



THREE AND SIX MONTHS ENDED
JUNE 30, 2011

Q2

DUALEx ENERGY INTERNATIONAL INC.

Interim Report

***For the three and six months ended
June 30, 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 and six months ended June 30, 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 mcfe conversion ratio of one barrel of oil to six thousand cubic feet is based on an energy equivalent conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead.

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 August 24, 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 and six months ended June 30, 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 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 June 30					
	2011			2010		
	Hungary	North America	Total	Hungary	North America	Total
Gas production (mcfe)	64,015	5,408	69,423	59,726	6,482	66,208
Mcfe/d	703	59	763	656	71	728
Total Natural Gas sales	\$ 762,090	\$ 18,633	\$ 780,723	\$ 642,091	\$ 25,114	\$ 667,205
Netback (\$/mcfe)						
Revenue	11.90	3.45	11.25	10.75	3.87	10.08
Royalties	(2.64)	(0.25)	(2.46)	(1.35)	(0.36)	(1.25)
Operating	(2.52)	(1.77)	(2.46)	(3.02)	(0.76)	(2.80)
Operating Netback	6.74	1.43	6.33	6.38	2.75	6.03
	Six months ended June 30					
	2011			2010		
	Hungary	North America	Total	Hungary	North America	Total
Gas production (mcfe)	160,129	10,920	171,049	60,552	12,980	73,532
Mcfe/d	885	60	945	335	72	406
Total Natural Gas sales	\$ 1,827,729	\$ 39,862	\$ 1,867,591	\$ 650,319	\$ 57,288	\$ 707,607
Netback (\$/mcfe)						
Revenue	11.41	3.65	10.92	10.74	4.41	9.62
Royalties	(2.49)	(0.26)	(2.35)	(1.35)	(0.48)	(1.20)
Operating	(2.38)	(1.60)	(2.33)	(3.66)	(1.05)	(3.20)
Operating Netback	6.54	1.79	6.24	5.73	2.88	5.22

For the three months ended June 30, 2011, petroleum and natural gas production averaged 763 mcfe/d compared to 728 mcfe/d in the comparative period. During the second quarter 2011 the producing wells in Hungary were on production for the entire period as compared to the second quarter 2010 where the wells did not produce over the entire quarter. The decrease in production in North America is a result of natural production declines.

Production declined from 1,105 mcfe/d in the first quarter 2011 to 763 mcfe/d in the second quarter mainly as a result of natural production declines in Hungary. Production in Hungary for the month of July 2011 was approximately 650 mcfe/d.

During the three months ended June 30, 2011 the Company generated \$780,723 in petroleum and natural gas sales compared to \$667,205 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. European gas/oil and heavy fuel oil has been increasing during these preceding periods thereby increasing the price received for natural gas in Hungary.

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the six months ended June 30, 2011 petroleum and natural gas production averaged 945 mcf/d compared to 406 mcf/d in the comparative period. In Hungary, the increase in gas production during the six months ended June 30, 2011 is a result of steady gas production during the entire period whereas in the comparative period production began in March 2010. During the six months ended June 30, 2011 the Company generated \$1,867,591 in petroleum and natural gas sales (six months ended June 30, 2010 - \$707,607). The increase over the comparative period is a combination of higher production and higher prices in Hungary.

Royalties

	Three months ended June 30		Six months ended June 30	
	2011	2010	2011	2010
Total	\$ 170,517	\$ 82,990	\$ 401,730	\$ 87,943
Percentage of revenue	22%	12%	22%	12%
Per mcf	\$ 2.46	\$ 1.25	\$ 2.35	\$ 1.20

Royalties increased during the three months and six months ended June 30, 2011 primarily due to higher production and higher prices received 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 and six months ended June 30, 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 22%.

Operating Costs

	Three months ended June 30		Six months ended June 30	
	2011	2010	2011	2010
Total	\$ 170,775	\$ 185,185	\$ 398,298	\$ 235,250
Percentage of revenue	22%	28%	21%	33%
Per mcf	\$ 2.46	\$ 2.80	\$ 2.33	\$ 3.20

The increase in operating costs during the six months ended June 30, 2011 is a result of increased production in Hungary during the period. On an mcf basis operating costs are lower during the three and six months ended June 30, 2011 compared to the prior periods due to fixed costs in Hungary being allocated over higher production.

General and administrative

	Three months ended June 30		Six months ended June 30	
	2011	2010	2011	2010
Gross general and administrative	\$ 343,853	\$ 288,958	\$ 644,088	\$ 559,286
less capitalized	(2,675)	(13,083)	(12,650)	(55,793)
General and administrative	<u>\$ 341,178</u>	<u>\$ 275,875</u>	<u>\$ 631,438</u>	<u>\$ 503,493</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS

Gross general and administrative costs increased for the three and six months ended June 30, 2011 compared to the prior periods by \$54,895 and \$84,802 respectively, primarily due to increased accounting expenditures as a result of the IFRS conversion, and increased travel and office costs.

During the three and six months ended June 30, 2011 the Company's capitalized general and administrative expenses decreased compared to the comparative periods 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 and six months ended June 30, 2011 amounted to \$22,780 and \$45,560 respectively (three months ended June 30, 2010 – \$19,690, six months ended June 30, 2010 - \$39,380). The increases are 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 June 30		Six months ended June 30	
	2011	2010	2011	2010
Total	\$ 136,146	\$ 241,317	\$ 326,873	\$ 248,928

Depletion and depreciation increased during the six months ended June 30, 2011 due to production increases in Hungary partially offset by a lower depletion rate as estimated recoverable reserves increased in 2011 compared to 2010. The decrease in depletion and depreciation during three months ended June 30, 2011 is a result of the previously explained lower depletion rate.

Impairment of exploration and evaluation

In Hungary, during the three months ended June 30, 2010 the Company abandoned the PEN-106 well and recorded an impairment on the suspended PEN-102 well amounting to \$1,705,328. During the first quarter 2010 the Company abandoned the PEN-104AA well resulting in a charge to the consolidated statement of net income (loss) of \$1,407,651. Total impairments amounted to \$3,112,979 for the six months ended June 30, 2011.

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 June 30, 2011 the Company recorded a foreign exchange loss of \$20,858 (2010 - \$75,416 gain). During the six months ended June 30, 2011 the Company recorded a foreign exchange loss of \$31,746 (2010 – \$311,743). The losses are primarily a result of the strengthening of the Canadian dollar against the US dollar.

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 and six months ended June 30, 2010 of \$83,536 and \$1,530,045 respectively.

Capital expenditures

During the six months ended June 30, 2011, the Company expended \$141,524 on its exploration and evaluation assets 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 and suspended in 1985. The Company continues its efforts to gain access to the existing wellbore, which is currently owned by a state agency, with the intention of re-entering and further testing.

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 Birsa 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.

MANAGEMENT'S DISCUSSION AND ANALYSIS

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 does meet the contractual requirements. The Company has gone through a tendering process and is currently in discussions with contractors.

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

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 was 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.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Decommissioning liabilities

The decommissioning liabilities increased slightly from \$171,764 as at December 31, 2010 to \$180,676 as at June 30, 2011, primarily as a result of a foreign exchange translation adjustment.

LIQUIDITY AND CAPITAL RESOURCES

During the three and six months ended June 30, 2011 the Company generated cash flow from operations of \$114,158 and \$500,040 respectively. As at June 30, 2011 the Company had working capital of \$1.6 million (Dec 31, 2010 - \$1.3 million) and no debt. The Company is planning to spend between \$1 and \$2 million dollars on its Tunisia project in 2011, consisting primarily of a 3D seismic program over the Bouhajla North prospect. In Hungary, the Company is planning to spend an estimated \$500,000 on the sidetrack of the PEN-105 well.

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 future operating cashflows, the Company may need to carry out some form of financing or other transaction to ensure the Company has the capital resources necessary to carry out its planned activities. The Company may also choose to defer some portion of its planned activities until such time as it has sufficient capital resources to execute on them.

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.

SUMMARY OF QUARTERLY INFORMATION

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

	Quarter ended							
	Jun 30 2011	Mar 31 2011	Dec 31 2010	Sep 30 2010	June 30 2010	Mar 31 2010	Dec 31 ¹ 2009	Sep 30 ¹ 2009
Total revenue	\$ 619,278	\$ 856,320	\$ 861,358	\$ 1,162,946	\$ 584,538	\$ 36,381	\$ 27,421	\$ 646,345
Net income (loss) from continuing operations	(73,721)	112,312	(130,707)	335,521	(1,769,661)	(2,065,525)	(92,487)	493,331
Net Income (Loss) from discontinued operations	-	-	27,756	(47,295)	(83,536)	(1,446,509)	(8,794,939)	-
Net income (loss)	<u>(73,721)</u>	<u>112,312</u>	<u>(102,951)</u>	<u>288,226</u>	<u>(1,853,197)</u>	<u>(3,512,034)</u>	<u>(8,887,426)</u>	<u>493,331</u>
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	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(0.02)</u>	<u>(0.04)</u>	<u>(0.13)</u>	<u>0.01</u>

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

Revenue for the third quarter 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 the first half of 2011 is primarily a result of production from the PEN-105 and PEN-101A wells in Hungary.

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.

IFRS

The 2011 reporting period is the Company's first under IFRS. The Company's accounting policies have been adjusted to comply with IFRS beginning with the balance sheet as at January 1, 2010. A summary of all the significant changes is presented in note 16 of the Company's Financial Statements.

The adoption of IFRS increased the Company's net loss from continuing operations for the three and six months ended June 30, 2010 as follows:

	Three months ended June 30, 2010	Six months ended June 30, 2010
2010 net loss from continuing operations under Canadian GAAP	\$ (177,825)	\$ (536,565)
Impairment of exploration and evaluation	(1,705,328)	(3,112,979)
Depletion and depreciation	84,729	90,639
Foreign exchange gain (loss)	54,746	(189,690)
General and administrative	(27,834)	(90,403)
Stock based compensation	4,071	8,144
Accretion	(276)	(693)
Net increase	(1,589,892)	(3,294,982)
2010 net loss from continuing operations under IFRS	<u>\$ (1,767,717)</u>	<u>\$ (3,831,547)</u>

The significant accounting adjustments impacting net loss from continuing operations due to IFRS conversion were; impairment of exploration and evaluation assets which were previously capitalized under Canadian GAAP as the Company followed "full cost accounting"; lower depletion due to the lower depletable base as a result of the impairments mentioned above; different foreign exchange gains (losses) as IFRS requires translation gains or losses of each entity of a consolidated group be determined separately; and general and administrative increases as certain employee costs that were previously capitalized under Canadian GAAP are expensed under IFRS.

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 production, 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 recoverable 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.



THREE AND SIX MONTHS ENDED
JUNE 30, 2011

Q2

DUALEX ENERGY INTERNATIONAL INC.

Interim Report

***For the three and six months ended
June 30, 2011***

Notice of No Auditor Review of Interim Financial Statements

In accordance with National Instrument 51-102 released by the Canadian Securities Administrators, the Company discloses that its auditors have not reviewed these unaudited interim financial statements as at and for the three and six months ended June 30, 2011 and 2010.

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

<u>ASSETS</u>	As at June 30, 2011	As at December 31, 2010
CURRENT		
Cash	\$ 1,602,713	\$ 1,405,778
Accounts receivable	513,529	678,359
Prepaid expenses and deposits	82,644	65,318
	<u>2,198,886</u>	<u>2,149,455</u>
EXPLORATION AND EVALUATION (note 4)	1,062,250	934,260
PROPERTY, PLANT AND EQUIPMENT (note 5)	1,838,109	2,057,596
	<u>\$ 5,099,245</u>	<u>\$ 5,141,311</u>
<u>LIABILITIES & SHAREHOLDERS' EQUITY</u>		
CURRENT		
Accounts payable and accrued liabilities	\$ 588,726	\$ 877,457
Current portion of decommissioning liabilities (note 6)	-	-
	<u>588,726</u>	<u>877,457</u>
DECOMMISSIONING LIABILITIES (note 6)	<u>180,676</u>	<u>171,764</u>
	<u>769,402</u>	<u>1,049,221</u>
SHAREHOLDERS' EQUITY		
SHARE CAPITAL AND WARRANTS (note 7)	23,285,853	23,285,853
CONTRIBUTED SURPLUS	2,669,742	2,624,182
ACCUMULATED OTHER COMPREHENSIVE LOSS	(86,595)	(240,197)
DEFICIT	<u>(21,539,157)</u>	<u>(21,577,748)</u>
	4,329,843	4,092,090
	<u>\$ 5,099,245</u>	<u>\$ 5,141,311</u>
Commitments and Guarantees (note 8)		

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	-	-	39,380	-	-	39,380
Foreign currency translation adjustment	-	-	-	(338,276)	-	(338,276)
Net loss for the period	-	-	-	-	(5,365,231)	(5,365,231)
Balance June 30, 2010	<u>85,818,337</u>	<u>\$ 23,285,853</u>	<u>\$ 2,583,516</u>	<u>(338,276)</u>	<u>(21,763,023)</u>	<u>3,768,070</u>
Stock based compensation	-	-	40,666	-	-	40,666
Foreign currency translation adjustment	-	-	-	98,079	-	98,079
Net income for the period	-	-	-	-	185,275	185,275
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	-	-	45,560	-	-	45,560
Foreign currency translation adjustment	-	-	-	153,602	-	153,602
Net income for the period	-	-	-	-	38,591	38,591
Balance June 30, 2011	<u><u>85,818,337</u></u>	<u><u>\$ 23,285,853</u></u>	<u><u>\$ 2,669,742</u></u>	<u><u>\$ (86,595)</u></u>	<u><u>\$ (21,539,157)</u></u>	<u><u>\$ 4,329,843</u></u>

See accompanying notes

DUALEX ENERGY INTERNATIONAL INC.
CONDENSED CONSOLIDATED INTERIM STATEMENTS OF NET INCOME (LOSS) AND DEFICIT
FOR THE THREE AND SIX MONTHS ENDED JUNE 30
(UNAUDITED, expressed in Canadian dollars)

	Three months ended June 30		Six months ended June 30	
	2011	2010	2011	2010
REVENUE				
Petroleum and natural gas sales	\$ 780,723	\$ 667,205	\$ 1,867,591	\$ 707,607
Royalties	(170,517)	(82,990)	(401,730)	(87,943)
Interest and other	9,072	323	9,737	1,255
	<u>619,278</u>	<u>584,538</u>	<u>1,475,598</u>	<u>620,919</u>
EXPENSES				
Operating costs	170,775	185,185	398,298	235,250
General and administrative	341,178	275,875	631,438	503,493
Stock based compensation (note 7e)	22,780	19,690	45,560	39,380
Depletion and depreciation (note 5)	136,146	241,317	326,873	248,928
Accretion of decommissioning liabilities (note 6)	382	276	793	693
Impairment of exploration and evaluation (note 4)	-	1,705,328	-	3,112,979
Foreign exchange loss (gain)	20,858	(75,416)	31,746	311,743
	<u>692,119</u>	<u>2,352,255</u>	<u>1,434,708</u>	<u>4,452,466</u>
(LOSS) NET INCOME FROM CONTINUING OPERATIONS BEFORE TAXES	(72,841)	(1,767,717)	40,890	(3,831,547)
Current taxes (note 9b)	880	1,944	2,299	3,639
(LOSS) NET INCOME FROM CONTINUING OPERATIONS	(73,721)	(1,769,661)	38,591	(3,835,186)
LOSS FROM DISCONTINUED OPERATIONS (note 12)	-	(83,536)	-	(1,530,045)
(LOSS) NET INCOME	(73,721)	(1,853,197)	38,591	(5,365,231)
DEFICIT, beginning of period	(21,465,436)	(19,909,826)	(21,577,748)	(16,397,792)
DEFICIT, end of period	<u>\$ (21,539,157)</u>	<u>\$ (21,763,023)</u>	<u>\$ (21,539,157)</u>	<u>\$ (21,763,023)</u>
(LOSS) NET INCOME PER SHARE, Basic and diluted (note 7f)				
Loss per share from continuing operations	\$ -	\$ (0.02)	\$ -	\$ (0.04)
Loss per share from discontinued operations	-	-	-	(0.02)
Loss per share	<u>\$ -</u>	<u>\$ (0.02)</u>	<u>\$ -</u>	<u>\$ (0.06)</u>

See accompanying notes

CONDENSED CONSOLIDATED INTERIM STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
FOR THE THREE AND SIX MONTHS ENDED JUNE 30
(UNAUDITED, expressed in Canadian dollars)

	Three months ended June 30		Six months ended June 30	
	2011	2010	2011	2010
(LOSS) NET INCOME	\$ (73,721)	\$ (1,853,197)	\$ 38,591	\$ (5,365,231)
Other Comprehensive Income (loss)				
Foreign Currency Translation Adjustment	53,332	(239,683)	153,602	(338,276)
COMPREHENSIVE (LOSS) INCOME	<u>\$ (20,389)</u>	<u>\$ (2,092,880)</u>	<u>\$ 192,193</u>	<u>\$ (5,703,507)</u>

See accompanying notes

DUALEX ENERGY INTERNATIONAL INC.
CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CASH FLOWS
FOR THE THREE AND SIX MONTHS ENDED JUNE 30
(UNAUDITED, expressed in Canadian dollars)

	Three months ended June 30		Six months ended June 30	
	2011	2010	2011	2010
OPERATING ACTIVITIES				
(Loss) Net income from continuing operations	\$ (73,721)	\$ (1,769,661)	\$ 38,591	\$ (3,835,186)
Add (deduct) items not requiring cash				
Depletion and depreciation	136,146	241,317	326,873	248,928
Accretion of decommissioning liabilities	382	276	793	693
Stock based compensation	22,780	19,690	45,560	39,380
Impairment of exploration and evaluation	-	1,705,328	-	3,112,979
Unrealized foreign exchange loss (gain)	28,571	(39,078)	88,223	242,460
	114,158	157,872	500,040	(190,746)
Settlement of decommissioning liabilities (note 6)	-	-	-	(201,725)
Change in non-cash working capital items (note 9)	81,913	(579,705)	79,069	(614,007)
Cashflow from continuing operations	<u>196,071</u>	<u>(421,833)</u>	<u>579,109</u>	<u>(1,006,478)</u>
INVESTING ACTIVITIES				
Exploration and evaluation expenditures	(82,561)	(886,120)	(141,524)	(2,075,440)
Additions to property, plant and equipment	(10,198)	(31,248)	(10,198)	(308,945)
Decrease in restricted cash	-	662,916	-	662,916
Change in non-cash working capital items (note 9)	(1,456)	179,955	(204,802)	1,390,497
Cashflow from continuing operations	(94,215)	(74,497)	(356,524)	(330,972)
Cashflow from discontinued operations (note 12)	-	(83,536)	-	(1,530,045)
	<u>(94,215)</u>	<u>(158,033)</u>	<u>(356,524)</u>	<u>(1,861,017)</u>
Foreign exchange gain (loss) on cash held in a foreign currency	2,125	48,127	(25,650)	4,037
INCREASE (DECREASE) IN CASH	103,981	(531,739)	196,935	(2,863,458)
CASH, BEGINNING OF PERIOD	1,498,732	2,288,406	1,405,778	4,620,125
CASH, END OF PERIOD	<u>\$ 1,602,713</u>	<u>\$ 1,756,667</u>	<u>\$ 1,602,713</u>	<u>\$ 1,756,667</u>

See accompanying notes

DUALEX ENERGY INTERNATIONAL INC.

Notes to the June 30, 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

In conjunction with the Company’s first annual audited consolidated financial statements to be issued under International Financial Reporting Standards (“IFRS”) for the year ended December 31, 2011, these condensed consolidated interim financial statements include results of operations and financial position as at and for the three and six months periods ending June 30, 2011, including 2010 comparative periods (the “Financial Statements”). These Financial Statements have been prepared in accordance with IAS 34 ‘Interim Financial Reporting’ (“IAS 34”) using accounting policies consistent with IFRS issued by the International Accounting Standards Board and Interpretations of the International Financial Reporting Interpretations Committee (“IFRIC”) and do not contain all the disclosures required for full annual financial statements. Prior to 2011, the Company prepared its interim and annual 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, along with reconciliations presenting the impact of the transition to IFRS for the comparative periods as at January 1, 2010, are disclosed in Note 3 of the Company’s first IFRS financial statements for the three months ended March 31, 2011 as filed by the Company on www.SEDAR.com. 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. These Financial Statements should be read in conjunction with the Company’s first quarter financial statements for the three months ended March 31, 2011.

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 June 30, 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 recoverable 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. 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.

DUALEX ENERGY INTERNATIONAL INC.

Notes to the June 30, 2011 Condensed Consolidated Interim Financial Statements
(Unaudited, All amounts in Canadian dollars unless otherwise stated)

3. FUTURE ACCOUNTING PRONOUNCEMENTS (continued)

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.

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.

DUALEX ENERGY INTERNATIONAL INC.

Notes to the June 30, 2011 Condensed Consolidated Interim Financial Statements
(Unaudited, All amounts in Canadian dollars unless otherwise stated)

3. FUTURE ACCOUNTING PRONOUNCEMENTS (continued)

vii) IAS 1 Presentation of Items of Other Comprehensive Income

In June 2011, the IASB issued amendments to IAS 1 Presentation of Financial Statements to split items of other comprehensive income (OCI) between those that are reclassified to income and those that do not. The standard is required to be adopted for periods beginning on or after July 1, 2012. We are evaluating the impact that this standard may have on our results of operations and financial position.

4. EXPLORATION AND EVALUATION ASSETS

	Hungary	Tunisia	Corporate & Other	Total
Balance January 1, 2010	\$ 3,068,128	\$ 514,850	\$ 5,408	\$ 3,588,386
Capital expenditures	1,970,597	264,406	153	2,235,156
Transfers to property, plant and equipment (note 5)	(1,371,802)	-	-	(1,371,802)
Impairment of exploration and evaluation	(3,112,979)	-	(5,561)	(3,118,540)
Foreign exchange loss	(366,211)	(32,729)	-	(398,940)
As at December 31, 2010	187,733	746,527	-	934,260
Capital expenditures	-	141,524	-	141,524
Foreign exchange gain (loss)	9,669	(23,203)	-	(13,534)
As at June 30, 2011	<u>\$ 197,402</u>	<u>\$ 864,848</u>	<u>\$ -</u>	<u>\$ 1,062,250</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 \$3,118,540 for the year ended December 31, 2010 (\$1,705,328 for the three months ended June 30, 2010 and \$3,112,979 for the six months ended June 30, 2010) in capitalized costs were recognized as an impairment of exploration and evaluation.

DUALEX ENERGY INTERNATIONAL INC.

Notes to the June 30, 2011 Condensed Consolidated Interim Financial Statements
(Unaudited, All amounts in Canadian dollars unless otherwise stated)

5. PROPERTY, PLANT AND EQUIPMENT

	Hungary	Canada	Equipment and furniture	Total
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 4)	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>
Capital expenditures	10,198	-	-	10,198
Foreign exchange gain (loss)	96,651	-	(123)	96,528
Change in estimate of decommissioning liabilities (note 6)	670	(10)	-	660
Balance at June 30, 2011	<u>\$ 2,975,526</u>	<u>\$ 29,303</u>	<u>\$ 18,123</u>	<u>\$ 3,022,952</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	(320,601)	(2,830)	(3,442)	(326,873)
Balance at June 30, 2011	<u>\$ (1,162,563)</u>	<u>\$ (9,064)</u>	<u>\$ (13,216)</u>	<u>\$ (1,184,843)</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 June 30, 2011	<u>\$ 1,812,963</u>	<u>\$ 20,239</u>	<u>\$ 4,907</u>	<u>\$ 1,838,109</u>

The depletion expense calculation for the six months ended June 30, 2011 reflected \$981,000 (2010 - \$928,000) for estimated future development costs associated with estimated recoverable reserves in Hungary.

DUALEX ENERGY INTERNATIONAL INC.

Notes to the June 30, 2011 Condensed Consolidated Interim Financial Statements
(Unaudited, All amounts in Canadian dollars unless otherwise stated)

6. DECOMMISSIONING LIABILITIES

	Six months ended June 30, 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	660	(3,334)
Accretion	793	1,337
Foreign exchange loss (gain)	7,459	(12,402)
Decommissioning liabilities, end of period	<u>\$ 180,676</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 June 30, 2011 is \$232,219. 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 2.8% - 3.5% (December 31, 2010, 2.9% - 3.5%) and reflect an inflation rate of 2%.

7. 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 June 30, 2011	<u>85,818,337</u>	<u>\$ 22,131,653</u>
Prospectus Warrants		
Balance - January 1, 2010, December 31, 2010 and June 30, 2011	<u></u>	<u>1,154,200</u>
Balance - January 1, 2010, December 31, 2010 and June 30, 2011	<u>85,818,337</u>	<u>\$ 23,285,853</u>

DUALEX ENERGY INTERNATIONAL INC.

Notes to the June 30, 2011 Condensed Consolidated Interim Financial Statements
(Unaudited, All amounts in Canadian dollars unless otherwise stated)

7. SHARE CAPITAL (continued)

(c) Prospectus Warrants

	Number of Warrants	Exercise Price	Expiry
Outstanding - January 1, 2010, December 31, 2010 and June 30, 2011	<u>7,213,750</u>	<u>\$ 0.60</u>	10-Nov-11

(d) Agent Options

	Number of Agent Options	Exercise Price	Expiry
Outstanding - January 1, 2010, December 31, 2010 and June 30, 2011	<u>1,009,925</u>	<u>\$ 0.40</u>	10-Nov-11

(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	4,620,000	0.22
Expired	<u>(800,000)</u>	(0.40)
Outstanding - June 30, 2011	<u>3,820,000</u>	\$ 0.18

The following summarizes outstanding stock options as at June 30, 2011.

Date of Grant	Number Outstanding	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life in Years	Options Exercisable
1-Sep-06	100,000	\$ 0.40	0.17	100,000
1-Jan-07	85,000	\$ 0.68	0.50	85,000
4-Sep-07	605,000	\$ 0.24	1.17	605,000
11-Sep-08	355,000	\$ 0.30	2.17	236,666
11-Aug-09	355,000	\$ 0.30	3.08	118,333
23-Aug-10	<u>2,320,000</u>	\$ 0.10	4.08	-
	<u>3,820,000</u>			<u>1,144,999</u>

DUALEX ENERGY INTERNATIONAL INC.

Notes to the June 30, 2011 Condensed Consolidated Interim Financial Statements
(Unaudited, All amounts in Canadian dollars unless otherwise stated)

7. SHARE CAPITAL (continued)

Using the fair value method for stock based compensation, the Company calculated stock based compensation expense for the three and six months ended June 30, 2011 as \$22,780 and \$45,560 respectively (three months ended June 30, 2010 - \$19,960, six months ended June 30, 2010 - \$39,380).

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

	<u>2010</u>	<u>2009</u>
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%

(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 which were outstanding during the six months ended June 30, 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 in the three and six months ended June 30, 2010 and three months ended June 30, 2011, no options or warrants were included in the computation of diluted loss per share as they have an anti-dilutive effect on loss per share.

8. 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 \$42,000 in 2011 and \$35,000 in 2012.

DUALEX ENERGY INTERNATIONAL INC.

Notes to the June 30, 2011 Condensed Consolidated Interim Financial Statements
(Unaudited, All amounts in Canadian dollars unless otherwise stated)

9. SUPPLEMENTAL CASH FLOW INFORMATION

a) Changes in non-cash working capital

	For the three months ended June 30		For the six months ended June 30	
	2011	2010	2011	2010
Change in non-cash working capital related to operating activities				
Accounts receivable	\$ 209,677	\$ (582,878)	\$ 167,198	\$ (589,074)
Prepaid expenses and deposits	(36,187)	(36,051)	(17,326)	(14,868)
Accounts payable and accrued liabilities	(91,577)	39,224	(70,803)	(10,065)
	<u>\$ 81,913</u>	<u>\$ (579,705)</u>	<u>\$ 79,069</u>	<u>\$ (614,007)</u>
Change in non-cash working capital related to investing activities				
Accounts receivable	\$ -	\$ 390,687	\$ -	\$ 86,949
Accounts payable and accrued liabilities	(1,456)	(210,732)	(204,802)	1,303,548
	<u>\$ (1,456)</u>	<u>\$ 179,955</u>	<u>\$ (204,802)</u>	<u>\$ 1,390,497</u>

b) Other cash flow information

	For the three months ended June 30		For the six months ended June 30	
	2011	2010	2011	2010
Taxes paid	<u>\$ 880</u>	<u>\$ 1,944</u>	<u>\$ 2,299</u>	<u>\$ 3,639</u>

DUALEX ENERGY INTERNATIONAL INC.

Notes to the June 30, 2011 Condensed Consolidated Interim Financial Statements
(Unaudited, All amounts in Canadian dollars unless otherwise stated)

10. SEGMENTED INFORMATION

The primary segmented 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 segmented reporting information is presented. There are four geographic reporting segments. Hungary, Tunisia, and North America are involved in exploration and development and Corporate is the home of the head office. Revenue, expenses and net income (loss) for the three and six months ended June 30, 2011 and June 30, 2010 are summarized below on a geographic basis below. In addition, assets as at June 30, 2011 and December 31, 2010 are summarized on a geographic basis.

For the three months ended June 30, 2011

	North America	Hungary	Tunisia	Corporate	Total
Revenue					
Petroleum and natural gas sales	\$ 18,633	\$ 762,090	\$ -	\$ -	\$ 780,723
Royalties	(1,350)	(169,167)	-	-	(170,517)
Interest and other	-	8,942	-	130	9,072
	<u>17,283</u>	<u>601,865</u>	<u>-</u>	<u>130</u>	<u>619,278</u>
Expenses					
Operating Costs	9,599	161,176	-	-	170,775
General and administrative	2,863	70,353	72,536	195,426	341,178
Stock based compensation	-	-	-	22,780	22,780
Depletion and depreciation	132	133,130	548	2,336	136,146
Accretion of decommissioning liabilities	99	283	-	-	382
Impairment of exploration and evaluation	-	-	-	-	-
Foreign exchange loss (gain)	-	26,985	259	(6,386)	20,858
Current taxes	880	-	-	-	880
	<u>13,573</u>	<u>391,927</u>	<u>73,343</u>	<u>214,156</u>	<u>692,999</u>
Net income (loss)	<u>\$ 3,710</u>	<u>\$ 209,938</u>	<u>\$ (73,343)</u>	<u>\$ (214,026)</u>	<u>\$ (73,721)</u>

For the three months ended June 30, 2010

	North America	Hungary	Tunisia	Corporate	Total
Revenue					
Petroleum and natural gas sales	\$ 25,115	\$ 642,090	\$ -	\$ -	\$ 667,205
Royalties	(2,331)	(80,659)	-	-	(82,990)
Interest and other	15	266	-	42	323
	<u>22,799</u>	<u>561,697</u>	<u>-</u>	<u>42</u>	<u>584,538</u>
Expenses					
Operating Costs	4,924	180,261	-	-	185,185
General and administrative	2,712	95,611	14,204	163,348	275,875
Stock based compensation	-	-	-	19,690	19,690
Depletion and depreciation	1,881	237,518	582	1,336	241,317
Accretion of decommissioning liabilities	104	172	-	-	276
Impairment of exploration and evaluation	-	1,705,328	-	-	1,705,328
Foreign exchange loss (gain)	-	190,206	310	(265,932)	(75,416)
Current taxes	1,944	-	-	-	1,944
	<u>11,565</u>	<u>2,409,096</u>	<u>15,096</u>	<u>(81,558)</u>	<u>2,354,199</u>
Net income (loss) from continuing operations	<u>11,234</u>	<u>(1,847,399)</u>	<u>(15,096)</u>	<u>81,600</u>	<u>(1,769,661)</u>

DUALEX ENERGY INTERNATIONAL INC.

Notes to the June 30, 2011 Condensed Consolidated Interim Financial Statements
(Unaudited, All amounts in Canadian dollars unless otherwise stated)

10. SEGMENTED INFORMATION (continued)

For the six months ended June 30, 2011

	North America	Hungary	Tunisia	Corporate	Total
Revenue					
Petroleum and natural gas sales	\$ 39,862	\$ 1,827,729	\$ -	\$ -	\$ 1,867,591
Royalties	(2,852)	(398,878)	-	-	(401,730)
Interest and other	-	9,212	-	525	9,737
	<u>37,010</u>	<u>1,438,063</u>	<u>-</u>	<u>525</u>	<u>1,475,598</u>
Expenses					
Operating Costs	17,434	380,864	-	-	398,298
General and administrative	6,211	119,631	107,348	398,248	631,438
Stock based compensation	-	-	-	45,560	45,560
Depletion and depreciation	2,830	320,601	1,106	2,336	326,873
Accretion of decommissioning liabilities	208	585	-	-	793
Impairment of exploration and evaluation	-	-	-	-	-
Foreign exchange loss (gain)	-	53,563	259	(22,076)	31,746
Current taxes	2,299	-	-	-	2,299
	<u>28,982</u>	<u>875,244</u>	<u>108,713</u>	<u>424,068</u>	<u>1,437,007</u>
Net income (loss)	<u>\$ 8,028</u>	<u>\$ 562,819</u>	<u>\$ (108,713)</u>	<u>\$ (423,543)</u>	<u>\$ 38,591</u>

For the six months ended June 30, 2010

	North America	Hungary	Tunisia	Corporate	Total
Revenue					
Petroleum and natural gas sales	\$ 57,288	\$ 650,319	\$ -	\$ -	\$ 707,607
Royalties	(6,295)	(81,648)	-	-	(87,943)
Interest and other	29	626	-	600	1,255
	<u>51,022</u>	<u>569,297</u>	<u>-</u>	<u>600</u>	<u>620,919</u>
Expenses					
Operating Costs	13,635	221,615	-	-	235,250
General and administrative	6,059	174,013	79,894	243,527	503,493
Stock based compensation	-	-	-	39,380	39,380
Depletion and depreciation	3,987	239,665	1,171	4,105	248,928
Accretion of decommissioning liabilities	225	468	-	-	693
Impairment of exploration and evaluation	-	3,112,979	-	-	3,112,979
Foreign exchange loss (gain)	-	368,871	923	(58,051)	311,743
Current taxes	3,639	-	-	-	3,639
	<u>27,545</u>	<u>4,117,611</u>	<u>81,988</u>	<u>228,961</u>	<u>4,456,105</u>
Net income (loss) from continuing operations	<u>23,477</u>	<u>(3,548,314)</u>	<u>(81,988)</u>	<u>(228,361)</u>	<u>(3,835,186)</u>

DUALEX ENERGY INTERNATIONAL INC.

Notes to the June 30, 2011 Condensed Consolidated Interim Financial Statements
(Unaudited, All amounts in Canadian dollars unless otherwise stated)

10. SEGMENTED INFORMATION (continued)

	North America	Hungary	Tunisia	Corporate	Total
Assets as at June 30, 2011					
Current assets	\$ 61,321	\$ 889,647	\$ 9,538	\$ 1,238,380	\$ 2,198,886
Exploration and evaluation	-	197,402	864,848	-	1,062,250
Property plant and equipment	20,239	1,812,963	3,275	1,632	1,838,109
	<u>\$ 81,560</u>	<u>\$ 2,900,012</u>	<u>\$ 877,661</u>	<u>\$ 1,240,012</u>	<u>\$ 5,099,245</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>\$ 2,907,816</u>	<u>\$ 757,244</u>	<u>\$ 1,397,249</u>	<u>\$ 5,141,311</u>

11. JOINTLY CONTROLLED CORPORATION

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

	June 30, 2011	December 31, 2010
Current assets	\$ 889,647	\$ 694,038
Long-term assets	2,010,365	2,213,778
Current liabilities	327,211	370,673
Long term liabilities	153,187	144,474
Six months ended		
	June 30, 2011	June 30, 2010
Revenue	1,438,063	569,297
Expenses	703,613	3,710,148
Three months ended		
	June 30, 2011	June 30, 2010
Revenue	601,865	561,697
Expenses	320,024	2,104,073

12. 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 \$1,530,045 for the six months ended June 30, 2010 (three months ended June 30, 2010 – \$83,536).

DUALEX ENERGY INTERNATIONAL INC.

Notes to the June 30, 2011 Condensed Consolidated Interim Financial Statements
(Unaudited, All amounts in Canadian dollars unless otherwise stated)

13. 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>June 30, 2011</u>	<u>December 31, 2010</u>
Shareholders' Equity	<u>\$ 4,329,843</u>	<u>\$ 4,092,090</u>

14. 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 90% 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 June 30, 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 June 30, 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.

DUALEX ENERGY INTERNATIONAL INC.

Notes to the June 30, 2011 Condensed Consolidated Interim Financial Statements
(Unaudited, All amounts in Canadian dollars unless otherwise stated)

14. FINANCIAL RISK MANAGEMENT (continued)

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 June 30, 2011.

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 June 30, 2011 the Company had working capital denominated in the following foreign currencies:

DUALEX ENERGY INTERNATIONAL INC.

Notes to the June 30, 2011 Condensed Consolidated Interim Financial Statements
(Unaudited, All amounts in Canadian dollars unless otherwise stated)

14. FINANCIAL RISK MANAGEMENT (continued)

	<u>\$US</u>	<u>Euros</u>	<u>Hungarian Forints (HUF)</u>
Cash	670,092	133,728	76,351,232
Accounts receivable	-	-	92,684,784
Accounts payable	<u>(194,130)</u>	<u>-</u>	<u>(55,193,407)</u>
Net working capital	<u>475,962</u>	<u>133,728</u>	<u>113,842,609</u>
Canadian dollar equivalent	<u>\$ 458,970</u>	<u>\$ 187,286</u>	<u>\$ 599,154</u>

As at June 30, 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 \$23,000. 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 \$9,000. 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 \$30,000.

d) Fair Value of Financial Instruments

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

	<u>June 30, 2011</u>	
	<u>Carrying Value</u>	<u>Fair Value</u>
Financial assets held-for-trading	\$ 1,602,713	\$ 1,602,713
Loans and receivables	536,210	536,210
Other liabilities	588,726	588,726

DUALEX ENERGY INTERNATIONAL INC.

Notes to the June 30, 2011 Condensed Consolidated Interim Financial Statements
(Unaudited, All amounts in Canadian dollars unless otherwise stated)

15. SIGNIFICANT SUBSIDIARIES

Details of the Company's subsidiaries and jointly controlled entities as at June 30, 2011 were as follows:

<u>Name of Company</u>	<u>Principal activity</u>	<u>Country of incorporation</u>	<u>% of share capital held</u>
DualEx International Inc.	Holding Company	Bahamas	100
DualEx Nyirsege 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

16. TRANSITION TO IFRS

As disclosed in Note 2, these Financial Statements represent the Company's presentation of the financial results of operations and financial position under IFRS for the three and six months ended June 30, 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, required 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 in Note 18 of the Company's first quarter financial statements for the three months ended March 31, 2011.

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 June 30, 2010 and December 31, 2010, and consolidated statements of net income (loss), and consolidated statement of comprehensive income for the three and six months ended June 30, 2010 and for the year ended December 31, 2010.

DUALEX ENERGY INTERNATIONAL INC.

Notes to the June 30, 2011 Condensed Consolidated Interim Financial Statements
(Unaudited, All amounts in Canadian dollars unless otherwise stated)

16. 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.

Consolidated Balance Sheet As at June 30, 2010

<u>ASSETS</u>	<u>Note</u>	<u>Canadian GAAP</u>	<u>Effect of transition to IFRS</u>	<u>IFRS</u>
CURRENT				
Cash		\$ 1,756,667	\$ -	\$ 1,756,667
Restricted Cash		-	-	-
Accounts receivable		656,995	-	656,995
Prepaid expenses and deposits		92,718	-	92,718
		<u>2,506,380</u>	<u>-</u>	<u>2,506,380</u>
EXPLORATION AND EVALUATION PROPERTY, PLANT AND EQUIPMENT INVESTMENT				
	a,g	-	849,951	849,951
	a,b,g	7,143,314	(4,640,470)	2,502,844
	b,g	-	108,335	108,335
		<u>\$ 9,649,694</u>	<u>(3,682,184)</u>	<u>\$ 5,967,510</u>
 <u>LIABILITIES & SHAREHOLDERS' EQUITY</u>				
CURRENT				
Accounts payable and accrued liabilities		\$ 2,031,361	\$ -	\$ 2,031,361
Current portion of decommissioning liabilities		-	-	-
		<u>2,031,361</u>	<u>-</u>	<u>2,031,361</u>
DECOMMISSIONING LIABILITIES				
	c,g	<u>137,673</u>	<u>30,406</u>	<u>168,079</u>
		<u>2,169,034</u>	<u>30,406</u>	<u>2,199,440</u>
SHAREHOLDERS' EQUITY				
SHARE CAPITAL AND WARRANTS		23,285,853	-	23,285,853
CONTRIBUTED SURPLUS	d	2,551,301	32,215	2,583,516
ACCUMULATED OTHER COMPREHENSIVE LOSS	g	-	(338,276)	(338,276)
DEFICIT	c,d	(18,356,494)	(3,406,529)	(21,763,023)
		<u>7,480,660</u>	<u>(3,712,590)</u>	<u>3,768,070</u>
		<u>\$ 9,649,694</u>	<u>\$ (3,682,184)</u>	<u>\$ 5,967,510</u>

DUALEX ENERGY INTERNATIONAL INC.

Notes to the June 30, 2011 Condensed Consolidated Interim Financial Statements
(Unaudited, All amounts in Canadian dollars unless otherwise stated)

16. 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	c,d	(19,093,845)	(2,483,903)	(21,577,748)
		<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 June 30, 2011 Condensed Consolidated Interim Financial Statements
(Unaudited, All amounts in Canadian dollars unless otherwise stated)

16. TRANSITION TO IFRS (continued)

CONSOLIDATED STATEMENTS OF NET INCOME (LOSS) AND DEFICIT THREE MONTHS ENDED JUNE 30, 2010

	<i>Note</i>	<i>Canadian GAAP</i>	<i>Effect of transition to IFRS</i>	<i>IFRS</i>
REVENUE				
Petroleum and natural gas sales		\$ 667,205	\$ -	\$ 667,205
Royalties		(82,990)	-	(82,990)
Interest and other		323	-	323
		<u>584,538</u>	<u>-</u>	<u>584,538</u>
EXPENSES				
Operating costs		185,185	-	185,185
General and administrative	e	248,041	27,834	275,875
Stock based compensation	d	23,761	(4,071)	19,690
Depletion and depreciation	f	326,046	(84,729)	241,317
Accretion of decommissioning liabilities	c	-	276	276
Impairment of exploration and evaluation	a	-	1,705,328	1,705,328
Foreign exchange gain	g	(20,670)	(54,746)	(75,416)
		<u>762,363</u>	<u>1,589,892</u>	<u>2,352,255</u>
NET LOSS FROM CONTINUING OPERATIONS BEFORE TAXES		(177,825)	(1,589,892)	(1,767,717)
Current taxes		1,944	-	1,944
NET LOSS FROM CONTINUING OPERATIONS		(179,769)	(1,589,892)	(1,769,661)
LOSS FROM DISCONTINUED OPERATIONS	g	(83,536)	-	(83,536)
NET LOSS		(263,305)	(1,589,892)	(1,853,197)
DEFICIT, beginning of period		(18,093,189)	(1,816,637)	(19,909,826)
DEFICIT, end of period		<u>\$ (18,356,494)</u>	<u>\$ (3,406,529)</u>	<u>\$ (21,763,023)</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		-	-	-
Net loss per share		<u>\$ -</u>	<u>\$ (0.02)</u>	<u>\$ (0.02)</u>

CONSOLIDATED STATEMENT OF COMPREHENSIVE LOSS THREE MONTHS ENDED JUNE 30, 2010

	<i>Note</i>	<i>Canadian GAAP</i>	<i>Effect of transition to IFRS</i>	<i>IFRS</i>
Net Loss		\$ (263,305)	\$ (1,589,892)	\$ (1,853,197)
Other Comprehensive loss				
Foreign Currency Translation Adjustment	g	-	(239,683)	(239,683)
Comprehensive loss		<u>\$ (263,305)</u>	<u>\$ (1,829,575)</u>	<u>\$ (2,092,880)</u>

DUALEX ENERGY INTERNATIONAL INC.

Notes to the June 30, 2011 Condensed Consolidated Interim Financial Statements
(Unaudited, All amounts in Canadian dollars unless otherwise stated)

16. TRANSITION TO IFRS (continued)

CONSOLIDATED STATEMENTS OF NET INCOME (LOSS) AND DEFICIT SIX MONTHS ENDED JUNE 30, 2010

	<i>Note</i>	<i>Canadian GAAP</i>	<i>Effect of transition to IFRS</i>	<i>IFRS</i>
REVENUE				
Petroleum and natural gas sales		\$ 707,607	\$ -	\$ 707,607
Royalties		(87,943)	-	(87,943)
Interest and other		1,255	-	1,255
		<u>620,919</u>	<u>-</u>	<u>620,919</u>
EXPENSES				
Operating costs		235,250	-	235,250
General and administrative	e	413,090	90,403	503,493
Stock based compensation	d	47,524	(8,144)	39,380
Depletion and depreciation	f	339,567	(90,639)	248,928
Accretion of decommissioning liabilities	c	-	693	693
Impairment of exploration and evaluation	a	-	3,112,979	3,112,979
Foreign exchange loss	g	122,053	189,690	311,743
		<u>1,157,484</u>	<u>3,294,982</u>	<u>4,452,466</u>
NET LOSS FROM CONTINUING OPERATIONS BEFORE TAXES		(536,565)	(3,294,982)	(3,831,547)
Current taxes		3,639	-	3,639
NET LOSS FROM CONTINUING OPERATIONS		(540,204)	(3,294,982)	(3,835,186)
LOSS FROM DISCONTINUED OPERATIONS	g	(1,521,914)	(8,131)	(1,530,045)
NET LOSS		(2,062,118)	(3,303,113)	(5,365,231)
DEFICIT, beginning of period		\$ (16,294,376)	\$ (103,416)	\$ (16,397,792)
DEFICIT, end of period		<u>\$ (18,356,494)</u>	<u>\$ (3,406,529)</u>	<u>\$ (21,763,023)</u>
NET LOSS PER SHARE, Basic and diluted				
Net loss per share from continuing operations		\$ -	\$ (0.04)	\$ (0.04)
Net loss per share from discontinued operations		(0.02)	-	(0.02)
Net loss per share		<u>\$ (0.02)</u>	<u>\$ (0.04)</u>	<u>\$ (0.06)</u>

CONSOLIDATED STATEMENT OF COMPREHENSIVE LOSS SIX MONTHS ENDED JUNE 30, 2010

	<i>Note</i>	<i>Canadian GAAP</i>	<i>Effect of transition to IFRS</i>	<i>IFRS</i>
Net Loss		\$ (2,062,118)	\$ (3,303,113)	\$ (5,365,231)
Other Comprehensive loss				
Foreign Currency Translation Adjustment	g	-	(338,276)	(338,276)
Comprehensive loss		<u>\$ (2,062,118)</u>	<u>\$ (3,641,389)</u>	<u>\$ (5,703,507)</u>

DUALEX ENERGY INTERNATIONAL INC.

Notes to the June 30, 2011 Condensed Consolidated Interim Financial Statements
(Unaudited, All amounts in Canadian dollars unless otherwise stated)

16. 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		(2,799,469)	(2,380,487)	(5,179,956)
DEFICIT, beginning of year		(16,294,376)	(103,416)	(16,397,792)
DEFICIT, end of year		<u>\$ (19,093,845)</u>	<u>\$ (2,483,903)</u>	<u>\$ (21,577,748)</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 June 30, 2011 Condensed Consolidated Interim Financial Statements
(Unaudited, All amounts in Canadian dollars unless otherwise stated)

16. 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")

Under Canadian GAAP, E&E costs were capitalized as property, plant and equipment ("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 and six months ended June 30, 2010 the Company impaired \$1,705,328 and \$3,112,979 of E&E assets respectively. 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. This increase 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 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 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 respect of 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 were treated as a credit to PP&E.

DUALEX ENERGY INTERNATIONAL INC.

Notes to the June 30, 2011 Condensed Consolidated Interim Financial Statements
(Unaudited, All amounts in Canadian dollars unless otherwise stated)

16. 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 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 its 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 and six months ended June 30, 2010 stock based compensation expense decreased \$4,071 and \$8,144, respectively. For the year ended December 31, 2010 stock based compensation decreased \$13,143.

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 and six months ended June 30, 2010, \$27,834 and \$90,403 respectively, of employee costs were expensed under IFRS that were previously capitalized under Canadian GAAP. For the year ended December 31, 2010, \$93,188 of costs were expensed under IFRS.

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.

DUALEX ENERGY INTERNATIONAL INC.

Notes to the June 30, 2011 Condensed Consolidated Interim Financial Statements
(Unaudited, All amounts in Canadian dollars unless otherwise stated)

16. TRANSITION TO IFRS (continued)

For the three months ended June 30, 2010, depleting the oil properties over the Company's best estimate of recoverable reserves resulted in a decrease to depletion of \$84,729 (six months ended June 30 - \$90,639). For the year ended December 31, 2010, depletion and depreciation decreased 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 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 denominated in a foreign currency were translated using historical rates.

CORPORATE INFORMATION

OFFICERS

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

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

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

DIRECTORS

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

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

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

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

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

HEAD OFFICE

200, 521 - 3rd Avenue SW
Calgary, Alberta T2P 3T3
Main (403) 265-8011
Fax (403) 265-8022
www.dualexen.com
info@dualexen.com

STOCK LISTING

TSX Venture Exchange
Trading Symbol "DXE"

AUDITORS

Deloitte & Touche LLP
3000, 700 - 2nd Street SW
Calgary, Alberta T2P 0S7

LEGAL COUNSEL

Davis LLP
1000, 250-2nd Street SW
Calgary, Alberta T2P 0C1

BANKERS

Canadian Imperial Bank of Commerce
309 – 8th Avenue S.W.
Calgary, Alberta T2P 2P2

REGISTRAR AND TRANSFER AGENT

Olympia Trust Company
2300, 125 -9th Avenue SW
Calgary, Alberta T2G OP6