,371,802	-	-	1,371,802
Foreign exchange loss	(114,699)	-	(230)	(114,929)
Balance at December 31, 2010	<u>2,868,007</u>	<u>29,313</u>	<u>18,246</u>	<u>2,915,566</u>
Foreign exchange gain (loss)	66,478	-	(96)	66,382
Change in estimate of future cash flows (note 8)	-	(677)	-	(677)
Balance at March 31, 2011	<u>\$ 2,934,485</u>	<u>\$ 28,636</u>	<u>\$ 18,150</u>	<u>\$ 2,981,948</u>

Depletion, depreciation and impairment

Balance January 1, 2010	\$ -	\$ -	\$ -	\$ -
Depletion and depreciation	(841,962)	(6,234)	(9,774)	(857,970)
Balance at December 31, 2010	<u>(841,962)</u>	<u>(6,234)</u>	<u>(9,774)</u>	<u>(857,970)</u>
Depletion and depreciation	(187,471)	(1,363)	(1,893)	(190,727)
Balance at March 31, 2011	<u>\$ (1,029,433)</u>	<u>\$ (7,597)</u>	<u>\$ (11,667)</u>	<u>\$ (1,048,697)</u>

Net Book Value

Balance at January 1, 2010	<u>\$ 1,206,055</u>	<u>\$ 44,099</u>	<u>\$ 11,411</u>	<u>\$ 1,261,565</u>
Balance at December 31, 2010	<u>\$ 2,026,045</u>	<u>\$ 23,079</u>	<u>\$ 8,472</u>	<u>\$ 2,057,596</u>
Balance at March 31, 2011	<u>\$ 1,905,052</u>	<u>\$ 21,039</u>	<u>\$ 6,483</u>	<u>\$ 1,932,574</u>

The depletion expense calculation for the three months ended March 31, 2011 reflected \$981,000 (2010 - \$928,000) for estimated future development costs associated with estimated recoverable reserves in Hungary.

7. INVESTMENT

During the quarter ended December 31, 2010, the Company sold its 12.5% non-controlling interest in shares of a foreign corporation for cash proceeds of \$188,287.

DUALEX ENERGY INTERNATIONAL INC.

Notes to the March 31, 2011 Condensed Consolidated Interim Financial Statements
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8. DECOMMISSIONING LIABILITIES

	Three months ended March 31, 2011	Year ended December 31, 2010
Decommissioning liabilities, beginning of period	\$ 171,764	\$ 352,271
Liabilities incurred	-	49,901
Liabilities discharged with disposed properties	-	(14,284)
Liabilities settled	-	(201,725)
Change in estimated future cash outflows	(677)	(3,334)
Accretion	411	1,337
Foreign exchange loss (gain)	5,024	(12,402)
Decommissioning liabilities, end of period	<u>\$ 176,522</u>	<u>\$ 171,764</u>

The Company's decommissioning liabilities result from its ownership interest in oil and natural gas assets. The decommissioning liabilities are estimated based on the Company's net ownership interest in all wells, estimated costs to reclaim and abandon these wells, and the estimated timing of the costs to be incurred in future years. The undiscounted amount of the estimated future cash flows required to settle the obligations as at March 31, 2011 is \$230,769. These liabilities are expected to be paid in the future with an average life of approximately 6 years. The estimated future cash flows have been discounted at a risk free rate of 2.9% - 3.7% (December 31, 2010, 2.9% - 3.5%) and reflect an inflation rate of 2%.

9. SHARE CAPITAL

(a) Authorized

The Company is authorized to issue an unlimited number of common shares with no par value and an unlimited number of first preferred shares with no par value. The first preferred shares may be issued in series, with the directors determining the terms of the preferred shares on a series by series basis.

(b) Issued and outstanding

	Number of Shares	Stated Value
Common Shares		
Balance - January 1, 2010, December 31, 2010 and March 31, 2011	<u>85,818,337</u>	<u>\$ 22,131,653</u>
Prospectus Warrants		
Balance - January 1, 2010, December 31, 2010 and March 31, 2011	<u></u>	<u>1,154,200</u>
Balance - January 1, 2010, December 31, 2010 and March 31, 2011	<u>85,818,337</u>	<u>\$ 23,285,853</u>

DUALEX ENERGY INTERNATIONAL INC.

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9. SHARE CAPITAL (continued)

Short form prospectus offering

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

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

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

(c) Prospectus Warrants

	<u>Number of Warrants</u>	<u>Exercise Price</u>
Outstanding - January 1, 2010, December 31, 2010 and March 31, 2011	<u>7,213,750</u>	<u>\$ 0.60</u>

(d) Agent Options

	<u>Number of Agent Options</u>	<u>Exercise Price</u>
Outstanding - January 1, 2010, December 31, 2010 and March 31, 2011	<u>1,009,925</u>	<u>\$ 0.40</u>

DUALEX ENERGY INTERNATIONAL INC.

Notes to the March 31, 2011 Condensed Consolidated Interim Financial Statements
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9. SHARE CAPITAL (continued)

(e) Stock based compensation

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

	Number of Options	Weighted Average Exercise Price
Outstanding - January 1, 2010	2,300,000	\$ 0.34
Granted	<u>2,320,000</u>	0.10
Outstanding - December 31, 2010 and March 31, 2011	<u><u>4,620,000</u></u>	\$ 0.22

The following summarizes outstanding stock options as at March 31, 2011.

Date of Grant	Number Outstanding	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life in Years	Options Exercisable
9-Jun-06	800,000	\$ 0.40	0.17	800,000
1-Sep-06	100,000	\$ 0.40	0.42	100,000
1-Jan-07	85,000	\$ 0.68	0.75	85,000
4-Sep-07	605,000	\$ 0.24	1.42	605,000
11-Sep-08	355,000	\$ 0.30	2.42	236,666
11-Aug-09	355,000	\$ 0.30	3.33	118,333
23-Aug-10	<u>2,320,000</u>	\$ 0.10	4.33	-
	<u><u>4,620,000</u></u>			<u><u>1,944,999</u></u>

Using the fair value method for stock based compensation, the Company calculated stock based compensation expense for the three months ended March 31, 2011 as \$22,780 (three months ended March 31, 2010 - \$19,960).

The Company determined these amounts using the Black-Scholes option pricing model with the following assumptions:

	2010	2009
Risk free rate	2.1%	2.5%
Expected life	5 years	5 years
Expected volatility	100%	100%
Expected dividend	0%	0%
Forfeiture rate	10%	10%

DUALEX ENERGY INTERNATIONAL INC.

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9. SHARE CAPITAL (continued)

(f) Net income (loss) per share

The weighted average number of shares outstanding for the period is 85,818,337. Stock options, Prospectus Warrants, and Agent Options amounting to 12,843,675 which were outstanding during the three months ended March 31, 2011 were not included in the computation of diluted earnings per share because their respective exercise prices were greater than the average market price of the common shares. Due to the loss during the three months ended March 31, 2010, stock options, Prospectus Warrants and Agent Options were not included in the computation of diluted loss per share as they have an anti-dilutive effect on loss per share.

10. COMMITMENTS AND GUARANTEES

- a) In Tunisia, the Company holds a 100% interest in a production sharing contract with the Entreprise Tunisienne d'Activites Petrolieres, the 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 which was revised in 2011 whereby the Company will lease office space until May 31, 2012. The Company has committed to future payments under this lease agreement of \$69,000 in 2011 and \$35,000 in 2012.

11. SUPPLEMENTAL CASH FLOW INFORMATION

- a) Changes in non-cash working capital

	For the three months ended March 31	
	2011	2010
Change in non-cash working capital related to operating activities		
Accounts receivable	\$ (42,479)	\$ (6,196)
Prepaid expenses and deposits	18,861	21,183
Accounts payable and accrued liabilities	20,774	(49,289)
	<u>\$ (2,844)</u>	<u>\$ (34,302)</u>
Change in non-cash working capital related to investing activities		
Accounts receivable	\$ -	\$ (303,738)
Accounts payable and accrued liabilities	(203,346)	1,514,280
	<u>\$ (203,346)</u>	<u>\$ 1,210,542</u>

- b) Other cash flow information

	For the three months ended March 31	
	2011	2010
Taxes paid	<u>\$ 1,419</u>	<u>\$ 1,695</u>

DUALEX ENERGY INTERNATIONAL INC.

Notes to the March 31, 2011 Condensed Consolidated Interim Financial Statements
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12. SEGMENTED INFORMATION

The primary segmental reporting format is determined to be the geographical segment according to the location of the asset. Management considers the Company to have a single class of business, being the exploration for, development and production of oil and gas reserves. Accordingly no secondary segmental reporting information is presented. There are five geographic reporting segments. Hungary, Tunisia, North America, and Syria are involved in exploration and development and Corporate is the home of the head office. Revenue, expenses and net income (loss) for the three months ended March 31, 2011 and March 31, 2010 and for the year ended December 31, 2010 are summarized below on a geographic basis below. In addition, assets as at March 31, 2011, December 31, 2010 and March 31, 2010 are also summarized on a geographic basis.

For the three months ended March 31, 2011

	North America	Hungary	Tunisia	Corporate	Total
Revenue					
Petroleum and natural gas sales	\$ 21,229	\$ 1,065,639	\$ -	\$ -	\$ 1,086,868
Royalties	(1,502)	(229,711)	-	-	(231,213)
Interest and other	-	270	-	395	665
	<u>19,727</u>	<u>836,198</u>	<u>-</u>	<u>395</u>	<u>856,320</u>
Expenses					
Operating Costs	7,835	219,688	-	-	227,523
General and administrative	3,348	49,278	34,812	202,822	290,260
Stock based compensation	-	-	-	22,780	22,780
Depletion and depreciation	2,698	187,471	558	-	190,727
Accretion of decommissioning liabilities	109	302	-	-	411
Impairment of exploration and evaluation	-	-	-	-	-
Foreign exchange loss (gain)	-	26,578	-	(15,690)	10,888
Current taxes	1,419	-	-	-	1,419
	<u>15,409</u>	<u>483,317</u>	<u>35,370</u>	<u>209,912</u>	<u>744,008</u>
Net income (loss)	<u>\$ 4,318</u>	<u>\$ 352,881</u>	<u>\$ (35,370)</u>	<u>\$ (209,517)</u>	<u>\$ 112,312</u>
Assets as at March 31, 2011					
Current assets	\$ 60,326	\$ 763,292	\$ 11,877	\$ 1,442,955	\$ 2,278,450
Exploration and evaluation	-	194,265	787,537	-	981,802
Property plant and equipment	21,039	1,905,052	3,850	2,633	1,932,574
	<u>\$ 81,365</u>	<u>\$ 2,862,609</u>	<u>\$ 803,264</u>	<u>\$ 1,445,588</u>	<u>\$ 5,192,826</u>

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12. SEGMENTED INFORMATION (continued)

For the three months ended March 31, 2010

	North America	Syria	Hungary	Tunisia	Corporate	Total
Revenue						
Petroleum and natural gas sales	\$ 32,173	\$ -	\$ 8,229	\$ -	\$ -	\$ 40,402
Royalties	(3,964)	-	(989)	-	-	(4,953)
Interest and other	14	-	360	-	558	932
	<u>28,223</u>	<u>-</u>	<u>7,600</u>	<u>-</u>	<u>558</u>	<u>36,381</u>
Expenses						
Operating Costs	8,711	-	41,354	-	-	50,065
General and administrative	3,347	-	78,402	65,690	80,179	227,618
Stock based compensation	-	-	-	-	19,690	19,690
Depletion and depreciation	2,106	-	2,147	589	2,769	7,611
Accretion of decommissioning liabilities	121	-	296	-	-	417
Impairment of exploration and evaluation	-	-	1,407,651	-	-	1,407,651
Foreign exchange loss	-	-	178,665	613	207,881	387,159
Current taxes	1,695	-	-	-	-	1,695
	<u>15,980</u>	<u>-</u>	<u>1,708,515</u>	<u>66,892</u>	<u>310,519</u>	<u>2,101,906</u>
Net income (loss) from continuing operations	12,243	-	(1,700,915)	(66,892)	(309,961)	(2,065,525)
Net loss from discontinued operations	-	(1,446,509)	-	-	-	(1,446,509)
Net income (loss)	<u>\$ 12,243</u>	<u>\$ (1,446,509)</u>	<u>\$ (1,700,915)</u>	<u>\$ (66,892)</u>	<u>\$ (309,961)</u>	<u>\$ (3,512,034)</u>
Assets as at March 31, 2010						
Current assets	\$ 49,982	\$ -	\$ 691,941	\$ 2,563	\$ 2,679,685	\$ 3,424,171
Investment	-	-	114,170	-	-	114,170
Exploration and evaluation	5,408	-	2,592,830	557,999	-	3,156,237
Property plant and equipment	28,821	-	1,376,296	6,323	7,975	1,419,415
	<u>\$ 84,211</u>	<u>\$ -</u>	<u>\$ 4,775,237</u>	<u>\$ 566,885</u>	<u>\$ 2,687,660</u>	<u>\$ 8,113,993</u>

For the year ended December 31, 2010

	North America	Syria	Hungary	Tunisia	Corporate	Total
Revenue						
Petroleum and natural gas sales	\$ 95,167	\$ -	\$ 2,802,575	\$ -	\$ -	\$ 2,897,742
Royalties	(8,106)	-	(376,811)	-	-	(384,917)
Interest and other	57	-	1,231	-	1,162	2,450
	<u>87,118</u>	<u>-</u>	<u>2,426,995</u>	<u>-</u>	<u>1,162</u>	<u>2,515,275</u>
Expenses						
Operating Costs	39,581	-	530,482	-	-	570,063
General and administrative	11,634	-	383,079	137,758	637,894	1,170,365
Stock based compensation	-	-	-	-	80,046	80,046
Depletion and depreciation	6,901	-	841,962	2,332	6,775	857,970
Accretion of decommissioning liabilities	414	-	923	-	-	1,337
Impairment of exploration and evaluation	5,561	-	3,112,979	-	-	3,118,540
Foreign exchange loss	-	-	57,571	951	308,124	366,646
Current taxes	6,139	-	43,505	-	-	49,644
	<u>70,230</u>	<u>-</u>	<u>4,970,501</u>	<u>141,041</u>	<u>1,032,839</u>	<u>6,214,611</u>
Other Income						
Gain on sale of investment	-	-	68,964	-	-	68,964
Net income (loss) from continuing operations	16,888	-	(2,474,542)	(141,041)	(1,031,677)	(3,630,372)
Net loss from discontinued operations	-	(1,549,584)	-	-	-	(1,549,584)
Net income (loss)	<u>\$ 16,888</u>	<u>\$ (1,549,584)</u>	<u>\$ (2,474,542)</u>	<u>\$ (141,041)</u>	<u>\$ (1,031,677)</u>	<u>\$ (5,179,956)</u>
Assets as at December 31, 2010						
Current assets	\$ 55,923	\$ -	\$ 694,038	\$ 6,213	\$ 1,393,281	\$ 2,149,455
Exploration and evaluation	-	-	187,733	746,527	-	934,260
Property plant and equipment	23,079	-	2,026,045	4,504	3,968	2,057,596
	<u>\$ 79,002</u>	<u>\$ -</u>	<u>\$ 2,907,816</u>	<u>\$ 757,244</u>	<u>\$ 1,397,249</u>	<u>\$ 5,141,311</u>

DUALEX ENERGY INTERNATIONAL INC.

Notes to the March 31, 2011 Condensed Consolidated Interim Financial Statements
(Unaudited, All amounts in Canadian dollars unless otherwise stated)

13. 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>March 31, 2011</u>	<u>December 31, 2010</u>	<u>March 31, 2010</u>
Current assets	\$ 763,292	\$ 694,038	\$ 691,941
Long-term assets	2,099,317	2,213,778	4,083,296
Current liabilities	414,958	370,673	1,189,620
Long term liabilities	149,799	144,474	144,804
	<u>Three months ended</u>	<u>Year ended</u>	<u>Three months ended</u>
	<u>March 31, 2011</u>	<u>December 31, 2010</u>	<u>March 31, 2010</u>
Revenue	836,198	2,426,995	\$ 7,600
Expenses	383,589	4,741,573	1,606,075

14. DISCONTINUED OPERATIONS

During the year ended December 31, 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, thereby ending all operations in Syria. The expenditures incurred on the production sharing contract have been treated as discontinued operations resulting in a loss from discontinued operations of \$1,549,956 for the year ended December 31, 2010 (Three months ended March 31 – \$1,446,509).

15. 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>March 31, 2011</u>	<u>December 31, 2010</u>	<u>January 1, 2010</u>
Shareholders' Equity	<u>\$ 4,327,452</u>	<u>\$ 4,092,090</u>	<u>\$ 9,432,197</u>

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16. FINANCIAL RISK MANAGEMENT

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 95% of the Company's accounts receivable is with one company which is a leading integrated oil and gas company in central and eastern Europe with annual sales 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 March 31, 2011, the Company has \$6,000 in accounts receivable past due. The Company has recorded an allowance for this amount. The Company minimizes the credit risk of cash by depositing only with reputable institutions.

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 March 31, 2011, the Company has \$1.6 million of working capital available to meet its obligations which together with expected cash flows is projected to be sufficient to meet the Company's 2011 commitments.

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

c) Market Risk

Market risk for the Company is the risk that changes in commodity prices and foreign exchange rates will affect the Company's 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 March 31, 2011.

DUALEX ENERGY INTERNATIONAL INC.

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16. FINANCIAL RISK MANAGEMENT (continued)

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 presented 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. In Tunisia, expenditures are primarily denominated in US 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 March 31, 2011 the Company had working capital denominated in the following foreign currencies:

	<u>\$US</u>	<u>Euros</u>	<u>Hungarian Forints (HUF)</u>
Cash	771,130	398,370	9,625,592
Accounts receivable	-	-	137,638,583
Accounts payable	<u>(194,130)</u>	<u>-</u>	<u>(73,085,961)</u>
Net working capital	<u>577,000</u>	<u>398,370</u>	<u>74,178,214</u>
Canadian dollar equivalent	<u>\$ 560,729</u>	<u>\$ 549,034</u>	<u>\$ 384,540</u>

As at March 31, 2011, assuming all other variables remain constant a strengthening of the Canadian dollar against the US dollar of 5% would result in a decrease in the value of the Company's net financial instruments of approximately \$28,000. 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 \$27,000. 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 \$19,000.

DUALEX ENERGY INTERNATIONAL INC.

Notes to the March 31, 2011 Condensed Consolidated Interim Financial Statements
(Unaudited, All amounts in Canadian dollars unless otherwise stated)

16. FINANCIAL RISK MANAGEMENT (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. Level 1 is determined by reference to quoted prices in active markets for identical assets and liabilities.

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

	March 31, 2011	
	Carrying Value	Fair Value
Financial assets held-for-trading	\$ 1,498,732	\$ 1,498,732
Loans and receivables	759,321	759,321
Other liabilities	688,852	688,852

17. SIGNIFICANT SUBSIDIARIES

Details of the Company's subsidiaries and jointly controlled entities as at March 31, 2011 were as follows:

Name of Company	Principal activity	Country of incorporation	% of share capital held
DualEx International Inc.	Holding Company	Bahamas	100
DualEx Nyirseg Inc.	Holding Company	Bahamas	100
DualEx Tunisia Inc.	Oil and Gas Exploration	Bahamas	100
DualEx Syria Inc.	Oil and Gas Exploration	Bahamas	100
DualEx Portugal Inc.	Inactive	Bahamas	100
Petrohungaria kft	Oil and Gas Exploration	Hungary	40.44
Winslow Resources Inc.	Oil and Gas Exploration	Canada	100

DUALEX ENERGY INTERNATIONAL INC.

Notes to the March 31, 2011 Condensed Consolidated Interim Financial Statements
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18. TRANSITION TO IFRS

As disclosed in Note 2, these Financial Statements represent the Company's initial presentation of the financial results of operations and financial position under IFRS for the period ended March 31, 2011 in conjunction with the Company's annual audited Consolidated Financial Statements to be issued under IFRS as at and for the year ended December 31, 2011. As a result, these Financial Statements have been prepared in accordance with IFRS 1, "First-time Adoption of International Financial Reporting Standards" and with IAS 34, "Interim Financial Reporting", as issued by the IASB. Previously, the Company prepared its interim and annual Consolidated Financial Statements in accordance with previous GAAP.

IFRS 1 requires the presentation of comparative information as at the January 1, 2010 transition date and subsequent comparative periods as well as the consistent and retrospective application of IFRS accounting policies. To assist with the transition, the provisions of IFRS 1 allow for certain mandatory and optional exemptions for first-time adopters to alleviate the retrospective application of all IFRSs. The significant exemptions applied under IFRS 1 in preparing these Financial Statements are set out below.

Deemed cost election for oil and gas properties

Under Canadian GAAP, the company followed the "full cost accounting" method of accounting for oil and gas activities in which all costs directly associated with the acquisition of, the exploration for, and the development of oil and natural gas reserves were capitalized on a country-by-country cost centre basis. Costs accumulated within each country cost centre were depleted using the unit-of-production method based on proved reserves determined using estimated future prices and costs.

Upon transition to IFRS, the company was required to adopt new accounting policies for oil and gas activities, including exploration and evaluation costs and development costs. Under IFRS, exploration and evaluation costs are those expenditures for an area where technical feasibility and commercial viability has not yet been determined, are presented separately on the balance sheet as exploration and evaluation assets and may or may not be amortized based on the company's accounting policy. Development costs include those expenditures for areas where technical feasibility and commercial viability has been determined, are presented as a part of property, plant and equipment on the balance sheet and are depleted and depreciated on an area-by-area level. The company adopted the IFRS 1 exemption whereby the company deemed its January 1, 2010 IFRS oil and gas costs to be equal to its Canadian GAAP historical property, plant and equipment net book value. Accordingly, exploration and evaluation costs were deemed equal to the unproved properties balance and the development costs were deemed equal to the full cost pool balance. The development costs were allocated to the underlying property, plant and equipment assets on a pro rata basis using recoverable reserves at the transition date.

Decommissioning liabilities

As the Company elected the IFRS 1 exemption, the decommissioning liabilities exemption available to full cost entities was also elected. This exemption allows for the re-measurement of decommissioning liabilities on IFRS transition with the offset to retained earnings.

Business combinations

The Company has elected the IFRS 1 optional exemption that allows an entity to use the IFRS rules for business combinations on a prospective basis rather than re-stating all business combinations. As a result, IFRS 3, "Business Combinations" has not been applied to business combinations that occurred before the transition date.

DUALEX ENERGY INTERNATIONAL INC.

Notes to the March 31, 2011 Condensed Consolidated Interim Financial Statements
(Unaudited, All amounts in Canadian dollars unless otherwise stated)

Stock based compensation

The Company has elected the IFRS 1 exemption that allows the Company an exemption on IFRS 2 "Share-Based Payments" to equity instruments which vested and settled before the Company's transition date to IFRS.

Cumulative foreign currency translation differences

As permitted under IFRS 1, the Company elected to apply the foreign currency translation adjustment exemption and as a result of the election, the accounts of the Company have not been retrospectively restated using the IFRS foreign currency principles.

The following reconciliations present the adjustments made to the Company's Canadian GAAP financial results of operations and financial position to comply with IFRS 1. A summary of the significant accounting policy changes and applicable exemptions are discussed following the reconciliations. Reconciliations include the Company's consolidated balance sheets as at January 1, 2010, March 31, 2010 and December 31, 2010, and consolidated statements of net income (loss), and consolidated statement of comprehensive income for the three months ended March 31, 2010 and for the year ended December 31, 2010.

DUALEX ENERGY INTERNATIONAL INC.

Notes to the March 31, 2011 Condensed Consolidated Interim Financial Statements
(Unaudited, All amounts in Canadian dollars unless otherwise stated)

18. TRANSITION TO IFRS (continued)

Presented below are reconciliations to IFRS of the consolidated statements of financial position of the Company from the amounts previously reported under Canadian GAAP.

IFRS Opening Consolidated Balance Sheet As at January 1, 2010

<u>ASSETS</u>	<u>Note</u>	<u>Canadian GAAP</u>	<u>Effect of transition to IFRS</u>	<u>IFRS</u>
CURRENT				
Cash		\$ 4,620,125	\$ -	\$ 4,620,125
Restricted Cash		662,916	-	662,916
Accounts receivable		135,086	-	135,086
Prepaid expenses and deposits		77,850	-	77,850
		<u>5,495,977</u>	<u>-</u>	<u>5,495,977</u>
EXPLORATION AND EVALUATION PROPERTY, PLANT AND EQUIPMENT INVESTMENT	a a,b b	- 4,990,319 -	3,588,386 (3,728,754) 124,384	3,588,386 1,261,565 124,384
		<u>\$ 10,486,296</u>	<u>(15,984)</u>	<u>\$ 10,470,312</u>
 <u>LIABILITIES & SHAREHOLDERS' EQUITY</u>				
CURRENT				
Accounts payable and accrued liabilities		\$ 685,844	\$ -	\$ 685,844
Current portion of decommissioning liabilities		168,991	-	168,991
		<u>854,835</u>	<u>-</u>	<u>854,835</u>
DECOMMISSIONING LIABILITIES	b,c	<u>136,207</u>	<u>47,073</u>	<u>183,280</u>
		<u>991,042</u>	<u>47,073</u>	<u>1,038,115</u>
SHAREHOLDERS' EQUITY				
SHARE CAPITAL AND WARRANTS		23,285,853	-	23,285,853
CONTRIBUTED SURPLUS	d	2,503,777	40,359	2,544,136
DEFICIT	c,d	(16,294,376)	(103,416)	(16,397,792)
		<u>9,495,254</u>	<u>(63,057)</u>	<u>9,432,197</u>
		<u>\$ 10,486,296</u>	<u>\$ (15,984)</u>	<u>\$ 10,470,312</u>

DUALEX ENERGY INTERNATIONAL INC.

Notes to the March 31, 2011 Condensed Consolidated Interim Financial Statements
(Unaudited, All amounts in Canadian dollars unless otherwise stated)

18. TRANSITION TO IFRS (continued)

Consolidated Balance Sheet As at March 31, 2010

<u>ASSETS</u>	<u>Note</u>	<u>Canadian GAAP</u>	<u>Effect of transition to IFRS</u>	<u>IFRS</u>
CURRENT				
Cash		\$ 2,288,406	\$ -	\$ 2,288,406
Restricted Cash		643,281	-	643,281
Accounts receivable		435,817	-	435,817
Prepaid expenses and deposits		56,667	-	56,667
		<u>3,424,171</u>	<u>-</u>	<u>3,424,171</u>
				-
EXPLORATION AND EVALUATION	a,g	-	3,156,237	3,156,237
PROPERTY, PLANT AND EQUIPMENT	a,b,g	6,534,255	(5,114,840)	1,419,415
INVESTMENT	b,g	-	114,170	114,170
		<u>\$ 9,958,426</u>	<u>(1,844,433)</u>	<u>\$ 8,113,993</u>
 <u>LIABILITIES & SHAREHOLDERS' EQUITY</u>				
CURRENT				
Accounts payable and accrued liabilities		\$ 2,102,669	\$ -	\$ 2,102,669
Current portion of decommissioning liabilities		-	-	-
		<u>2,102,669</u>	<u>-</u>	<u>2,102,669</u>
DECOMMISSIONING LIABILITIES	c,g	<u>135,553</u>	<u>34,511</u>	<u>170,064</u>
		<u>2,238,222</u>	<u>34,511</u>	<u>2,272,733</u>
SHAREHOLDERS' EQUITY				
SHARE CAPITAL AND WARRANTS		23,285,853	-	23,285,853
CONTRIBUTED SURPLUS	d	2,527,540	36,286	2,563,826
ACCUMULATED OTHER COMPREHENSIVE LOSS	g	-	(98,593)	(98,593)
DEFICIT	c,d	(18,093,189)	(1,816,637)	(19,909,826)
		<u>7,720,204</u>	<u>(1,878,944)</u>	<u>5,841,260</u>
		<u>\$ 9,958,426</u>	<u>\$ (1,844,433)</u>	<u>\$ 8,113,993</u>

DUALEX ENERGY INTERNATIONAL INC.

Notes to the March 31, 2011 Condensed Consolidated Interim Financial Statements
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18. TRANSITION TO IFRS (continued)

Consolidated Balance Sheet
As at December 31, 2010

<u>ASSETS</u>	<u>Note</u>	<u>Canadian GAAP</u>	<u>Effect of transition to IFRS</u>	<u>IFRS</u>
CURRENT				
Cash		\$ 1,405,778	\$ -	\$ 1,405,778
Accounts receivable	b	766,814	(88,455)	678,359
Prepaid expenses and deposits		65,318	-	65,318
		<u>2,237,910</u>	<u>(88,455)</u>	<u>2,149,455</u>
EXPLORATION AND EVALUATION PROPERTY, PLANT AND EQUIPMENT				
	a,g	-	934,260	934,260
	a,b,g	5,548,800	(3,491,204)	2,057,596
		<u>\$ 7,786,710</u>	<u>\$ (2,645,399)</u>	<u>\$ 5,141,311</u>
 <u>LIABILITIES & SHAREHOLDERS' EQUITY</u>				
CURRENT				
Accounts payable and accrued liabilities	b	\$ 883,831	(6,374)	\$ 877,457
Current portion of decommissioning liabilities		-	-	-
		<u>883,831</u>	<u>(6,374)</u>	<u>877,457</u>
DECOMMISSIONING LIABILITIES				
	c,g	<u>113,905</u>	<u>57,859</u>	<u>171,764</u>
		<u>997,736</u>	<u>51,485</u>	<u>1,049,221</u>
SHAREHOLDERS' EQUITY				
SHARE CAPITAL AND WARRANTS		23,285,853	-	23,285,853
CONTRIBUTED SURPLUS	d	2,596,966	27,216	2,624,182
ACCUMULATED OTHER COMPREHENSIVE INCOME	g	-	(240,197)	(240,197)
DEFICIT		<u>(19,093,845)</u>	<u>(2,483,903)</u>	<u>(21,577,748)</u>
		<u>6,788,974</u>	<u>(2,696,884)</u>	<u>4,092,090</u>
		<u>\$ 7,786,710</u>	<u>\$ (2,645,399)</u>	<u>\$ 5,141,311</u>

DUALEX ENERGY INTERNATIONAL INC.

Notes to the March 31, 2011 Condensed Consolidated Interim Financial Statements
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18. TRANSITION TO IFRS (continued)

CONSOLIDATED STATEMENTS OF NET INCOME (LOSS) AND DEFICIT THREE MONTHS ENDED MARCH 31, 2010

	<i>Note</i>	<i>Canadian GAAP</i>	<i>Effect of transition to IFRS</i>	<i>IFRS</i>
REVENUE				
Petroleum and natural gas sales		\$ 40,402	\$ -	\$ 40,402
Royalties		(4,953)	-	(4,953)
Interest and other		932	-	932
		<u>36,381</u>	<u>-</u>	<u>36,381</u>
EXPENSES				
Operating costs		50,065	-	50,065
General and administrative	e	165,049	62,569	227,618
Stock based compensation	d	23,763	(4,073)	19,690
Depletion and depreciation	f	13,521	(5,910)	7,611
Accretion of decommissioning liabilities	c	-	417	417
Impairment of exploration and evaluation	a	-	1,407,651	1,407,651
Foreign exchange loss	g	142,723	244,436	387,159
		<u>395,121</u>	<u>1,705,090</u>	<u>2,100,211</u>
NET LOSS FROM CONTINUING OPERATIONS BEFORE TAXES		(358,740)	(1,705,090)	(2,063,830)
Current taxes		1,695	-	1,695
NET LOSS FROM CONTINUING OPERATIONS		(360,435)	(1,705,090)	(2,065,525)
LOSS FROM DISCONTINUED OPERATIONS	g	<u>(1,438,378)</u>	<u>(8,131)</u>	<u>(1,446,509)</u>
NET LOSS		<u>\$ (1,798,813)</u>	<u>\$ (1,713,221)</u>	<u>\$ (3,512,034)</u>
NET LOSS PER SHARE, Basic and diluted				
Net loss per share from continuing operations		\$ -	\$ (0.02)	\$ (0.02)
Net loss per share from discontinued operations		(0.02)	-	(0.02)
Net loss per share		<u>\$ (0.02)</u>	<u>\$ (0.02)</u>	<u>\$ (0.04)</u>

CONSOLIDATED STATEMENT OF COMPREHENSIVE LOSS THREE MONTHS ENDED MARCH 31, 2010

	<i>Note</i>	<i>Canadian GAAP</i>	<i>Effect of transition to IFRS</i>	<i>IFRS</i>
Net Loss		\$ (1,798,813)	\$ (1,713,221)	\$ (3,512,034)
Other Comprehensive loss				
Foreign Currency Translation Adjustment	g	-	(98,593)	(98,593)
Comprehensive loss		<u>\$ (1,798,813)</u>	<u>\$ (1,811,814)</u>	<u>\$ (3,610,627)</u>

DUALEX ENERGY INTERNATIONAL INC.

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18. TRANSITION TO IFRS (continued)

CONSOLIDATED STATEMENTS OF NET INCOME (LOSS) AND DEFICIT YEAR ENDED DECEMBER 31, 2010

	<i>Note</i>	<i>Canadian GAAP</i>	<i>Effect of transition to IFRS</i>	<i>IFRS</i>
REVENUE				
Petroleum and natural gas sales	b	\$ 3,046,832	\$ (149,090)	\$ 2,897,742
Royalties	b	(404,059)	19,142	(384,917)
Interest and other		2,450	-	2,450
		<u>2,645,223</u>	<u>(129,948)</u>	<u>2,515,275</u>
EXPENSES				
Operating costs	b	606,626	(36,563)	570,063
General and administrative	e	1,077,177	93,188	1,170,365
Stock based compensation	d	93,189	(13,143)	80,046
Depletion and depreciation	f	1,963,855	(1,105,885)	857,970
Accretion of decommissioning liabilities	c	-	1,337	1,337
Impairment of exploration and evaluation	a	-	3,118,540	3,118,540
Foreign exchange loss	g	112,748	253,898	366,646
		<u>3,853,595</u>	<u>2,311,372</u>	<u>6,164,967</u>
NET LOSS BEFORE TAXES AND OTHER		(1,208,372)	(2,441,320)	(3,649,692)
OTHER ITEMS				
Gain on sale of investment	b	-	68,964	68,964
NET LOSS BEFORE TAXES		(1,208,372)	(2,372,356)	(3,580,728)
Current taxes		49,644	-	49,644
NET LOSS FROM CONTINUING OPERATIONS		(1,258,016)	(2,372,356)	(3,630,372)
LOSS FROM DISCONTINUED OPERATIONS	g	(1,541,453)	(8,131)	(1,549,584)
NET LOSS		<u>(2,799,469)</u>	<u>(2,380,487)</u>	<u>(5,179,956)</u>
NET LOSS PER SHARE, Basic and diluted				
Net loss per share from continuing operations		\$ (0.01)	\$ (0.03)	\$ (0.04)
Net loss per share from discontinued operations		(0.02)	-	(0.02)
Net loss per share		<u>\$ (0.03)</u>	<u>\$ (0.03)</u>	<u>\$ (0.06)</u>

CONSOLIDATED STATEMENT OF COMPREHENSIVE LOSS YEAR ENDED DECEMBER 31, 2010

	<i>Note</i>	<i>Canadian GAAP</i>	<i>Effect of transition to IFRS</i>	<i>IFRS</i>
Net Loss		\$ (2,799,469)	\$ (2,380,487)	\$ (5,179,956)
Other Comprehensive loss				
Foreign Currency Translation Adjustment	g	-	(240,197)	(240,197)
Comprehensive loss		<u>\$ (2,799,469)</u>	<u>\$ (2,620,684)</u>	<u>\$ (5,420,153)</u>

DUALEX ENERGY INTERNATIONAL INC.

Notes to the March 31, 2011 Condensed Consolidated Interim Financial Statements
(Unaudited, All amounts in Canadian dollars unless otherwise stated)

18. TRANSITION TO IFRS (continued)

Notes to the IFRS reconciliations

The following discussion explains the significant differences between the Company's Canadian GAAP accounting policies and those applied by the Company under IFRS. IFRS policies have been retrospectively and consistently applied except where specific IFRS 1 optional and mandatory exemptions permitted an alternative treatment upon transition to IFRS for first-time adopters.

IFRS adjustments

a) Exploration and Evaluation ("E&E")

E&E assets on January 1, 2010 were deemed to be \$3,588,386, representing the unproved properties balance under Canadian GAAP. This resulted in a reclassification from Property, Plant and Equipment ("PP&E") to E&E on the Company's Consolidated Balance Sheet as at January 1, 2010.

Under Canadian GAAP, E&E costs were capitalized as property, ("PP&E") in accordance with the CICA's full cost accounting guidelines. Under IFRS the Company capitalizes these costs as E&E assets. Once technical feasibility and commercial viability has been determined, the capitalized costs are transferred from E&E assets to PP&E.

During the three months ended March 31, 2010 the Company impaired \$1,407,651 of E&E assets. During the year ended December 31, 2010, the Company transferred \$1,371,802 of E&E assets to PP&E and impaired \$3,118,540 of capitalized E&E assets. These impairments resulted from the impairment required under IFRS on a cash generating unit basis versus on a cost center basis as was required under Canadian GAAP

b) Investment

Under Canadian GAAP the Company's shares in a foreign corporation representing a 12.5% working interest in an oil and gas well was recorded as an oil and gas asset in PP&E. The Company also recorded its 12.5% share of the decommissioning liabilities on the well. Under IFRS the shares of the foreign corporation, representing a 12.5% equity interest are treated as a non-controlling investment in an entity and accounted for using the cost method. The development costs relating to this investment amounting to \$140,368 were allocated to the investment based on the recoverable reserves of the remaining properties included in PP&E, after removing the E&E asset as explain in (a) above. In addition the decommissioning liabilities for the Company's 12.5% share of the well amounting to \$15,984 was removed and credited to investment.

Under Canadian GAAP the Company accrued its share of revenue and expenses from gas production in the well which started producing in August 2010. This resulted in a net receivable to the Company of \$88,455 for its share of production from this well. In addition, the Company accrued its remaining share of capital expenditures of \$6,374 in this well. Under IFRS, using the cost method, the Company recognizes income from the investment only to the extent that the Company receives distributions from accumulated profits from the investment. As a result the accounts receivable of \$88,455 and accounts payable of \$6,374 were removed along with the related revenues and expenses.

In October 2010 the Company sold its shares of the foreign corporation for cash and recorded a gain of \$68,964. Under Canadian GAAP the sale proceeds was treated as a credit to PP&E.

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Notes to the March 31, 2011 Condensed Consolidated Interim Financial Statements
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18. TRANSITION TO IFRS (continued)

c) Decommissioning liabilities

Under Canadian GAAP, the decommissioning liabilities were measured at the estimated fair value of the retirement and decommissioning expenditures expected to be incurred. Liabilities were not remeasured to reflect period end discount rates.

Under IFRS, the decommissioning liabilities are measured as the best estimate of the expenditure to be incurred and requires that the decommissioning liabilities be remeasured using the period end discount rate. In conjunction with the IFRS 1 exemption relating to oil and gas assets, the Company was required to remeasure its decommissioning liabilities upon transition to IFRS and recognize the difference in retained earnings.

Under Canadian GAAP decommissioning liabilities were discounted at a credit adjusted risk free rate of 9%. Under IFRS the estimated cash flow to abandon and remediate the obligations has been risk adjusted; therefore the provision is discounted at a risk free rate of 4%. Upon transition to IFRS this resulted in an increase of \$63,057 in the decommissioning liabilities with a corresponding decrease in retained earnings.

In addition, under IFRS changes in estimates are recognized prospectively, with the corresponding adjustments to the provision and the associated asset.

d) Share based payments

Under Canadian GAAP, the Company recognized an expense related to their share-based payments on a straight-line basis through the date of full vesting and did not incorporate a forfeiture rate at the grant date. 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 at the date of grant. The impact on transition was an increase in contributed surplus of \$40,359 with a corresponding decrease in retained earnings. During the three months ended March 31, 2010 and year ended December 31, 2010 stock based compensation expense decreased \$4,073 and \$13,143, respectively.

e) Capitalized costs

Under IFRS, employee costs included in general and administrative charges and share-based payments are capitalized only to the extent they are directly attributable to PP&E and E&E. For the three months ended March 31, 2010 and the year ended December 31, 2010, \$62,569 and \$93,188 respectively, are expensed under IFRS that were previously capitalized under Canadian GAAP.

f) Depletion policy

Upon transition to IFRS, the Company adopted a policy of depleting its oil properties on a unit of production basis over the Company's best estimate of recoverable reserves. The depletion policy under Canadian GAAP was based on units of production over proved reserves. There was no impact of this difference on adoption of IFRS at January 1, 2010 as a result of the IFRS 1 election as previously discussed.

For the three months ended March 31, 2010, depleting the oil properties over the Company's best estimate of recoverable reserves resulted in a decrease to depletion of \$5,910. For the year ended December 31, 2010, depletion and depreciation was reduced by \$1,105,885.

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18. TRANSITION TO IFRS (continued)

g) Foreign Currency Translation

Under Canadian GAAP all foreign currency translation gains or losses, were recorded in the consolidated statement of net income (loss). IFRS requires that the functional currency of each entity in a consolidated group be determined separately and the translation gain or loss be recorded in the entity.

For consolidation purposes each entity whose functional currency is different from the presentation currency is translated as follows, Assets and liabilities are translated at the current period end rate and revenue and expenses are translated at the period average rate. The resulting translation gains or losses are recorded as a separate item in shareholders' equity and included in the consolidated statement of comprehensive income (loss). Under Canadian GAAP non-monetary assets and liabilities were consolidated using historical rates.

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