UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 20-F/A

(Amendment No. 1)

(Mark One)

☐ REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE *SECURITIES EXCHANGE ACT OF 1934*

OR

X ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 For the fiscal year ended September 30, 2010

OR

☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE *SECURITIES EXCHANGE ACT OF 1934*

OR

☐ SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE *SECURITIES EXCHANGE ACT OF 1934*

COMMISSION FILE NUMBER: 000-30087

ADIRA ENERGY LTD.

(Exact name of Registrant as specified in its charter)
Not applicable

(Translation of Registrant's name into English)
Canada

(Jurisdiction of incorporation or organization)
120 Adelaide Street West, Suite 1204
Toronto, Ontario, Canada, M4V 3A1

(Address of principal executive offices)

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(Name, Telephone, Email and/or Facsimile number and Address of Company Contact Person)

Securities registered or to be registered pursuant to section 12(b) of the Act:

Title of each Class	Name of each exchange on which registered
None	**Not applicable**

Securities registered or to be registered pursuant to Section 12(g) of the Act:

Common Shares

(Title of Class)

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act:

N/A

(Title of Class)

The number of outstanding shares of each of the issuer's classes of capital or common stock as of September 30, 2010 was 62,640,001 common shares.

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the *Securities Act.*

Yes ☐ No ☒

If this report is an annual or a transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the *Securities Exchange Act of 1934*.

Yes ☐ No ☒

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the *Securities Exchange Act of 1934* during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the *Securities Exchange Act*. (Check one):

Large accelerated filer ☐ Accelerated filer ☐ Non-accelerated filer ☒

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

U.S. GAAP	☐	International Financial Reporting Standards as issued by the International Accounting Standards Board ☐	Other	☒

If "Other" has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow.

Item 17 ☒ Item 18 ☐

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the *Securities Exchange Act*).

Yes ☐ No ☒

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EXPLANATORY NOTE

This Annual Report on Form 20-F/A ("**Amended Form 20-F**") is being filed as Amendment No. 1 to our Annual Report on Form 20-F for the year ended September 30, 2010, which was filed with the Securities and Exchange Commission on February 3, 2011 (the "**Original Filing**"). This Amended Form 20-F is a technical amendment to add under Item 17, in Part III, the following audited financial statements of Adira Energy Israel Ltd. ("**Adira Israel**"), an Israel corporation, which we determined subsequent to the date of the Original Filing to be a predecessor entity of our Company:

(A) Balance sheet as at April 7, 2009;

(B) Statement of changes in equity for the 164-day period from incorporation (October 26, 2008) to April 7, 2009; and

(C) Notes to financial statements.

The referenced financial statements were inadvertently omitted from the Original Filing.

In addition, this Amended Form 20-F amends the Original Filing to remove from Item 3 all references to financial information of our Company for the years ended September 30, 2008, 2007 and 2006, which relate to the period prior to our acquisition of Adira Energy Corp. ("A**dira Energy**"). Our Company's share exchange with Adira Energy resulted in a reverse takeover transaction by Adira Energy of the Company. As the shareholders of Adira Energy obtained control of the Company, the share exchange was a capital transaction, rather than a business combination. Based on the substance of the transaction, the transaction is a reverse recapitalization, equivalent to the issuance of shares by the private company (Adira Energy) for the net monetary assets of the public shell company (AMG), accompanied by a recapitalization. As a result, the financial statements of Adira Energy became the financial statements of our Company as of August 31, 2009.

We have not modified or updated other disclosures presented in our Original Filing. Accordingly, this Amended Form 20-F does not reflect events occurring after the filing of our Original Filing and does not modify or update those disclosures affected by subsequent events. Information not affected by this amendment is unchanged and reflects the disclosures made at the time of the Original Filing. Pursuant to Rule 12b-15 under the Securities Exchange Act of 1934, as amended, the complete texts of Items 3, 4, 5, 15, 17 and 19, as

amended, are repeated in this Amended Form 20-F. In addition, for convenience of reference, the following disclosure from the Original Filing, under the heading "General," is included in this Amended Form 20-F.

This Amended 20-F consists solely of the preceding cover page, this explanatory note, the following disclosure under the heading "General," amended Items 3, 4, 5, 15, 17 and 19, the signature page, and restated exhibits 12.1, 12.3, 13.1 and 13.2.

GENERAL

This Form 20-F/A is filed as an amendment to an annual report under the Exchange Act.

In this Form 20-F/A, references to:

"**Adira**"meansAdira Energy Ltd, a Canadian federal corporation (formerly AMG Oil Ltd.)

"**Adira Group**" means Adira Energy Ltd (formerly AMG Oil Ltd.) together with its wholly owned subsidiaries Adira Energy Holdings Corp., Adira Energy Israel Ltd.,Adira Energy Israel Services Ltd. and Adira Oil Technologies Ltd. and its 60% subsidiary, Adira Geo-Global Ltd.

"**Adira Energy**" means Adira Energy Holdings Corp., an Ontario corporation (formerly Adira Energy Corp.)

"**Adira Israel**" means Adira Energy Israel Ltd., an Israeli corporation

"**Adira Services**" means Adira Energy Israel Services Ltd., an Israel corporation

"**We**", "**us**", "**our**", and the "**Company**" means Adira Group

"**AMG**" refers to AMG Oil Ltd. which was the name of the Company prior to its change of name to Adira Energy Ltd on December 17, 2009

Adira has historically used U.S. dollar as its reporting currency. Adira Energy has historically used Canadian dollars as its reporting currency. All references in this document to "dollars" or "$" are to United States dollars and all references to "CDN$" are to Canadian dollars, unless otherwise indicated.

Except as noted, the information set forth in this Form 20-F is as of September 30, 2010 and all information included in this document should only be considered correct as of such date.

ITEM 3 KEY INFORMATION

A. Selected Financial Data

Adira Energy

On August 31, 2009, Adira acquired Adira Energy by issuing 39,040,001 common shares of Adira to Adira Energy's shareholders on a one for one basis. As the shareholders of Adira Energy obtained control of Adira, the share exchange is considered to be a reverse takeover transaction. Accordingly, for accounting purposes Adira Energy is the acquirer.

The selected historical information presented in the table below for the year ended September 30, 2010 is derived from the audited consolidated financial statements of Adira for such period. The selected historical financial information presented in the table below for the 175-day period ended September 30, 2009,comprises the operating data of Adira Energy and its subsidiary companies from April 8, 2009 (date of incorporation of Adira Energy) and that of Adira (formerly AMG Oil Ltd) from September 1, 2009. The selected financial information presented below should be read in conjunction with the audited consolidated financial statements and the notes thereto of Adira Group, and with the information appearing under the headings, "Information on the Company" and "Operating and Financial Review and Prospects".

Under Canadian GAAP (in US$)

	As at September 30,	
	2010 **$**	**2009** **$**
Balance Sheet Data		
Cash and Cash Equivalents	357,560	2,354,628
Working Capital	851,996	2,250,066
Total Assets	1,857,039	2,756,305
Total Liabilities	588,056	126,977
Total Shareholders'Equity	1,268,983	2,629,328

	Year ended September, 30	**175-Day Period Ended September, 30**
	2010	**2009**
	$	**$**
Operating Data		
Revenues	912,597	-
Expenses	2,939,868	(1,383,335)
Other Items	(5,822)	14,708
Net Loss from Continuing Operations	(2,033,093)	(1,368,627)
Net and Comprehensive Loss	(2,033,093)	(1,368,627)
Basic Loss per Share		
- From Continuing Operations	(0.05)	(0.05)
- From Discontinued Operations	(0.00)	(0.00)

We have never declared or paid any cash or other dividends.

Adira Israel

Adira Energy's predecessor is Adira Israel, which was incorporated in Israel on October 26, 2008. In order to facilitate tax planning, all of the issued and outstanding shares of Adira Israel were registered in the name of Adira Africa Corp. ("**Adira Africa**"), a

privately-owned Canadian corporation, as a trustee for and on behalf of a corporation to be incorporated in Ontario - namely, Adira Energy, which was subsequently incorporated on April 8, 2009 - pursuant to a Declaration of Trust dated November 16, 2008 (the "**Declaration of Trust**"). In December 2008, upon application to Ministry of National Infrastructures of the State of Israel, Adira Israel obtained Eitan License No. 356, covering 31,060 acres (125.7 sq. km.) in the Hula Valley in Northern Israel (the "**Eitan License**"), for no consideration other than the payment of a nominal stamp duty in the amount of US$3,544. Upon the incorporation of Adira Energy on April 8, 2009, Adira Africa transferred the shares of Adira Israel to Adira Energy for no consideration, as contemplated by the Declaration of Trust.

The only activity undertaken in Adira Israel from December 2008 to April 8, 2009 was the application for, and the receipt of, the Eitan License, and, pursuant to the Declaration of Trust, Adira Energy is in substance treated as the owner of the Adira Israel shares since the inception of Adira Israel. Further, the carrying amount of the single asset owned by Adira Israel, the Eitan license (there were no material liabilities), was recorded in the accounts of Adira Israel as of April 8, 2009 in its nominal amount of the stamp duty. Therefore, under International Financial Reporting Standards, the carrying amount of the Adira Israel shares transferred to Adira Energy on that date was of the same nominal amount.

The selected balance sheet data presented in the table below for Adira Israel as of April 7, 2009, and the related changes in equity for the 164-day period from its incorporation (October 26, 2008) to April 7, 2009, are derived from the audited financial statements of Adira Israel for such period, which are included in this Amended Form 20-F. Adira Israel's financial statements do not include a statement of operations and statement of cash flows for the 164-day period ended April 7, 2009, as there were no revenues, expenses or cash transactions during this period. Subsequent to April 7, 2009, all activities of the Company are reflected in the consolidated financial statements of Adira. The selected financial information presented below should be read in conjunction with the audited financial statements and the notes thereto of Adira Israel, and with the information appearing under the headings, "Information on the Company" and "Operating and Financial Review and Prospects".

Under Israeli GAAP (in US$)

	As at April 7 2009 $
Balance Sheet Data	
Exploration and evaluation asset	3,544
Total Assets	3,544
Total Liabilities	3,541
Total Shareholders'Equity	3

Changes in Equity	**Share Capital**		**Total**
	Number	**Amount**	**Equity**
Balance at October 26, 2008 (date of incorporation)	-	$ -	$ -
Shares issued	1,000	3	3
Balance at April 7, 2009	1,000	$ 3	$ 3

As noted in Note 4 to the audited financial statements of Adira Israel which are included in this Amended Form 20-F, there are no differences between Israeli GAAP and US GAAP in respect of the financial position and results of operations of Adira Israel for the period presented.

Exchange Rate

The exchange rate between the Canadian dollar and the U.S. dollar was CDN$0.9970 per US$1.00 (or US$1.003 per CDN$1.00) as of February 2, 2011.

The average exchange rates for the financial years listed above (based on the average exchange rate for each period using the average of the exchange rates on the last day of each month during the period in accordance with the exchange rates provided by the Bank of Canada, are as follows:

	2010	2009	2008	2007	2006
Year End	1.029	1.0722	1.2180	0.9913	1.1654
Average	1.0331	1.1788	1.0660	1.0748	1.1341
High	1.0848	1.3000	1.3008	1.1878	1.1794
Low	0.9931	1.0338	0.9711	0.9066	1.0948

The high and low exchange rates between the Canadian dollar and the U.S. dollar for the past six months (provided by the Bank of Canada) are as follows:

Month	**Exchange rate CDN$ per US$1.00**	
	High	**Low**
January 2011	1.0131	0.9993
December 2010	1.0216	0.9931
November 2010	1.0286	0.998
October 2010	1.0374	0.9986
September 2010	1.0604	1.0126
August 2010	1.0674	1.0108

B. Capitalization and Indebtedness

Not Applicable

C. Reasons for the Offer and Use of Proceeds

Not applicable.

D. Risk Factors

An investment in our Securities is highly speculative and involves a high degree of risk. Our Company may face a variety of risks that may affect our operations or financial results and many of those risks are driven by factors that we cannot control or predict. Before investing in our Company's Securities Investors should carefully consider the following risks. If any of the following risks actually occurs, our Company's business, prospects, financial condition and results of operations could be materially adversely affected. In that case, investors may lose all or a part of their investment.

Risks Associated with the Company

Our independent auditors have referred to circumstances which might result in doubt about our ability to continue as a going concern, which may hinder our ability to obtain future financing.

Adira incurred a net loss of $1,982,097 for the period ended September 30, 2010. At September 30, 2010, Adira had an accumulated deficit of $3,350,724. These circumstances raise doubt about our ability to continue as a going concern, as described in the Note 1 to our consolidated financial statements for the period ended September 30, 2010, which are included herein. Although our consolidated financial statements refer to circumstances which might raise doubt about our ability to continue as a going concern, they do not reflect any adjustments that might result if we are unable to continue our business.

We are an early-stage oil and gas exploration company without revenues. Our ability to continue in business depends upon our continued ability to obtain significant financing from external sources and the success of our exploration efforts and any production efforts resulting therefrom, none of which can be assured.

We are an early-stage oil and gas exploration company without any revenues, and there can be no assurance of our ability to develop and operate our projects profitably. We have historically depended entirely upon capital infusion from the issuance of equity securities to provide the cash needed to fund our operations, but we cannot assure you that we will be able to continue to do so. Our ability to continue in business depends upon our continued ability to obtain significant financing from external sources and the success of our exploration efforts and any production efforts resulting therefrom. Any reduction in our ability to raise equity capital in the future would force us to reallocate funds from other planned uses and could have a significant negative effect on our business plans and operations, including our ability to continue our current exploration activities.

While we may in the future generate additional working capital through the development, operation, sale or possible syndication of our current property or any future properties, there is no assurance that our Company will be successful in generating positive cash flow, or if successful, that any such funds will be available for distribution to shareholders or to fund further exploration and development programs.

We have had negative cash flows from operations, and there is no assurance that our current resources will be sufficient to fund our operations on an ongoing basis. Our business operations may fail if our actual cash requirements exceed our estimates and we are not able to obtain further financing**.**

We will require significant capital to complete our seismic surveys, drill test wells, and to build the necessary infrastructure to commence operations if our exploration activities result in the discovery of sufficient oil and gas reserves to justify their exploitation and development.

Our Company has had negative cash flows from operations. Since inception, we have not earned any significant revenues from operations, and due to the length of time between the discovery of oil and gas reserves and their exploitation and development, we do not anticipate earning significant revenues from operation in the near future. We have incurred and will continue to incur significant expenses. As at September 30, 2010, we had cash and equivalents on hand of $ 357,560. We have sufficient funds to complete preliminary exploration on our Hula property in Israel, as outlined in the plan of operations described herein as well as to commence preliminary exploration on all of our offshore licenses. However, we anticipate that we will have to seek additional financing to fund the advanced

exploration on our assets, if warranted. Further, we cannot assure you that our actual cash requirements will not exceed our estimates, and in any case we will require additional financing to bring our interests into commercial operation, finance working capital, meet our contractual minimum expenditures and pay for operating expenses and capital requirements until we achieve a positive cash flow. Additional capital also may be required in the event we incur any significant unanticipated expenses.

In light of our operating history, and under the current capital and credit market conditions, we may not be able to obtain additional equity or debt financing on acceptable terms if and when we need it. Even if financing is available, it may not be available on terms that are favorable to us or in sufficient amounts to satisfy our requirements.

If we require, but are unable to obtain, additional financing in the future, we may be unable to implement our business plan and our growth strategies, respond to changing business or economic conditions, withstand adverse operating results, and compete effectively. More importantly, if we are unable to raise further financing when required, our planned exploration activities may have to be scaled down or even ceased, and our ability to generate revenues in the future would be negatively affected.

Our lack of diversification increases the risk of an investment in us, and our financial condition and results of operations may deteriorate if we fail to diversify.

Our business focus is on oil and gas exploration on a limited number of properties in Israel. As a result, we lack diversification, in terms of both the nature and geographic scope of our business. We will likely be impacted more acutely by factors affecting our industry or the regions in which we operate than we would if our business were more diversified. If we cannot diversify our operations, our financial condition and results of operations could deteriorate.

We may not effectively manage the growth necessary to execute our business plan.

Our business plan anticipates a significant increase in the number of our contractors, strategic partners and equipment suppliers. This growth will place significant strain on our current personnel, systems and resources. We expect that we will be required to hire qualified consultants and employees to help us manage our growth effectively. We believe that we will also be required to improve our management, technical, information and accounting systems, controls and procedures. We may not be able to maintain the quality of our operations, control our costs, continue complying with all applicable regulations and expand our internal management, technical information and accounting systems to support our desired growth. If we fail to manage our anticipated growth effectively, our business could be adversely affected.

All of our assets are outside the United States, with the result that it may be difficult for investors to enforce within the United States any judgments obtained against us or some of our directors or officers.

All of our assets are located outside the United States. In addition, some of our directors and officers are nationals and/or residents of countries other than the United States, and all or a substantial portion of such persons' assets are located outside the United States. As a result, it may be difficult for investors to enforce within the United States any judgments obtained against us or our officers or directors, including judgments predicated upon the civil liability provisions of the securities laws of the United States or any state thereof. Consequently, you may be effectively prevented from pursuing remedies under United States federal securities laws against them.

As a holding company, our ability to make payments depends on the cash flows of our subsidiaries and our ability to raise financing

We are a holding company and conduct substantially all of our operations through subsidiaries incorporated outside North America. We have no direct operations and no significant assets other than the shares of our subsidiaries. Therefore, we are dependent on the cash flows of such subsidiaries to meet our obligations, including payment of principal and interest on any debt we incur. The ability of our subsidiaries to provide us with payments may be constrained by the following factors:

- the cash flows generated by operations, investment activities and financing activities;
- the level of taxation, particularly corporate profits and withholding taxes, in Israel; and
- the introduction of exchange controls and repatriation restrictions or the availability of hard currency to be repatriated.

If we are unable to receive sufficient cash from our subsidiaries, we may be required to refinance any indebtedness we incur, raise funds in a public or private equity or debt offering or sell some or all of our assets. We can provide no assurances that an offering of our debt or equity or a refinancing of our debt can or will be completed on satisfactory

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terms or that it would be sufficient to enable us to make payment with respect to our debt. The foregoing events could have an adverse impact on our future cash flows, earnings, results of operations and financial condition.

We have agreed to indemnify our directors against liabilities incurred by them as directors.

We have agreed to indemnify our directors from and against all costs, charges and expenses reasonably incurred by them in respect of any civil, criminal or administrative action or proceeding to which they are made a party or with which they are threatened by reason of being or having been a director of the Company, provided that (i) they have acted honestly and in good faith with a view to the best interests of the Company; and (ii) in the case of a criminal or administrative action or proceeding that is enforced by a monetary penalty, they had reasonable grounds for believing that their conduct was lawful. This indemnity may reduce the likelihood of derivative litigation against our directors and may discourage or deter our shareholders from suing our directors.

We may be adversely affected by current global financial conditions.

Current global financial conditions have been characterized by increased volatility and several financial institutions have either gone into bankruptcy or have had to be rescued by governmental authorities. Access to public financing and bank credit has been negatively impacted by both the rapid decline in value of sub-prime mortgages and the liquidity crisis affecting the asset-backed commercial paper market. These and other factors may affect our ability to obtain equity or debt financing in the future on favorable terms. Additionally, these factors, as well as other related factors, may cause decreases in our asset values that may be other than temporary, which may result in impairment losses. If such increased levels of volatility and market turmoil continue, or if more extensive disruptions of the global financial markets occur, our operations could be adversely impacted and the market value of our Common Shares may be adversely affected.

Currency fluctuations could have an adverse effect on our business.

Our earnings and cash flow may also be affected by fluctuations in the exchange rate between the U.S. dollar and other currencies, such as the New Israeli Shekel, the Canadian dollar and to a limited extent, the Euro. Our consolidated financial statements are expressed in U.S. dollars. Our sales of oil and gas, if any, will be denominated in U.S. dollars, while exploration costs and operating costs are, in part, denominated in Israel Shekels, U.S. dollars and Canadian dollars

Fluctuations in exchange rates between the U.S. dollar and other currencies may give rise to foreign exchange currency exposures, both favorable and unfavorable, which have materially impacted and in the future may materially impact our future financial results. We do not utilize a hedging program to limit the adverse effects of foreign exchange rate fluctuations.

Conditions in Israel may affect our operations.

Our subsidiaries conduct their principal operations in Israel, and therefore are directly affected by the political, economic, and military conditions affecting Israel and the Middle East. Armed conflicts between Israel and its neighboring countries and territories occur periodically and a protracted state of hostility, varying in degree and intensity over time, has in the past led to security and economic difficulties for Israel. These hostilities, any escalation thereof or any future armed conflict or violence in the region, could adversely affect our subsidiaries' operations. In addition, we could be adversely affected by other events or factors affecting Israel such as the interruption or curtailment of trade between Israel and its present trading partners, a significant downturn in the economic or financial condition of Israel, a significant downgrading of Israel's international credit rating, labor disputes and strike actions and political instability.

Certain of the Company's Exploration Areas are subject to Contractual Agreements with Land Lessors.

Certain of the areas on which the Company conducts exploration, such as the Kibbutz Neot Mordechai portion of the Eitan License area, are subject to contractual agreements with landowners. These agreements are subject to governmental approval (See Risk Factor on ability to maintain necessary licenses) and certain terms and conditions imposed by the lessor. In the event that a discovery of oil and gas is made, the owner has the ability to negotiate terms further which could increase costs to the Company and could prevent viable extraction.

Our financial reporting may be subject to weaknesses in internal controls.

Internal controls over financial reporting are procedures designed to provide reasonable assurance that transactions are properly authorized, assets are safeguarded against unauthorized or improper use, and transactions are properly recorded and reported. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance with respect to the reliability of financial reporting and financial statement preparation. As an early-stage company, our internal controls may be less formal and easier to bypass than those of more established corporations.

We cannot be certain that current expected expenditures and completion/testing programs will be realized.

We believe that the costs used to prepare internal budgets are reasonable, however, there are assumptions, uncertainties, and risk that may cause our allocated funds on a per well basis to change as a result of having to alter certain activities from those originally proposed or programmed to reduce and mitigate uncertainties and risks. These assumptions, uncertainties, and risks are inherent in the completion and testing of wells and can include but are not limited to: pipe failure, casing collapse, unusual or unexpected formation pressure, environmental hazards, and other operating or production risk intrinsic in oil and or gas activities. Any of the above may cause a delay in the Company's completion program and its ability to determine reserve potential.

Risks Associated with Our Business

We have not discovered any oil and gas reserves, and we cannot assure you that that we or our venture ever will.

We are in the business of exploring for oil and natural gas, and the development and exploitation of any significant reserves that are found. Oil and gas exploration involves a high degree of risk that the exploration will not yield positive results. These risks are more acute in the early stages of exploration. We have not discovered any reserves, and we cannot guarantee you that we ever will. Even if we succeed in discovering oil or gas reserves, these reserves may not be in commercially viable quantities or locations. Until we discover such reserves, we will not be able to generate any revenues from their exploitation and development. If we are unable to generate revenues from the development and exploitation of oil and gas reserves, we will be forced to change our business or cease operations.

We might incur additional debt in order to fund our exploration and development activities, which would continue to reduce our financial flexibility and could have a material adverse effect on our business, financial condition or results of operation.

It is possible that we might incur debt in order to fund its exploration and development activities, which would continue to reduce our financial flexibility and could have a material adverse effect on our business, operations and results of operations and financial condition. General economic conditions, oil and gas prices and financial, business and other factors affect our operations and future performance. Many of these factors are beyond our control. No assurances can be made that we will be able to generate sufficient cash flow to pay the interest on its debt or that future working capital, borrowings or equity financing will be available to pay or refinance such debt. Factors that will affect its ability to raise cash through an offering of Common Shares or other types of equity securities, or a refinancing of debt include financial market conditions, the value of its assets and performance at the time we need capital. No assurances can be made that we will have sufficient funds to make such payments. If we do not have sufficient funds and are otherwise unable to negotiate renewals of our borrowings or arrange new financing, we might be required to sell significant assets. Any such sale could have a material adverse effect on our business, financial condition and results of operations.

Our assets and operations are subject to government regulation in Israel.

Our interests and operations in Israel may be affected in varying degrees by government regulations relating to the oil and gas industry. Any changes in regulations or shifts in political conditions are beyond the control of the Company may adversely affect our business. Our operations may be affected in varying degrees by new government regulations and changes to existing regulations, including those with respect to restrictions on exploration and production, price controls, export controls, income taxes, employment, land use, water use, environmental legislation and safety regulations. The recent recommendations of the Sheshinski Committee, a government appointed committee in Israel were published on how to tax oil and gas exploitation in Israel. They include increasing the aggregate government take from future oil and gas revenues from approximately 30% today to between 50%-63% including royalties which will remain unchanged at 12.5%. If these recommendations are ultimately adopted by the Israeli Knesset, it could have a material adverse effect on our business, financial condition and results of operations.

Our future success depends upon our ability to find, develop and acquire additional oil and natural gas reserves that are economically recoverable.

In the event that we are able to find and develop oil and natural gas reserves which are economically recoverable, the rate of production from those reservoirs will decline as reserves are depleted. As a result, we must locate and develop or acquire new oil and natural gas reserves to replace those being depleted by production. We must do this even during periods of low oil and natural gas prices when it is difficult to raise the capital necessary to finance activities. Without successful exploration or acquisition activities, our reserves and revenues will decline. We may not be able to find and develop or acquire additional reserves at an acceptable cost or have necessary financing for these activities.

Oil and natural gas drilling is a high-risk activity.

Our future success will depend on the success of our exploration and drilling programs. In addition to the numerous operating risks described in more detail below, these activities involve the risk that no commercially productive oil or natural gas reservoirs will be discovered. In addition, we are uncertain as to the future cost or timing of drilling, completing and producing wells. Furthermore, our drilling operations may be curtailed, delayed or canceled as a result of a variety of factors, including, but not limited to, the following:

- unexpected drilling conditions;
- pressure or irregularities in formations;
- equipment failures or accidents;
- adverse weather conditions;
- inability to comply with governmental requirements; and
- shortages or delays in the availability of drilling rigs and the delivery of equipment.

If we experience any of these problems, our ability to conduct operations could be adversely affected.

We might not be able to determine reserve potential, identify liabilities associated with the properties or obtain protection from sellers against them, which could cause us to incur losses.

Although we believe we have reviewed and evaluated our properties in Israel in a manner consistent with industry practices, such review and evaluation might not necessarily reveal all existing or potential problems. This is also true for any future acquisitions made by us. Inspections may not always be performed on every well, and environmental problems, such as groundwater contamination, are not necessarily observable even when an inspection is undertaken. Even when problems are identified, a seller may be unwilling or unable to provide effective contractual protection against all or part of those problems, and we often assume environmental and other risks and liabilities in connection with the acquired properties.

You should not place undue reliance on reserve information because reserve information represents estimates, and our seismic surveying is still in the preliminary stages.

There are numerous uncertainties inherent in estimating quantities of proved reserves and cash flows from such reserves, including factors beyond our control and the control of engineers. Reserve engineering is a subjective process of estimating underground accumulations of oil and natural gas that cannot be measured in an exact manner. The accuracy of an estimate of quantities of reserves, or of cash flows attributable to these reserves, is a function of many factors, including, but not limited to, the following:

- available data;
- assumptions regarding future oil and natural gas prices;
- estimates of future production rates;
- expenditures for future development and exploitation activities; and
- engineering and geological interpretation and judgment.

Reserves and future cash flows may also be subject to material downward or upward revisions based upon production history, development and exploitation activities and oil and natural gas prices. Actual future production, revenue, taxes, development expenditures, operating expenses, quantities of recoverable reserves and value of cash flows from those reserves may vary significantly from the estimates. In addition, reserve engineers may make different estimates of reserves and cash flows based on the same available data.

The nature of oil and gas exploration makes the estimates of costs uncertain, and our operations may be adversely affected if we underestimate such costs.

It is difficult to project the costs of implementing an exploratory drilling program. Complicating factors include the inherent uncertainties of drilling in unknown formations, the costs associated with encountering various drilling

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conditions, such as over-pressured zones and tools lost in the hole, and changes in drilling plans and locations as a result of prior exploratory wells or additional seismic data and interpretations thereof. If we underestimate the costs of such programs, we may be required to seek additional funding, shift resources from other operations or abandon such programs.

Factors beyond our control affect our ability to market oil and gas.

Our ability to market oil and natural gas from our wells depends upon numerous factors beyond our control. These factors include, but are not limited to, the following:

- the level of domestic production and imports of oil and gas;
- the volatility of both oil and natural gas pricing;
- the proximity of natural gas production to natural gas facilities, pipelines and other means of transportation;
- the availability of pipeline capacity or other means of transportation;
- the demand for oil and natural gas by utilities and other end users;
- the availability of alternate fuel sources;
- the effect of inclement weather; and
- government regulation of oil and natural gas marketing.

If these factors were to change dramatically, our ability to market oil and natural gas or obtain favorable prices for our oil and natural gas could be adversely affected.

Prices and markets for oil are unpredictable and tend to fluctuate significantly, which could reduce profitability, growth and the value of our business if we or our venture ever begin exploitation of reserves.

Our future financial condition, results of operations and the carrying value of our oil and natural gas properties depend primarily upon the prices we receive for our oil and natural gas production, if any. Oil and natural gas prices historically have been volatile and likely will continue to be volatile in the future, especially given current world economic conditions. Significant changes in long-term price outlooks for crude oil could by the time that we start exploiting oil and gas reserves, if we ever discover and exploit such reserves, could have a material adverse effect on revenues as well as the value of licenses or other assets.

Our future cash flow from operations, if any, will be highly dependent on the prices that we receive for oil and natural gas. This price volatility also affects the amount of our cash flow available for capital expenditures and our ability to borrow money or raise additional capital. The prices for oil and natural gas are subject to a variety of additional factors that are beyond our control. These factors include:

- the level of consumer demand for oil and natural gas;
- the domestic and foreign supply of oil and natural gas;
- the ability of the members of the Organization of Petroleum Exporting Countries to agree to and maintain oil price and production controls;
- the price of foreign oil and natural gas;
- the price and availability of alternative fuel sources;
- governmental regulations;
- weather conditions;
- market uncertainty;
- political conditions in oil and natural gas producing regions, including Israel and the Middle East;
- war, or the threat of war, in oil producing regions; and
- worldwide economic conditions.

These factors and the volatility of the energy markets generally make it extremely difficult to predict future oil and natural gas price movements with any certainty. Also, oil and natural gas prices do not necessarily move in tandem. Declines in oil and natural gas prices would not only reduce revenue, but could reduce the amount of oil and natural gas that we can produce economically and, as a result, could have a material adverse effect upon our financial condition, cash flows, results of operations, oil and natural gas reserves, the carrying values of our oil and natural gas properties and the amounts we can borrow under any bank credit facilities we may obtain in the future.

Even if we discover and then develop oil and gas reserves, we may have difficulty distributing our production.

If our exploration activities result in the discovery of oil and gas reserves, and if we are able to successfully develop and exploit such reserves, we will have to make arrangements for storage and distribution of oil and gas. We would have to rely on local infrastructure and the availability of transportation for storage and shipment of oil and gas products, but any readily available infrastructure and storage and transportation facilities may be insufficient or not available at

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commercially acceptable terms. The marketability of our production depends in part upon the availability, proximity, and capacity of oil and natural gas pipelines, crude oil trucking, natural gas gathering systems and processing facilities. This could be particularly

problematic to the extent that operations are conducted in remote areas that are difficult to access, such as areas that are distant from shipping or pipeline facilities. Furthermore, weather conditions or natural disasters, actions by companies doing business in one or more of the areas in which we or our venture will operate, or labor disputes may impair the distribution of oil and gas. In addition, Israel has little or no storage capacity and the currently available distribution infrastructure is limited.These factors may affect the ability to explore and develop properties and to store and transport oil and gas and may increase our expenses to a degree that has a material adverse effect on operations.

Our inability to obtain necessary facilities could hamper our operations.

Oil and gas exploration activities depend on the availability of equipment, transportation, power and technical support in the particular areas where these activities will be conducted, and our access to these facilities may be limited. Demand for such limited equipment and other facilities or access restrictions may affect the availability of such equipment to us and may delay exploration and development activities. The quality and reliability of necessary facilities may also be unpredictable and we may be required to make efforts to standardize our facilities, which may entail unanticipated costs and delays. Shortages or the unavailability of necessary equipment or other facilities will impair our activities, either by delaying our activities, increasing our costs or otherwise.

Our success depends on our ability to attract and retain qualified personnel

Recruiting and retaining qualified personnel is critical to our success. The number of persons skilled in the acquisition, exploration and development of oil and gas properties is limited and competition for such persons is intense. As our business activity grows, it will require additional key financial, administrative and mining personnel as well as additional operations staff. Although we believe that we will be successful in attracting, training and retaining qualified personnel, there can be no assurance of such success. If we are not successful in attracting and training qualified personnel, the efficiency of our operations could be affected, which could have an adverse impact on our future cash flows, earnings, results of operations and financial condition. Our development now and in the future will also depend on the efforts of key management figures. The loss of any of these key people could have a material adverse effect on our business. We do not currently maintain key-man life insurance on any of our key employees.

We face strong competition from other energy companies that may negatively affect our ability to carry on operations.

We operate in the highly competitive areas of oil and natural gas exploration, development and production. Factors which affect our ability to successfully compete in the marketplace include, but are not limited to, the following:

- the availability of funds and information relating to a property;
- the standards established by us for the minimum projected return on investment;
- the availability of alternate fuel sources; and
- the intermediate transportation of gas.

Our competitors include major integrated oil companies, substantial independent energy companies, affiliates of major interstate and intrastate pipelines, and national and local natural gas gatherers. Many of these competitors possess greater financial and other resources than we do.

Operating hazards may adversely affect our ability to conduct business.

Our future operations, if any, will be subject to risks inherent in the oil and natural gas industry, including, but not limited to, the following:

- blowouts;
- cratering;
- explosions;
- uncontrollable flows of oil, natural gas or well fluids;
- fires;
- pollution; and
- other environmental risks.

These risks could result in substantial losses to us from injury and loss of life, damage to and destruction of property and equipment, pollution and other environmental damage and suspension of operations. Governmental regulations may impose liability for pollution damage or result in the interruption or termination of operations.

Losses and liabilities arising from uninsured or under-insured hazards could have a material adverse effect on our business.

If we develop and exploit oil and gas reserves, those operations will be subject to the customary hazards of recovering, transporting and processing hydrocarbons, such as fires, explosions, gaseous leaks, migration of harmful substances, blowouts and oil spills. An accident or error arising from these hazards might result in the loss of equipment or life, as well as injury, property damage or other liability. We cannot assure you that we will obtain insurance on reasonable terms or that any insurance we may obtain will be sufficient to cover any such accident or error. Our operations could be interrupted by natural disasters or other events beyond our control. Losses and liabilities arising from uninsured or under-insured events could have a material adverse effect on our business, financial condition and results of operations.

Compliance with environmental and other government regulations could be costly and could negatively impact production.

All phases of the oil and gas business present environmental risks and hazards and are subject to environmental regulation pursuant to a variety of laws and regulations. Our operations are subject to laws and regulations governing the discharge of materials into the environment or otherwise relating to environmental protection. The recent trend toward stricter standards in environmental legislation and regulation is likely to continue. The enactment of stricter legislation or the adoption of stricter regulation could have a significant impact on our operating costs, as well as on the oil and natural gas industry in general.

Our existing property, and any future properties that we may acquire, may be subject to pre-existing environmental liabilities.

Pre-existing environmental liabilities may exist on the property in which we currently hold an interest or on properties that may be subsequently acquired by us which are unknown to the Company and which have been caused by previous or existing owners or operators of the properties. In such event, we may be required to remediate these properties and the costs of remediation could be substantial. Further, in such circumstances, we may not be able to claim indemnification or contribution from other parties. In the event we were required to undertake and fund significant remediation work, such event could have a material adverse effect upon the Company and the value of our common shares.

Our business will suffer if we cannot obtain or maintain necessary licenses.

Our operations require licenses, permits and in some cases renewals of licenses and permits from various governmental authorities. Specifically, the licenses awarded to us by the Government of Israel have terms of three years and must be renewed in order to extend the license beyond this initial term. Among other factors, our ability to obtain, sustain or renew such licenses and permits on acceptable terms is subject to change in regulations and policies and to the discretion of the applicable governments. Our inability to obtain, maintain or acquire extensions for these licenses or permits could hamper our ability to produce revenues from operations. Other oil and gas companies may seek to acquire property leases and licenses that we will need to operate our business. This competition has become increasingly intense as the price of oil on the commodities markets has risen in recent years. This competition may prevent us from obtaining licenses we deem necessary for our business, or it may substantially increase the cost of obtaining these licenses.

Penalties we may incur could impair our business.

Failure to comply with government regulations could subject us to civil and criminal penalties, could require us or our venture to forfeit property rights or licenses, and may affect the value of our assets. We may also be required to take corrective actions, such as installing additional equipment, which could require substantial capital expenditures. We could also be required to indemnify our employees in connection with any expenses or liabilities that they may incur individually in connection with regulatory action against them. As a result, our future business prospects could deteriorate due to regulatory constraints, and our profitability could be impaired by our obligation to provide such indemnification to our employees.

Strategic relationships upon which we may rely are subject to change, which may diminish our ability to conduct our operations.

Our ability to successfully acquire additional licenses, to discover reserves, to participate in drilling opportunities and to identify and enter into commercial arrangements depends on developing and maintaining close working relationships with industry participants and government officials and on our ability to select and evaluate suitable properties and to consummate transactions in a highly competitive environment. We may not be able to establish these strategic

relationships, or if established, we may not be able to maintain them. In addition, the dynamics of our relationships with strategic partners may require us to incur expenses or undertake activities we would not otherwise be inclined to undertake in order to fulfill our obligations to these partners or maintain our relationships. If our strategic relationships are not established or maintained, our business prospects may be limited, which could diminish our ability to conduct our operations.

Political instability or fundamental changes in the leadership or in the structure of the governments in the jurisdictions in which the Company operates could have a material negative impact on the Company.

Our interests may be affected by political and economic upheavals. Although we currently operate in jurisdictions that welcome foreign investment and are generally stable, there is no assurance that the current economic and political situation in these jurisdictions will not change drastically in coming years. Local, regional and world events could cause the jurisdictions in which we operate to change the mining laws, tax laws, foreign investment laws, or to revise their policies in a manner that renders our current and future projects non-economic.

We may enter into hedging agreements but may not be able to hedge against all such risks.

If we are able to discover commercially exploitable quantities of oil or gas and is able to enter into commercial production, from time to time we may enter into agreements to receive fixed or a range of prices on its oil and natural gas production to offset the risk of revenue losses if commodity prices decline; however, if commodity prices increase beyond the levels set in such agreements, we will not benefit from such increases. Similarly, from time to time we may enter into agreements to fix the exchange rate of certain currencies to US dollars in order to offset the risk of revenue losses if the other currencies increase in value compared to the US dollar; however, if other currencies decline in value compared to the US dollar, we will not benefit from the fluctuating exchange rate. In addition to the potential of experiencing an opportunity cost, other potential costs or losses associated with hedging include the risk that the other party to a hedge transaction does not perform its obligations under a hedge agreement, the hedge is imperfect or our hedging policies and procedures are not followed.

The Company is incorporated in Canada.

The Company is a Canadian corporation governed under the *Canada Business Corporations Act*and as such, its corporate structure, the rights and obligations of shareholders and its corporate bodies may be different from those of the home countries of international investors. Furthermore, non-Canadian residents may find it more difficult and costly to exercise shareholder rights. International investors may also find it costly and difficult to effect service of process and enforce their civil liabilities against the Company or some of its directors, controlling persons and officers.

To the extent that we establish natural gas and oil reserves, we will be required to replace, maintain or expand these natural gas and oil reserves in order to prevent reserves and production from declining, which could adversely affect cash flows and income.

In general, production from natural gas and oil properties declines over time as reserves are depleted, with the rate of decline depending on reservoir characteristics. If we establish reserves, of which there is no assurance, and is not successful in its subsequent exploration and development activities or in subsequently acquiring properties containing proved reserves, its proved reserves will decline as reserves are produced. Our future natural gas and oil production is highly dependent upon its ability to economically find, develop or acquire reserves in commercial quantities.

To the extent cash flow from operations is reduced, either by a decrease in prevailing production volume prices for natural gas and oil or an increase in finding and development costs, and external sources of capital become limited or unavailable, our ability to make the necessary capital investment to maintain or expand its asset base of natural gas and oil reserves would be impaired. Even with sufficient available capital, its future exploration and development activities may not result in additional proved reserves, and we might not be able to drill productive wells at acceptable costs.

Risks Associated with our Common Shares

We may be classified in the future as a passive foreign investment company, or PFIC, for United States tax purposes, which will have adverse tax consequences for all United States holders of our shares.

We do not believe that we are a PFIC in 2010. However, we may, in the future, be classified for United States income tax purposes as a passive foreign investment company. This means that any dividends we pay you will be taxed as ordinary income and not at

preferential qualifying dividend tax rates, and upon any sale of our Common Shares, any capital gain will be taxed as ordinary income and not at preferential capital gains rates. This will continue to be true

even after we commence active operations. See discussion in Item 10E "United States Tax Consequences".The exercise of all or any number of outstanding warrants or stock options, the issuance of any annual bonus shares, the award of any additional options, bonus shares or other stock-based awards or any issuance of shares to raise funds or acquire a business may dilute your Common Shares.

We may in the future grant to some or all of our directors, officers, insiders, and key employees options to purchase our Common Shares, bonus shares and other stock based awards as non-cash incentives to those persons. We may grant these options and other stock based awards at exercise prices equal to or less than market prices, and we may grant them when the market for our securities is depressed. The issuance of any equity securities could, and the issuance of any additional shares will, cause our existing shareholders to experience dilution of their ownership interests.

Any additional issuance of shares or decision to enter into joint ventures with other parties to raise financing or acquire other businesses through the sale of equity securities, may dilute our investors' interests in the Company, and investors may suffer dilution in their net book value per share depending on the price at which such securities are sold. Such issuance may cause a reduction in the proportionate ownership and voting power of all other shareholders. The dilution may result in a decline in the price of our Common Shares or a change in the control of the Company.

We do not expect to pay dividends for the foreseeable future.

We do not intend to declare dividends for the foreseeable future, as we anticipate that we will reinvest any future earnings in the development and growth of our business. Therefore, investors will not receive any funds unless they sell their Common Shares, and shareholders may be unable to sell their shares on favorable terms or at all. We cannot assure you of a positive return on investment or that you will not lose the entire amount of your investment in our Common Shares. Prospective investors seeking or needing dividend income or liquidity should not purchase our Common Shares.

An investment in our Company will likely be diluted.

We may issue a substantial number of our common shares without investor approval to raise additional financing and we may consolidate the current outstanding common shares. Any such issuance or consolidation of our securities in the future could reduce an investor's ownership percentage and voting rights in the Company and further dilute the value of your investment.

***The value of securities issued by us might be affected by matters not related to own operating performance for reasons that include the following*:**

- general economic conditions in Canada, the US, Israel and globally;
- industry conditions, including fluctuations in the price of oil and natural gas;
- governmental regulation of the oil and gas industry, including environmental regulation;
- fluctuation in foreign exchange or interest rates;
- liabilities inherent in oil and natural gas operations;
- geological, technical, drilling and processing problems;
- unanticipated operating events which can reduce production or cause production to be shut-in or delayed;
- failure to obtain industry partner and other third party consents and approvals, when required;
- stock market volatility and market valuations;
- competition for, among other things, capital, acquisition of reserves, undeveloped land and skilled personnel;
- the need to obtain required approvals from regulatory authorities;
- worldwide supplies and prices of and demand for natural gas and oil;
- political conditions and developments in Israel, Canada, the US, and globally;
- political conditions in natural gas and oil producing regions;
- revenue and operating results failing to meet expectations in any particular period;
- investor perception of the oil and gas industry;
- limited trading volume of the Common Shares;
- change in environmental and other governmental regulations;
- announcements relating to the Company's business or the business of its competitors;
- the Company's liquidity; and

- the Company's ability to raise additional funds.

In the past, companies that have experienced volatility in their value have been the subject of securities class action litigation. The Company might become involved in securities class action litigation in the future. Such litigation often results in substantial costs and diversion of management's attention and resources and could have a material adverse effect on the Company's business, financial condition and results of operation.

ITEM 4 INFORMATION ON THE COMPANY

We are a Canadian corporation governed under the *Canada Business Corporations Act* (the "**CBCA**") which conducts business as an oil and gas exploration company with operations in the State of Israel. We have been granted the following petroleum licenses from the State of Israel:

- Eitan License No. 356, or Eitan License- covering 31,060 acres (125.7 sq.km.) in the Hula Valley located in Northern Israel. The license was issued in December, 2008 for an initial three year period and may be renewed upon fulfillment of certain conditions for a further four year period;
- Gabriella License No. 378 or Gabriella License - covering 97,000 acres (392 sq. km.) approx. 10km offshore Israel between Netanya and Ashdod. The license was issued in July, 2009 for an initial three year period and may be renewed upon fulfillment of certain conditions for a further four year period;
- Yitzhak License No.380 or Yitzhak License- covering 31,555 acres (127.7 sq.km) approx. 17km offshore Israel between Hadera and Netanya, directly to the North of and contiguous to Gabriella. The license was issued in October, 2009 for an initial three year period and may be renewed upon fulfillment of certain conditions for a further four year period; and
- Samuel License No. 388, or Samuel License - covering 16,740 acres (359 sq. km) approx.17 km offshore Israel adjacent to the shoreline between the City of Ashkelon in the South and the City of Rison Le'tziyon in the North. The license was issued on August 1, 2010 to a consortium led by us (through our subsidiaries, Adira Oil Technologies Ltd. (100% owned) and Adira Geo-Global Ltd (60% owned - the remaining 40% is held by GeoglobalResourses (Barbados) Inc., an unrelated party).

Our Gabriella License, Yitzhak and Samuel Licenses are collectively referred to as our "Offshore Licenses".

All of the licenses are subject to 12.5% royalty payable to the government of Israel.

In addition, we have a right to farm in to 70% of the Notera License which is approximately 19,000 acres and contiguous and directly to the south of the Eitan License and as well as an option to acquire a 5% participating interest in each of the Myra and Sara Licenses, both offshore Israel licenses.

For more information, see Item 4 B below "Onshore Licences" and Offshore Licences".

Our business plan is to carry out exploration activities on our Eitan License in order to assess the existence of commercially exploitable quantities of natural gas. In addition, we also plan to conduct evaluation work on each of the Offshore Licenses to establish whether exploration is justified. We presently do not produce any oil or gas and do not earn any significant revenues.

A. History and Development of the Company

Name

Our legal and commercial name is Adira Energy Ltd.

Principal Office

Our principal office is located at 120 Adelaide Street West, Suite 1204S, Toronto, Ontario, Canada, M4V 3A1. Our telephone number is (416) 250-6500.

Incorporation and Continuation

We are a Canadian corporation governed under the *Canada Business Corporations Act* (the "**CBCA**").

We were incorporated on February 20, 1997 under the name "Trans New Zealand Oil Company" by filing our Articles of Incorporation with the Secretary of State of Nevada. We changed our name to "AMG Oil Ltd." on July 27, 1998. On December 17, 2009, we changed our name to "Adira Energy Ltd." Our fiscal year end is September 30.

On November 25, 2008, the Company's shareholders approved the change of our jurisdiction of incorporation from the State of Nevada to the Canadian federal jurisdiction under the CBCA by way of continuation. The Company completed the filing of its Articles of Conversion with the Nevada Secretary of State on November 25, 2008, and the Company's Articles of Continuance were accepted for filing by Industry Canada effective November 27, 2008. The effect of these filings was to transfer the jurisdiction of incorporation of the Company from the State of Nevada to the Canadian federal jurisdiction under the CBCA. Copies of the Articles of Conversion, Articles of Continuance, Certificate of Continuance and By-Laws, are incorporated by reference to this Form 20-F as exhibits.

The Company's common shares remain registered under Section 12(g) of the Exchange Act after completion of the continuation as a result of the operation of Rule 12g-3 of the Exchange Act. The Company's current trading symbol on the OTCBB is "ADENF". The Company's current trading symbol on the TSXV is "ADL".

Acquisition of Adira Energy

We completed the acquisition of Adira Energy, a company incorporated in the Province of Ontario, on August 31, 2009. As a result of the completion of this acquisition, we are now the owner of all the issued and outstanding shares of Adira Energy and we have ceased to be a "shell company", as defined in Rule 12b-2 of the Exchange Act. The acquisition was completed pursuant to a securities exchange agreement dated August 4, 2009 among Adira, Adira Energy and Dennis Bennie, Ilan Diamond and Alan Friedman, as principal shareholders, and concurrent securities exchange agreements among Adira and each of the minority shareholders of Adira Energy. We issued an aggregate of 39,040,001 common shares to the shareholders of Adira Energy as consideration for the acquisition of Adira Energy.

Immediately prior the acquisition, Adira Energy completed a private placement ("**Adira Energy Private Placement**") of 7,600,000 units ("**Units**") at a price of $0.25 per Unit. Sandfire Securities Inc. acted as lead agent to Adira Energy in connection with the Adira Energy Private Placement. Each Unit was comprised of one common share of Adira Energy and one-half of one share purchase warrant. The common shares and share purchase warrants issued by Adira Energy were exchanged concurrently with the closing of the Acquisition. Each resulting share purchase warrant entitles the holder to purchase one additional common share of the Company at the exercise price of $0.50 per share for a two year period following closing, expiring on August 31, 2011. In connection with the Adira Energy Private Placement, 500,770 compensation warrants were issued to agents who will entitle the holders thereof to purchase an equal amount of common shares of the Company at the exercise price of $0.25 per common share for a two year period following closing expiring on August 31, 2011.

Concurrent with the completion of the Acquisition, Michael Hart, Michael Murphy and John Campbell, resigned from the board of Adira and Dennis Bennie (Chair), Glen Perry, Alan Friedman and Ilan Diamond (CEO) were appointed as the new directors of Adira.

In September 2009, Adira completed a private placement of an additional 400,000 Units on a non-brokered basis (the "**September Private Placement**") at a price of $0.25 per Unit. Each Unit comprised of one common share of Adira Energy and one-half of one share purchase warrant. After deducting commissions payable in connection with the September Private Placement, we raised an aggregate of $100,000in the September Private Placement.

On September 23, 2009, we completed a private placement of an additional 400,000 Units on a non-brokered basis at a price of $0.25 per Unit for aggregate gross proceeds of $100,000. Each Unit comprised of one common share of Adira Energy and one-half of one share purchase warrant

On November 22, 2010 we completed a financing for gross proceeds of $11,000,000 ("**Adira Financing**"). Pursuant to the Adira Financing, we issued 27,500,000 subscription receipts which upon fulfillment of certain conditions were automatically exercised into 27,500,000 Common Shares and 13,750,000 warrants. Each whole warrant will be exercisable for a term of three years from the date of issuance at an exercise price of $0.55. In addition, we issued warrants to certain parties in conjunction with the Adira Financing. Each such warrant is exercisable into one Common Share for up to three years from the date of closing of the Adira Financing at an exercise price of $0.40.BRM Group Ltd., or BRM, invested $4,000,000 as part of the Adira Financing.

On December 2, 2010, our common shares commenced trading on the TSX Venture Exchange (the "**TSXV**") following approval of its listing in November 2010.

Prior Operations of Adira

We were previously engaged in the acquisition and, formerly, exploration of resource properties.

We were inactive for approximately four years prior to our acquisition of Adira Energy in 2009 and were considered a "shell" company within the meaning assigned to that term in Rule 12b-2 of the Exchange Act because we had no

operations and our assets consisted solely of cash. Prior to this four-year period, we had conducted oil and gas exploration activities in New Zealand but withdrew from the permit and assigned our interest to other participants in the permit during the 2003 fiscal year.

We do not receive any revenue from our discontinued oil and gas operations in New Zealand and had no significant assets, tangible or intangible except for cash on hand. We have no history of earnings and there is no assurance that our business will be profitable. We expect to continue incurring operating losses and accumulating deficits in future periods.

Reporting Issuer Status under Canadian Securities Laws

On February 1, 2006, the British Columbia Securities Commission granted our application to be designated as a reporting issuer under the *Securities Act* (British Columbia). Accordingly, we and our insiders became subject to the continuous disclosure requirements under the securities laws of the Province of British Columbia, Canada. The Company received final approval for listing on the TSXV on December 1, 2010 and on December 2, 2010, our common shares commenced trading on the TSXV.

Capital Expenditures and Divestitures

During the last three fiscal years ended September 30, 2010, we incurred capital expenditures in the amount of $848,945.These anticipated expenditures related mainly to our drilling exploration program in connection with our Hula Valley property in Israel.

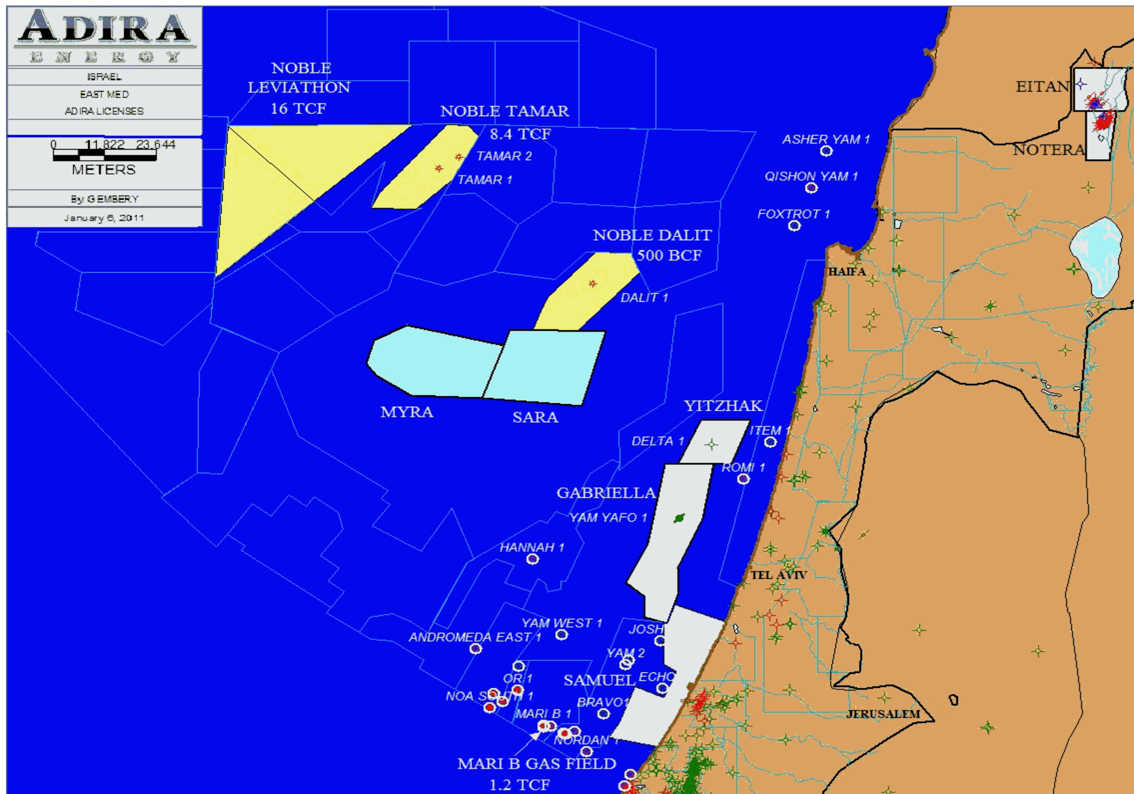
We do not expect any significant purchases of plant and equipment or the hiring of employees within the next twelve months, unless acquired in connection with the acquisition of a business opportunity which may be identified.

Takeover Offers

We are not aware of any indication of any public takeover offers by third parties in respect of our common shares during our last and current financial years.

B. Business Overview

Below is a map showing the location of our Onshore and Offshore Licences.



Onshore Licences

Eitan License

In December 2008, upon application to the Ministry of National Infrastructures of the State of Israel, Adira Israel obtained the Eitan License, for no consideration other than the payment of a nominal stamp duty. At that time, for tax planning purposes, all of the issued and outstanding shares of Adira Israel were registered in the name of Adira Africa, a privately-owned Canadian corporation, as a trustee for and on behalf of a corporation to be incorporated in Ontario - namely, Adira Energy, which was subsequently incorporated on April 8, 2009 - pursuant to a Declaration of Trust dated November 16, 2008. Upon the incorporation of Adira Energy on April 8, 2009, Adira Africa transferred the shares of Adira Israel to Adira Energy for no consideration, as contemplated by the Declaration of Trust. Accordingly, Adira Energy was in substance treated as the owner of the Adira Israel shares since Adira Israel's inception on October 26, 2008. The only activity undertaken in Adira Israel from December 2008 to April 8, 2009 was the application for, and the receipt of, the Eitan License.

As indicated above, the original term of the Eitan License is three years; however, the term is may be extended for an additional four years under Israeli Petroleum Law, 5712 - 1952, or the Petroleum Law. The area of the permit is approximately 125.7 square kilometers. We have a 100% working interest in the Eitan License and all wells.

The Eitan License area is situated in the Hula Valley in the upper Galilee in Israel and is land owned by the State of Israel. The Hula Valley is located in Northern Israel near the head of the Jordan River Valley. The valley is bordered on the west by the Naftali Mountains, to the east by the Golan Heights, to the north by the Metulla High, and to the south by the Korazim High. The Hula Valley is some 25 km long and 6 km wide providing an area of 150 km^2 (37,065 acres) at an elevation of approximately 60 meters to 70 meters above sea level. The subject permit area is 125.7 km^2.

The Hula Valley area in which the Eitan License is located has experienced some minor shallow gas exploration but with no commercial discovery of any gas field. There are 142 line kilometers of seismic data available for review.

According to the Petroleum Law, where state land is reasonably required by the holder of a petroleum right for a petroleum purpose, such holder may make a demand from the Israel Lands Authority that the land or any right therein be leased to such holder on the conditions prescribed by the Petroleum Law and the regulations under the Petroleum Law.

The Eitan License area forms part of the lands on which Kibbutz Neot Mordechai is situated (as a long term lease agreement between the Kibbutz Neot Mordechai and the Israel Lands Authority). This is the area on which the Company anticipates focusing its work program for the next 18 months. We have secured access to the land through an agreement with Kibbutz Neot Mordechai dated April 12, 2010, or the Kibbutz Agreement. The agreement provides us with access to certain mapped areas for 12 months from the date the Israel Lands Administration, or ILA, approves the Kibbutz Agreement, with an option to extend for an additional 12 months on 3 months' notice and, if gas is found on the subject land, both parties agree to negotiate in good faith to reach terms of agreement with respect to the land, provided that we cannot be prevented by using the land to produce gas on a commercial basis subject to the terms of the Kibbutz Agreement. Pursuant to the Kibbutz Agreement, we agreed: (i) to use the land in such a way to allow continuing agricultural use for the extent possible and to reduce disturbance, to close and seal 3 of the existing seven drill holes, fence off the land, take responsibility for damages, pay for water usage and restore the land to its former condition and (ii) to pay a fee for use to be determined by an agreed upon land appraiser and compensate the lessor for its project neighbourhood development in the event that gas is found. Following receipt of the ILA approval in September 2010, a contract was entered into between us and ILA on October 7, 2010 and we made the required statutory payment and posted a restoration bond and have now fulfilled all requirements regarding this approval. All other approvals required under the Kibbutz Agreement have been obtained.

Eitan License Rights

Subject to the provisions of Israeli Petroleum Law, 5712-1952, the Eitan License confers upon the Company the right:

- to explore for petroleum in the licensed area;
- the right to do exploration work outside the licensed area bearing on the petroleum prospects of the licensed area, to such extent and subject to such conditions as the Israeli Petroleum and Mining Commissioner, or, the Commissioner, may prescribe;
- the exclusive right to conduct tests or development drilling in the licensed area and to produce petroleum there from; and
- the right to obtain a lease after having made a discovery in the licensed area.

Under the Petroleum Law, the Company, as the holder of a petroleum right, is entitled, subject to any other relevant law, to drill and search for water in the area of its petroleum right and to use the water discovered by it either by drilling for water or in any of its other operations and/or to use any other water situated in the area of its petroleum right to the extent required for its operations, provided that it does not thereby prejudice any person's right in such water or having the benefit thereof.

Eitan License Requirements

The Eitan License is subject to the following requirements:

- The Company shall commence petroleum exploration within four months from the day on which the Eitan License is granted and shall continue the same with due diligence as long as the Eitan License is in force.
- The Company shall commence test drilling on the date prescribed therefore in the conditions of the license and not later than two years following the grant of the license and shall continue such drilling with due diligence until he makes a discovery. The interval between the completion of the drilling of one well and the commencement of the drilling of another well shall not exceed four months.
- The Company shall submit to the Commissioner reports on the petroleum exploration carried out. The Company may require that the information supplied in the report shall be kept secret to the extent that it relates to prospects of discovering petroleum. Furthermore, the Company shall at the time of drilling, carry out tests and measurements and take samples and retain samples and forward them to the Commissioner as the Commissioner may demand, having regard to the other tests and measurements carried out by the Company and to the damages which may be caused by complying with the demand.
- Within one month after the expiration of every three months period from the grant of the Eitan License onwards, the Company is required to deliver to the Commissioner a report, in duplicate, on the exploration work done by him under the License during the three months, setting out:
    - the nature, extent, location and results of the exploration work;
    - particulars of the expenditure incurred in respect of the exploration work;

- results and evaluations of the geological, geophysical, engineering and technical work done and the basic data on which those results and evaluations are based; and
- data, considerations and causes determining the location of petroleum drillings.
  - the Company has submitted the first two quarterly reports.

- As the holder of a petroleum right, the Company shall, not later than fourteen days before commencing the drilling of any test, development or water well or further drilling and work at an old drill hole, notify the Commissioner in writing of his intention to do so and in the case of a new well shall notify the location of the proposed well by means of a spot map certified by a qualified surveyor, the well drilling plan (including the estimated stratigraphic sections and the water-bearing horizons) and the date on which drilling will begin.
- After drilling has commenced, the Company, as the holder of the petroleum right, shall within ten days after the end of each month report to the Commissioner in writing, the depth of the well at the end of the month and the geological horizon to which, according to the holder's determination then, the well has penetrated.
- Within fifteen days after the completion of a petroleum well, whether as a producing well or a dry hole, and within fifteen days after the completion of any further work at an old drill hole, the Company, as the holder of the petroleum right, shall submit to the Commissioner a completion report showing:
  - the depth and the casing and cementing record of the well;
  - copies of all drillers' daily reports, drilling time, sample, electro and other logs kept;
  - the results of all well tests, including wellhead and bottom hole pressures obtained;
  - all core analyses made and all interpretations thereof made by or for the holder;
  - the completion record of the well if it was completed as a producing well; and
  - the plugging and abandonment record of the well if it has been abandoned, such record being signed and certified by the person responsible for the plugging.

  The report shall be accompanied by samples taken of strata penetrated and analyses of such samples and samples of all fluids entering the well with the depths and geological horizons at which they were found and analyses of all such fluids.

Recommended Exploration Program

The target of our exploration activities is the Esther field which is located within the area covered by the Eitan License, or the Esther Field. On the Esther Field, shallow gas and coal-bed methane, or CBM, from the prior drilling of a total of 45 wells *(see below)* has been identified. We have determined, based on the recommendations of an independent technical report, to pursue a re-entry program to work-over and test the shallow gas in two to three of the previously drilled shallow gas wells. If the testing of the shallow gas is successful, we plan to then design a development program based on the local market demands for the gas. For the CBM, it is recommended to test the selected shallow coal seams from 445 to 489 metres in the Esther #2 well with a stimulation program (hydraulic fracture treatment using foam or water). If the testing of the CBM is successful, a development program can be designed in conjunction with the seismic data acquisition program in order to determine the areal extent of the CBM in the area. We plan to undertake the plan of operations provided below in order to carry out these recommendations.

Plan of Operations for the Eitan License

The plan of operations and associated cost estimate of the work program on the Eitan License is as follows:

Activity	Cost	Status
Acquire 10 to 20 km of 2-D seismic survey, processing and interpretation	$ 150,000	Not yet commenced
CBM: Re-entry, stimulate and test Esther #1 well with TD of 1,293 metres (500 metre section-coal seam)	$ 225,000	Completed
CBM:	$ 220,000	Completed

Re-entry, stimulate and test Esther #2 well with TD of 525 metres (500 metre section-coal seam)		
CBM: Drill and core, complete and test deep CBM well to 1050 metres. Core both 500 metre coals and 1000 metre coals with wireline core system. Perforate and complete by hydraulic fracturing 500 metre coal section	$ 660,000	In process
Conventional Well: Re-entry, complete and test Esther #3A well with TD of 952 metres (this well was recorded as a gas well) Test the D Sand (140m +/-)	$ 150,000	Completed
Conventional Well:	$ 200,000	Completed
Drill, complete and test shallow sand well to 200 metres		
Total Estimate	**$1,605,000**	

The current cost estimate includes mobilization and de-mobilization of a drilling/completion rig to the field in the Hula Valley.

In addition to the cost estimate of the work program on the Eitan License, as provided in the Eitan Technical Report, we expect to expend an additional $400,000 for evaluation and further development of the Eitan License. The work will include additional lab work, contracting additional consultants to evaluate test results, additional field work and ongoing dewatering of the wells.

Our plan of operations, including the projected timeframe and budget, are subject to change. Our board of directors may determine, based on the results of exploration activities or other identified opportunities, to change its plan of operations. In addition, the risks identified hereinafter (see "*Risk Factors*") may result in delays and costs overruns, each of which could adversely impact on our ability to complete our plan of operations within the projected timeframes and within the budget.

We have commenced operations and have moved our drill rig and associated equipment onto site and commenced operations on its first of three workovers. These workovers will be completed in early January, 2011 and will then commence drilling and wireline coring operations on three new gas wells. This program is estimated to take three to four months to complete and will include desorption and adsorption analysis of key coal and shale intersect in the wells. Once this assessment is complete the study will provide an understanding of the gas contents, structure and economic feasibility of an unconventional resource play in the region.

Seismic Data

We have reprocessed 142.9 km of seismic data. The seismic surveys were acquired over the potential hydrocarbon traps in the central and southern part of the Hula Valley Basin. The areas include the central valley in the Neot Mordechai area where the Esther wells were drilled and the southern Agamon Natural Preserve area where the Notera, Gonen, and Suzie wells were drilled.

Exploration History

The presence of gas was first reported in 1950 during exploration of the valley for peat to be used for fuel. Early exploration focused on the lignite stringers. Twenty shallow boreholes were drilled ranging in depths from 72 metres (236 feet) to 175 meters (574 feet). The early exploration also defined three zones or levels: Shallow (surface to 200

meters (656 feet)), Medium (200 metres to 600 metres (656 to 1,968 feet)), and Deep (600 metres to 2,800 metres (1,968 feet to 9,186 feet)). These different levels were explored in four projects as follows:

1. Notera Project between 1980 and 1982 - Notera-1 well, was drilled in 1980, and reached a depth of 505 metres (1,658 feet). Dry gas was discovered between 476 - 482 metres (1,562 - 1,581 feet) and the well was completed for production. The well was connected to Kibbutz Gonen in October, 1981 and 7 MMcf of gas were sold. Total production including testing and flaring was estimated to be 14.7 MMcf. The well died on September 7, 1982 probably due to the influx of water from what appeared to be a strong water drive confirmed by a constant bottom hole pressure of 674 psig throughout the life of the well. The Notera-2 well, also drilled in 1980, penetrated to a depth of 749 meters (2,457 feet). It discovered gas and the well tested in the interval 120 - 175 meters (394 -574 feet). After a long period of testing, it was considered non- commercial due to the large quantities of formation water produced. In 1981, Notera-3 well was drilled to a total depth of 2,786 metres (9,140 feet) but no gas was found. In 1982, Notera-6 well was drilled to a total depth of 560 meters (1,837 feet) but also found no commercial gas.

2. Gonen Project in 1983 - 10 shallow wells were drilled based on the well data of Notera 6 because of the multi-stringers of sand between 450 and 550 metres (1,476 and 1,820 feet). None of these wells tested any commercial production rates.

3. Susie Project from 1985 - 1986 - Three shallow wells of less than 150 metres were drilled in this area. Additional two wells were drilled but no success in finding commercial gas.

4. ABJAC Operations between 1990 and 2002. Two structural traps were identified resulting in the drilling of the prospect in the Lily 1 well with a total depth of 1,260 metres (4,133 feet) but no commercial gas discovery. The Esther 1 and 2 wells were drilled to a total depth of 1,293 metres (4,244 feet) and 525 meters (1,722 feet) respectively. Both Esther 1 and 2 wells encountered numerous coal seams. Cores were taken to determine reservoir evaluation. Subsequent to the two Esther wells, nine more wells were drilled but no commercial gas discovery but encountered coal seams at various depths.

Exploration Summary

Most of the wells drilled in this area encountered gas. These wells varied in depth from 146 metres (479 feet) in Esther-4 well to the deepest at 2,786 metres (9,140 feet) in Notera-3 well. During the Notera project, all drilled wells were electrically logged with also conducted composite logs. A total of 42 gas exploration wells have been drilled in the Hula Valley. In addition, 20 unlisted lignite test boreholes were drilled to an average depth of 150 metres (~500 feet) and Naphtha drilled three structural boreholes. There were no absolute open flow tests or any extended tests to indicate or support a commercial discovery. However, coal seams have been identified in some of the wells to provide some data for potential coal-bed methane potentials.

Geology Description and Resource Estimate

The Hula Valley is a small segment of what is tectonically called the Great Rift Valley. This long complex geological feature extends from Mozambique through central Africa, the Red Sea, Israel, Lebanon, into northern Syria and terminates in the East Anatolian Fault in Turkey. Comprised of rifts, transform faults and in some places, accompanied by volcanism, this tectonic element is called the Jordan Valley System (JVS) within Israel. It is comprised of south to north; the Arava Valley, Dead Sea Rift, Jordan Valley, Sea of Galilee (Kinneret), Hula Valley and the Metulla High. At present, tectonic activity in the Jordan Valley System resulted in about 105 km of left-lateral motion along the Dead Sea Fault.

Esther Field Gas Prospect

We received a technical report which has identified the Esther Field as a gas prospect. A total of 15 wells (1, 2, 3, 3A, 4, 4A, 5, 6, 6A, 7, 8, 8A, 11, 12 and 13) were drilled in the field with no commercial gas discovery in all depths due to completion and production problems. The gas potentials in the Esther Field can be divided into three segments according to depths. The shallow depth is around 200 metres (650 feet) between the surface and the top of the Yarda Basalt. The middle depth is the coal beds between 400 and 1,000 metres (1,300 and 3,280 feet). The deep depth is the limestone and fracture basalts from 1,000 to 4,000 metres (3,280 and 13,000 feet). The most prospective is the gas from the coal beds between the 400 and 1,000 metres and will be discussed in the section later. CBM wells get more expensive, generally, with depth and the gas contents generally also increase with depth, thus the economics tend to get

tighter as CBM wells get deeper. The economics of the Estimated Ultimate Recovery (EUR) of a well become problematic with low EUR and production numbers from deeper wells and often deeper CBM fields cannot be economically developed without significant production and reserves.

The electric logs of Esther 1well have identified coal seams. To better understand CBM, tests were performed on coal samples from the continuously cored Esther 2, drilled as a twin to the Esther 1 that found coal in the Neot Mordechai area. The results were as follows:

Interval 339 - 354 metres (1,112 - 1,161 feet) had lignite or lignitic coals. Five distinct coal beds, separated by clayey marls and carbonaceous and fossiliferous silty clays, were recognized. Minor amounts of gas were observed bubbling from the coal when the core was removed from the core barrel. There is 8 - 17 metres of coal in this section.

Interval 390 - 407 metres (1,280 - 1,335 feet) was lignite. Seven distinct coal beds are within this unit. These coal beds, similar to the Unit A above are interbedded with clay and carbonaceous, fossiliferous marls. The coals have a high dirty ash with only one thin (0.05 m) clean coal seam. The coals are dull black and exhibit a minor amount of faulting. There was a noticeable increase in gas evolving from the coal upon removal from the core barrel when compared to Unit A. This section has 6 - 8 metres of coal.

Interval 445 - 490 metres (1,460 - 1,608 feet) showed an increase in rank and quality over the units above. This unit has eleven different coal seams, all sub-bituminous. A dramatic increase of evolving gas over the above units was observed when the core was removed from the core barrel. This section has by far the most coal with 16 - 26 metres.

Desorption tests revealed the cores had gas contents of over 200 cuft/ton in the sub-bituminous section from 445-489 metres while the shallower, less mature coals had somewhat less gas contents. The coals from 850-1,000 metres have not been cored and tested yet.

For the CBM, we plan to test the 500 metre coal section in both the Esther 1 and 2 with a stimulation program. Also, drill a CBM well to the 1000 metre coal section. A production test will be completed on the 500 metre coals and all the coals will cored. Analytical testing will include gas content, coal descriptions, desorption isotherms and relative permeability. Field testing will include reservoir pressure and permeability, water saturation, desorption and gas production. If the testing of the CBM is successful, a development program can be designed in conjunction with the seismic data acquisition program in order to determine the areal extent of the CBM in the area.

To determine whether there is any potential of the shallow gas and as part of the committed work program, the technical report recommended the re-entry of the two to three shallow wells in the Esther Field to test for commercial gas. The re-entry would require cleaning up the formation, stimulation if required and flow test the well for an extended period of time. The Company plans to undertake this exploration work as part of its plan of operations, as described above under "*Plan of Operations for the Eitan License*".

Equipment

We have completed the purchase and taken possession of a drill rig and associated equipment in order to commence drilling operations on the Eitan License. We have further placed orders for various specialised coring equipment and taken delivery. In addition, we have designed, and are seeking tenders for a specialised onsite lab that will enable us to do onsite desorption testing.

Additional Information on the Eitan License

Current well status is as follows:

Well Name	Depth (m)	Spud Date	Status
Esther 1	1,293	10/15/91	TS; partial production test
Esther 2	525	10/01/92	TS; partial production test, cored for coal, 600psig SITP

Esther 3	205	02/15/93	PA; Blowout at 205m
Esther 3A	925	04/18/93	GW-TS; production unknown
Esther 4	146	04/24/94	GW-TS; Completed through drill pipe, tested 450 Mcfpd
Esther 4A	152	01/16/02	TS; Pulled too hard and sanded up on initial test
Esther 5	223	06/19/95	TS
Esther 6	236	07/20/94	PA
Esther 6A	174	05/15/95	GW-TS
Esther 7	223	12/18/94	DH PA
Esther 8	319	04/02/96	DH PA
Esther 8A	164	12/28/97	TS
Esther 11	263	09/17/96	TS
Esther 12	300	11/04/97	GW-TS
Esther 13	183	12/31/95	GW-TS

TS-temporarily suspended
PA-plug and abandoned
GW-gas well (producing or has produced)
GW-TS-gas well then temporarily suspended
DH-TS-downhole temporarily suspended

Figure 1 (below) is a map showing the location of the wells and seismic lines.

HULA VALLEY PROJECT
LOCATION MAP OF SEISMIC LINES
AND WELL LOCATIONS

המשך תוספת ראשונה

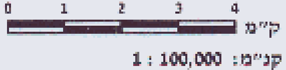
רשיון 356/ "איתן"
כ- 125,700 דונם

251000/793360

263928/793360

251000/782500

262118/782500



ד"ר יעקב מימרן
הממונה על ענייני הנפט

ירושלים, י"ח בכסלו התשס"ח
15 בדצמבר 2008

Notera License

During April 2010, we announced that we signed a letter of intent with Coalbed Gas Hachula Ltd, an Israel-based Coalbed Methane Development company or, CGH, pursuant to which we have a right to farm in to 70% of the Notera

License which is approximately 19,000 acres and contiguous and directly to the south of the Eitan License, or CGH LOI. Prior drilling and evaluation of Notera indicates a similar geologic profile and hydrocarbon development potential as exists in the Eitan License. Pursuant to the CGH LOI, we may, at our option, obtain an interest in the Notera License, by paying CGH $200,000 and drilling and testing one cored well, at an approximate cost of $600,000, within eight months following the date that the last condition precedent stipulated in the CGH LOI has been waived or fulfilled in order to earn a net 70% working interest and a 70% revenue interest. The amounts payable to us are after payments of a 12.5% government royalty as well as a 2.5% royalty payable to CGH on our share. Pursuant to the CGH LOI, CGH will earn a 30% participating interest in any future gas development on this South block provided it contributes 30% of the costs in such further development. Additionally, the CGH LOI provides that we will be the operator of the project. The terms of the CGH LOI are subject to Israel governmental regulation and are conditional on the Israel Petroleum Commissioner's approval to transfer 70% of the Notera working interest to us without the government stipulating any work commitments on the Notera License, beyond what has been agreed to between the Company and CGH. The CGH LOI agreement and working interest is completely independent of our Eitan block to the North and does not affect the ownership of the Eitan License, and may be terminated by us at any time without penalty. To date, we have not expended any funds on the Notera License. To date the CGH LOI has not received governmental approval. We do not presently expect to exercise our option to earn our 70% working interest until we have obtained further information from our program on the Eitan License

OffShore Licences

Gabriella License

The Gabriella License was granted to us during July 2009. The initial term of the license is three years, extendable for an additional four years to a maximum of seven years, thereafter a lease (30-50 years) can be sought if a discovery is made. The Gabriella License is located 10 km offshore between the City of Netanya in the North and the City of Ashdod in the South. The Gabriella License area is 392 square kilometres. We have a minimum working interest of 15% in the Gabriella License.

Our subsidiary, Adira Israel entered into an agreement on January 26, 2010 with the Modi'in Energy Limited Partnership, or MELP, its general partner, Modi'in Energy Management (1992) Limited, or MEGP and Brownstone Ventures, Inc, or Brownstone (the "**Modi'in Agreement**")pursuant to which MELP agreed to provide funding for the Gabriella License work plan (currently MELP's 70% and Adira Israel's 15%), presently budgeted to cost approximately $8 million, such work program to include reinterpretation of existing 2D seismic and preparation of report on block potential, 3D seismic survey and the drilling of one well to a total depth of approximately 5000m.

Under the Modi'in Agreement, commencing on February 1, 2010, MEGP pay us as operator, a monthly fee in respect of advisory services in the amount of $12,500, as well as 3.75% (half) of the 7.5% operator fee which MEGP is entitled to receive from MELP for 24 months commencing from February 1, 2010, increasing to 4.25% thereafter. Additionally, MEGP and MELP, have agreed to pay us a combined royalty of 4.5% (2.25% each) on the total wellhead revenue of the rights in oil and / or gas up until such time as costs are recovered and 10.5% (5.25% each thereafter). In addition to the above fees, MEGP and MELP have agreed that Adira Israel is entitled to receive an operating fee, from the partners in the Gabriella License, of 7.5% of the gross expenditures on the Gabriella License. This operating fee is in addition to the other fees payable and is due pro-rata from each holder of an interest in the Gabriella License. We have an option to purchase 15% of the Gabriella License (or 21.43% of MELP's 70% interest) anytime until six months after discovery as "discovery" is defined in the Israeli Petroleum Law or 7 years. The operation of the Gabriella License, will be governed by a joint operating agreement to be entered into by Modi'in, us and Brownstone. On August 10, 2010 Adira Israel received $2,000,000 from MEGP on behalf of MELP, representing 85% of the total capital call in respect of the work plan of $2,352,941 being $1,647,059 on MELP's behalf and 352,941 on behalf of Adira Israel. The agreement with MELP provides that our share of the initial $8m is fully covered by MELP. As such, we have no financial risk associated with the Gabriella License. We act as operator for this license and have the ability to bill for our time and expertise to the other participating interest partners.

Yitzhak License

The Yitzhak License was granted during October 2009. The initial term of the license is three years extendable for an additional four years to a maximum of seven years, and thereafter a lease (30-50 years) can be sought if a discovery is made. The Yitzhak License is located 10 km offshore between the City of Hadera in the North and the City of Netanya in the South. The Yitzhak License area is 127 square kilometres.

Brownstone has farmed in to 15% of the Yitzhak License. We continue to maintain this license until we can find a partner to undertake the costs of exploration in a manner similar to the manner in which MELP does on the Gabriella License. We presently have an 85% working interest in the Yitzhak License.

If warranted, following the initial three year license period, a prospect will be evaluated, prepared and drilled on each of these licenses. Determination of whether exploration continues at each stage of activity will be based on discussions between the relevant partners on each of these Licenses namely: MELP (in respect of the Gabriella License only), Brownstone and us.

Plan of Operations for the Gabriella and Yitzhak Licenses

We were required to conduct certain work on the Gabriella and Yitzhak Licenses up to the end of October 2010which we completed in January 2011. This work entailed the collection and study of existing geological and geophysical information available, including the purchasing, reprocessing and reinterpretation of old seismic lines acquired. Additionally, the Gabriella and Yitzhak Licenses required the submitting of summary reports to the Ministry of National Infrastructures in the State of Israel, or MNI, regarding the hydrocarbon potential of each of these licenses by the one year anniversary of the grant date of each respective license. The report in respect of the Gabriella License was submitted on July 15, 2010 and the report in respect of the Yitzhak License on October 15, 2010.

We have contracted Western Geco, a Schlumberger company, to complete a state of the art geophysical survey on our Gabriella and Yitzhak licenses directly offshore of central Israel on a 630 square kilometre 3D Survey. We are focused specifically on oil targets in this region. The current dual axis survey, a technology never used before in Israeli waters is designed to define the exact target and structure. Two independent 3D surveys will overlay each other at opposing axes. We completed the Gabriella and Yitzhak programs in early January and we plan to commence our 300 square kilometer3D survey on the Samuel license (discussed below) within the first half of 2011.

The following work program must be completed in order to maintain the Gabriella License:

1. Execute a seismic survey and line decoding by January 15, 2011.

2. Integrate all the data and submit a final proposal for drilling by July 15, 2011.

3. Sign a drilling agreement by July 15, 2011.

4. Commence drilling by January 1, 2012.

The following work program must be completed in order to maintain the Yitzhak License:

1. Execute a 3D seismic survey during the first quarter of 2011.

2. Sign a drilling agreement by the 15th of October, 2011.

3. Commence drilling by the 15th of April, 2012.

Exploration History

The Yitzhak (formally called Delta) structure is a carbonate build-up on a structurally elevated block. This structure was tested by Belpetco, in their Delta-1 well (total depth of 4423 meters) in 1970, in the Upper Jurassic Delta Formation. Recent seismic reprocessing, seismic interpretation and log analysis demonstrate a highly potential closure at the Zohar limestone level encompassing ~ 20 km2.

Most of the exploration efforts conducted until today concentrated on large structural features with little attention given to direct hydrocarbon indicators ("**DHI**") and amplitude with offset related imaging ("**AVO**"/"**AVAZ**") to identify and quantify reservoir zones. Based on recent advances in reprocessing and interpretation, it became apparent that the Gabriella and Yitzhak structures show an abundance of minor faulting/fracturing which most likely play an important role in fluid dynamics and transmissibility of the primary target reservoir (Zohar).

Samuel License

On June 15, 2010, we announced that the Israel Petroleum Commissioner's office had notified us that, subject to appeals, it had awarded a consortium led by us, the Samuel License. Through our subsidiaries, we were granted the Samuel License on August 1, 2010. The initial term of the Samuel License is for three years. This initial term may be extended for an additional four years. The license area is approximately 359 square kilometres. We hold a combined minimum interest of 38.25% in the Samuel License held through our subsidiaries Adira Oil Technologies Ltd. (100% owned) and AdiraGeo-Global Ltd (60% owned). The other consortium members are comprised of Geo-Global Resources (India) Inc., Brownstone and Pinetree Capital Ltd. A gross overriding royalty in an amount equal to 3% shall be granted to and registered in the name of AdiraGeo-Global Ltd. AdiraGeo-Global Ltd. and Geo-Global Resources (India) Inc have been designated as joint Operators of the Samuel License. AdiraGeo-Global Ltd. shall be paid an

aggregate operating fee equal to 7.5% of the cumulative direct costs incurred in connection with operating the Samuel License.

The Samuel License is located offshore Israel adjacent to the shoreline between the City of Ashkelon in the South and the City of Rishon Le'tziyon in the North.

The following work program must be completed in order to maintain the Samuel License:

1. Start the 3D seismic survey on the license by February 1, 2011.

2. Finish processing the new seismic survey and submit a preliminary report to the MNI by May 1, 2011.

3. Finish interpreting the new seismic survey and submit a summary report to the MNI by July 1, 2011.

4. Preparation of geological prospect for the first target by September 1, 2011.

5. Sign a contract with a drilling contractor by December 1, 2011.

6. Commence drilling by February 1, 2011.

Myra &Sara Licenses

On August 25, 2010, we signed a co-operation agreement with GeoGlobal Resources Inc. ("**GGR**"), pursuant to which GGR agreed to assign to us its option to acquire an additional 5% participating interest in each of the Sara License and the Myra License. GGR is presently registered as a holder of a 5% participating interest in each of the Sara License and Myra License.

The Myra and Sara and Licenses are each subject to joint operating agreement among the holders of the participating interests in the respective licenses, which joint operating agreements govern the operations with respect to the exploration work on the licenses and the change of any interest holders in these licenses. Upon receipt and review of geoscience and 3D seismic survey conducted on these licenses, we may, at our discretion, purchase the 5% participating interest in the licenses from GGR. As a condition to the acquisition of such 5% interest, we will also be required to become a signatory to the joint operating agreements and approval of the Israeli Petroleum Commissioner must also be obtained. Assuming approvals are received, and we decide to acquire the 5% interest, we will have to pay $1,200,000 in one lump sum payment to certain parties of the joint operating agreements which signature requires the approval of existing signatories to the joint operating agreement in accordance with the terms of the joint operating agreements. The option is dependent upon a number of circumstances and there is no assurance that we will be able to exercise the option.

The Myra and Sara Licenses are located offshore Israel approximately 60 km west of the City of Hadera. These license areas total 800 square kilometres.

Drilling Activity

As of the date of this Annual Report, we have drilled one exploratory well, located on the Eitan license, to a depth of two hundred metres. Prior to our acquisition of Adira Energy, no drilling activity was carried out.

C. Organizational Structure

We operate:

in Canada through our wholly owned subsidiary Adira Energy, an Ontario corporation incorporated on April 8, 2009; and in Israel, through Adira Energy's subsidiaries, namely:

- Adira Israel, an Israel corporation, (100% owned); and
- Adira Services, an Israel corporation, (100% owned).
- Adira Oil Technologies Ltd. (100% owned)

- Adira Geo-Global Ltd (60% owned - the remaining 40% is owned by GeoglobalResources (Barbados)Inc., an unrelated party.

D. Property, Plant and Equipment

(a) Corporate Offices

Our executive offices are comprised of approximately 784 square feet at120 Adelaide Street West, Suite 120, Toronto, Ontario, Canada, M4V 3A1 for which the lease cost is CDN$4,423 per monthand424 sqm at Aba Hillel Silver 12, Ramat Gan, Israel, for which the lease cost is US$12,917 per month.

(b) Special Skill and Knowledge

Our ability to complete drilling and exploration is dependent on the availability of well-trained, experienced crews to operate its field equipment and qualified management. We have a full time drilling team on its payroll, and also engages, on a full time basis, individuals with engineering skills and who are knowledgeable of the type of target to be drilled for on its Eitan License. Furthermore, we believe that ourstrategic arrangement with certain oil and gas exploration companies provides us with access to the special skills and knowledge required to assist us in the completions, testing and evaluation of our resource on the Eitan License.

(c) Foreign Operations

As a percentage of our capitalized acquisition, exploration and development costs incurred in fiscal 2010, we anticipate that we will direct approximately 100% of our fiscal 2011resources on operations in the State of Israel

(d) Competitive Conditions

The oil and gas industry in the State of Israel is, and will continue to be, competitive. Most contracts will be awarded on the basis of competitive bids. We believe that its early foray into oil and gas exploration in Israel will provide it with a competitive advantage in the drilling, testing and evaluation of our resource. Our joint venture with Brownstone will allow us to participate in new projects while limiting our financial exposure. We will further gain access to Brownstone's knowledge and established operational resources, enabling us to speed up the development of existing projects.

(e) Dependence on Customers and Suppliers

We are not dependent upon a single or few customers or supplier for revenues or our operations.

(f) Environmental Protection and Policies

We are subject to various state and district environmental laws and regulations enacted in Israel where it operates, which primarily govern the manufacture, processing, importation, transportation, handlings and disposal of certain materials used in operations, as well as limits on emissions into the air and discharges into surface and sub-surface waters. We adhere to all such laws and regulations. We may be required to increase operating expenses or capital expenditures in order to comply with any new restrictions or regulations.

We do not expect that environmental protection requirements will have a significant financial or operational effect on our capital expenditures, earnings or competitive position. Environmental requirements have not had a significant effect on such matters in fiscal 2010 nor are they currently anticipated in the future.

To date, all of our operations have been in compliance in all material respects with applicable corporate standards and environmental regulations and there were no material notices of violations, fines or convictions relating to environmental matters at any of our operations.

We believe that we are in substantial compliance with all material current government controls and regulations at each of its licenses.

See also Item 3D "Risk Factors".

ITEM 5 OPERATING AND FINANCIAL REVIEW AND PROSPECTS

The following is a discussion and analysis of the activities, consolidated results of operations and financial condition of the Company for the year ended September 30, 2010, which have been prepared on the basis of information available up until January 28, 2011. Management's Discussion and Analysis should be read in conjunction with the Company's audited consolidated financial statements and related notes for the year ended September 30, 2010, and Adira Israel's audited financial statements and related notes for the for the 164-day period from incorporation (October 26, 2008) to April 7, 2009. The Company's financial statements have been prepared in accordance with Canadian generally accepted accounting principles, and Adira Energy's financial statements have been prepared in accordance with Israeli generally accepted accounting principles. All monetary amounts are reported in United States dollars unless otherwise noted.

A. Operating Results

Summary

We are an oil and gas exploration company and from the State of Israel. Through our wholly owned subsidiary, Adira Energy and its wholly owned subsidiary Adira Israel, we have been granted four petroleum licenses consisting of one onshore petroleum license, the Eitan License and three Offshore licenses being the Gabriella License the "Yitzhak License and the Samuel License which we own through our other wholly owned subsidiary, Adira Oil Technologies Limited and our partially owned 60% subsidiary, Adira Geo Global Technologies Ltd. Our business plan is to carry out exploration activities on the Eitan License in order to assess existence of commercially exploitable quantities of natural gas as well as evaluation work on each of the Offshore Licenses to establish whether exploration is justified.

We presently do not produce any oil or gas and do not earn any significant revenues.

These consolidated financial statements include the accounts of Adira Energy, and its five subsidiaries.

Our interest in the Gabriella, Yitzhak and Samuel licenses are conducted jointly with others. Our financial statements reflect our proportionate interest in these activities. We proportionately consolidate 85% of Yitzhak and 38.25% of Samuel. As we are financially carried by MELP for our portion of the total budget of expenditure up to $8 million in the Gabriella UJV we will not proportionately consolidate our 15% working interest until we start to finance our portion of the Gabriella's expenses.

All intercompany account balances and transactions have been eliminated on consolidation.

Results of Operations

Adira Energy's predecessor is Adira Israel, which was incorporated in Israel on October 26, 2008. In order to facilitate tax planning, all of the issued and outstanding shares of Adira Israel were registered in the name of Adira Africa Corp., a privately-owned Canadian corporation, as a trustee for and on behalf of a corporation to be incorporated in Ontario - namely, Adira Energy, which was subsequently incorporated on April 8, 2009 - pursuant to a Declaration of Trust dated November 16, 2008. In December 2008, upon application to Ministry of National Infrastructures of the State of Israel, Adira Israel obtained the Eitan License, for no consideration other than the payment of a nominal stamp duty in the amount of US$3,544. Upon the incorporation of Adira Energy on April 8, 2009, Adira Africa transferred the shares of Adira Israel to Adira Energy for no consideration, as contemplated by the Declaration of Trust.

Pursuant to the Declaration of Trust, Adira Energy is in substance treated as the owner of the Adira Israel shares since the inception of Adira Israel. Further, the carrying amount of the single asset owned by Adira Israel, the Eitan license (there were no material liabilities), was recorded in the accounts of Adira Israel as of April 8, 2009 in its nominal amount of the stamp duty. Therefore, under International Financial Reporting Standards, the carrying amount of the Adira Israel shares transferred to Adira Energy on that date was of the same nominal amount.

The following discussion includes information relating to the 175-day period that commenced on April 8, 2009 (being date of incorporation of Adira Energy) and ended on September 30, 2009, since the only activity undertaken in Adira Israel from the date of acquisition of the Eitan License in December 2008 to April 7, 2009 was the application for, and the receipt of, the Eitan License. Adira Israel's financial statements do not include a statement of operations and statement of cash flows for the 164-day period from its incorporation to April 7, 2009, as there were no revenues, expenses or cash transactions during this period. Subsequent to April 7, 2009, all activities of the Company are reflected in the consolidated financial statements of Adira.

Consolidated results of operations for the year ended September 30, 2010 and the 175-day period ended September 30, 2009.

Revenues

For the year ended September 30, 2010, we earned income of $912,597 as compared to $ nil for the 175- day period ended September 30, 2009. The increase in revenues is a result of the Company having commenced its activities as the operator on its Offshore Licenses, management fees earned from MELP and MEGP and the provision of consulting services to other oil and gas companies in Israel. The breakdown of revenues for the year ended September 30, 2010 is as follows:

Revenue Categories		**Year ended September 30, 2010**	**% of Total Income**
Revenues from our licenses	$	668,586	73.3
Management and consulting Fees		186,745	20.4
Operating fees		57,326	6.3
Total Revenue	$	912,597	100%

Revenues from our licenses relates to amounts billed to the three offshore projects in respect of exploration and other expenses incurred by us, on behalf of each of the offshore projects.

Management and consulting fees relates to management fees received from Modiin in respect of our agreement with them and various consulting projects that we undertook for other companies in Israel.

Operator fees relate to fees we received as the operator on our three Offshore Licenses.

Expenses

The major categories of expenses during the year ended September 30, 2010 and during the 175-day period ended September 30, 2009 are detailed as follows:

Expenses		**Year ended September 30, 2010**	**% of Total Expenses**		**175-Day period ended September 30, 2009**	**% of Total Expenses**
Share-based compensation	$	621,751	21%	$	418,907	30%
Exploration Expenses		962,727	9%		102,664	7.42%

Operating Expenses		1,346,648	70%		861,764	63.58%
Foreign exchange loss (gain)		7,520	0%		(14,708)	-1%
Amortization		1,222	0%			
Total expenses	$	2,939,868	100%	$	1,383,335	100%

Share-based compensation

Stock based compensation during the year ended September 30, 2010 and during the 175-day period ended September 30, 2009 was attributable to stock options granted to our directors, officers, employees and consultants during these periods.

We have a stock option plan whereby options may be granted to eligible directors, officers and employees, provided that the number of shares issued under the plan does not exceed 10% of issued and outstanding common shares of the Company. Stock options may be issued at a term and exercise price to be determined by the Company's Board of Directors provided that the exercise price is no less than the market price at the date of the grant.

The Company has seven categories of stock options that have different vesting periods:

(i) Type A stock options vest over 2 years, with 12.5% vesting each quarter with the initial amount vesting on the date three months after the grant date.

(ii) Type B stock options vest 8.5% at the end of each quarter for the first two years and 8% at the end of each quarter thereafter. The initial amount will vest three months after the grant date.

(iii) Type C stock options vest over 4 years, with 6.25% vesting at the end of each quarter with the initial amount vesting on the date three months after the grant date.

(iv) Type D stock options vest at 12.5% each quarter and the initial amount vests on the business day immediately on which each of the optionees is elected or appointed as a director of the Company. In the event they are not elected as a director, all options granted expire immediately.

(v) Type E stock options vest over 2 years, with 12.5% vesting at the end of each quarter with the initial amount vesting on the date three months after the grant date.

(vi) Type F stock options vest over 4 years, with 6.25% vesting at the end of each quarter with the initial amount vesting on the date three months after the grant date.

(vii) Type G stock options vest 8.5% at the end of each quarter over two years and 8.0% at the end of each quarter thereafter with the initial amount vesting on the date three months after the grant date.

(viii) Type H stock options vest 12.5% each quarter over two years with the initial amount vesting on the date three months after the grant date.

A summary of the stock option plan and changes during the year ended September 30, 2010 and the 175-day period ended September 30, 2009 is as follows:

	Number of Options Outstanding	Weighted Average Exercise Price

Balance, April 8, 2009	-	$ -
Options granted	3,984,000	0.25
Balance September 30, 2009	3,984,000	0.25
Options granted	2,745,500	0.60
Options cancelled	(1,070,000)	0.43
Balance, September 30, 2010	5,659,000	$ 0.39

Exploration Expenses

For the year ended September 30, 2010, exploration expenses amounted to $962,727 as compared to $102,664 for the 175-day period ended September 30, 2009. The increase in exploration expenses is a result of us having completed part of the work program on the Eitan license compared with minimal exploration activities in the 2009 period. In addition, we also commenced evaluation work on our Offshore Licenses in 2010 (no such exploration activities were conducted in 2009).

Operating Expenses

For the year ended September 30, 2010, operating expenses amounted to $1,346,648 as compared to $861,764 for the 175-day period ended September 30, 2009. The increase in operating expenses results primarily from increased activity in Israel, including the hiring of staff in operations in finance and administration. Additionally, the current period relates to a full year as compares with the 175 days in the prior period.

Foreign exchange loss (gain)

For the year ended September 30, 2010, foreign exchange loss amounted to $7,520 as compared to a foreign exchange gain of $14,708 for the 175-day period ended September 30, 2009. Both the gain in 2010 and the loss in 2009 result of fluctuations in the "NIS" and Canadian dollar rates against the US dollar.

Amortization

For the year ended September 30, 2010, amortization amounted to $1,222 as compared to $ nil for the 175- day period ended September 30, 2009. Amortization for the year ended September 30, 2010 relates to amortization of computer equipment. Our drilling rig was not in use during 2010 and accordingly has not been amortized.

Tax

For the year ended September 30, 2010 we incurred Israeli taxes on income on one of our Israeli subsidiaries, Adira Services in an amount of $6,220 as compared to $ nil for the 175-day period ended September 30, 2009.

Net Loss

We reported a net loss and comprehensive loss during the year ended September 30, 2010 of $2,033,093 as compared to a net loss and comprehensive loss of $1,368,627 for the 175-day period ended September 30, 2009. The reason for the increase in the loss is as a result of an increase in exploration and operating activities, offset by revenues generated from management, operator and consulting fees.

Inflation

During the year ended September 30, 2010 and the 175-days period ended September 30, 2009, inflation has not had a material impact on our operations.

Foreign Currency Fluctuations

During the year ended September 30, 2010 and the 175-days period ended September 30, 2009, we incurred a loss of $7,521 and a gain of $14,708, respectively.

Government Regulation

There is no governmental regulation that the Company is aware of or that would affect us.

B. Liquidity and Capital Resources

Liquidity

Liquidity is a measure of a company's ability to meet potential cash requirements. We have historically met our capital requirements through the issuance of common stock as well as proceeds from the exercise of warrants and options to purchase common equity.

Our ability to continue as a going concern is dependent upon obtaining the necessary financing to complete further exploration and development activities and generate profitable operations from our oil and natural gas interests in the future. Our current operations are dependent upon the adequacy of our current assets to meet our current expenditure requirements and the accuracy of management's estimates of those requirements. Should those estimates be materially incorrect, our ability to continue as a going concern will be impaired. Our consolidated financial statements for the year ended September 30, 2010 have been prepared on a going concern basis, which contemplates the realization of assets and the settlement of liabilities and commitments in the normal course of business. We have incurred a history of operating losses and negative cash flows from operations. These matters may raise doubt about our ability to continue as a going concern.

At September 30, 2010, our cash and cash equivalents were $357,560 (September 30, 2009 - $2,354,628). The majority of this balance is being held in US funds. We have working capital of $801,000 which is available for our future operations. On November 30, 2010, we completed a private placement of $11 million.

The Company is an early-stage exploration company and currently does not generate significant cash flows from operations. The Company's primary source of funds comes from the issuance of share capital. The Company does not use other sources of financing that require fixed payments of interest and principal and is not subject to any externally imposed capital requirements.

The Company defines its capital as share capital. To effectively manage the Company's capital requirements, the Company has a planning and budgeting process in place to ensure that adequate funds are available to meet its strategic goals. The Company monitors actual expenses to budget to manage its costs and commitments.

The Company's capital management objective is to maximize investment returns to its equity-linked stakeholders within the context of relevant opportunities and risks associated with the Company's operating segment. Achieving this objective requires management to

consider the underlying nature of exploration activities, availability of capital, the cost of various capital alternatives and other factors. Establishing and adjusting capital requirements is a continuous management process.

Although the Company has been successful at raising funds in the past through the issuance of share capital, it is uncertain whether it will continue this financing due to uncertain economic conditions. The Company has sufficient funds to meet its exploration program, administrative overhead and working capital needs for the coming year.

We expect to incur expenditures to further our exploration programs. Our existing cash balance and any cash flow from operating activities is sufficient to satisfy our activities for the next 12 months. However, in order to finance exploration activities beyond 12 months, we will require additional sources of finance.

We are considering various alternatives with respect to raising additional capital to remedy any future shortfall in capital but to date have made no specific plans or arrangements. We deem it necessary to raise capital through equity markets, debt markets or other financing arrangements, including participation arrangements that may be available for continued exploration expenditures. Because of the early stage of our operations and our absence of any material oil and natural gas reserves, there can be no assurance this capital will be available and if it is not, we may be forced to substantially curtail or cease exploration, appraisal and development expenditures.

Year ended September 30, 2010 and the 175-day period ended September 30, 2009.

During the year ended September 30, 2010, our overall position in cash and cash equivalents decreased by $1,997,068. This decrease in cash can be attributed to the following activities:

Our net cash used in operating activities during the year ended September 30, 2010 was $1,958,121 as compared to $359,229 for the 175-day period ended September 30, 2009. This increase is attributable to and consistent with the increase in our exploration and operating activities for the year ended September 30, 2010, compared to the prior period.

Cash used in investing activities during the year ended September 30, 2010 was $38,947 as compared to $379,262 during the 175-day period ended September 30, 2009.The investment in 2010 relates primarily to the purchase of additional drilling related equipment for the Eitan license, computer equipment in Israel and license fees. The investment in 2009 relates to the deposit paid on the drilling rig on the Eitan license.

Cash provided by financing activities for the year ended September 30, 2010 was $nil as compared to $2,195,771 during the 175-day period ended September 30, 2009. During the year ended September 31, 2010, no shares were issued as compared to the following activities for the 175-day period ended September 30, 2009:

- In April 2009, the Company issued 12,000,000 common shares upon incorporation to directors of the Company for services performed prior to incorporation. A non-cash expense equal to the estimated fair value of the shares issued (CDN $0.05 per share) totaling $485,929, was charged to share-based compensation expense in the consolidated statement of operation.
- In April 2009, Adira issued 10,500,000 common shares at CDN $0.05 per share for gross proceeds of $424,759.
- During the 175-day period ended September 30, 2009, Adira issued 7,600,000 units at $0.25 per unit for gross proceeds of $1,900,000. AMG issued 400,000 of the units at $0.25 per unit for gross proceeds of $100,000 subsequent to the completion of the RTO. Each unit consisted of one common share of Adira/AMG and one-half of one common share purchase warrant. Each warrant entitles the holder to purchase one common share of Adira/AMG at a price of $0.50 per common share for a period of two years. In connection with the private placement, Adira issued 240,001 common shares as a finder's fee at a deemed cost of $0.25 per share for a total deemed cost of $60,000 and 500,770 warrants to agents as finders' fees valued at $100,154. The warrants are exercisable at $0.25 per common share and expire August 31, 2011. The fair value of these agent's warrants was $100,154 were calculated using the Black-Scholes option pricing model. An additional $228,988 of share issuance costs were incurred.

Capital Resources

At September 30, 2010, our cash and cash equivalents were $357,560 (September 30, 2009 - $2,354,628), the majority of this balance is being held in US funds. Our working capital at September 30, 2010 was $801,000 as compared to $2,250,066 as at September 30, 2009. On November 30, 2010, we completed a private placement of $11,000,000.

Commitments

In order to maintain current rights to tenure of exploration tenements, the Company will be required to expend amounts in respect of tenement rent to the relevant governing authorities and to meet certain annual exploration expenditure commitments. It is likely that variations to the terms of the current and future tenement holding, the granting of new tenements and changes at renewal or expiry, will change the expenditure commitments for the Company from time to time.

The Company intends to meet all of its drilling and related expenditures as they become due to maintain the Company's interests in its oil & gas properties. These oil & gas expenditure obligations are not fixed and cannot be pre-determined with certainty. Failure to meet the obligations may result in the loss of the Company's ownership interests.

Critical Accounting Issues

Certain accounting principles require us to make certain estimates, judgments and assumptions. We believe that the estimates, judgments and assumptions upon which we rely are reasonable based upon information available to us at that time. These estimates, judgments and assumptions can affect the reported amounts of assets and liabilities as of the date of the financial statements, as well as the reported amounts of revenues and expenses during the periods presented. To the extent there are material differences between these estimates, judgments or assumptions and actual results, our financial statements will be affected. The significant accounting policies that we believe are the most critical to aid in fully understanding and evaluating our reported financial results include the following:

- Foreign Currency Translation
- Accounting for Oil and Gas Properties
- Accounting for Income Taxes
- Accounting for Stock based compensation
- Adoption of International Financial Reporting Standards

Foreign Currency Translation

The Company's functional and reporting currency is the United States ("US") dollar. Our foreign operations are considered financially and operationally integrated. All transactions in currencies other than the US dollar are translated as follows:

- Monetary assets and liabilities are translated at the rate of exchange in effect as of the balance sheet date;
- Non-monetary assets and liabilities, at the exchange rates prevailing on the date of the acquisition of the asset or assumption of the liabilities; and
- Revenues and Expenses, at the rate in effect on the date of the transaction.

Gains or losses resulting from the translation are included in the determination of net income or loss for the period.

Accounting for Oil and Gas Properties

We follow the successful efforts method of accounting for its exploration activities. Under the successful efforts method, acquisition costs of proved and unproved properties are capitalized. Costs of unproved properties are transferred to proved properties when proved reserves are confirmed. Exploration costs, including geological and geophysical costs, are expensed as incurred. Exploratory drilling costs are initially capitalized. If it is determined that a specific well does not contain proved reserves, the related capitalized exploratory drilling costs are charged to expense. To date, all exploration costs have been charged to operations. The exploration and evaluation asset of $3,544 at April 7, 2009 is in respect of a stamp duty cost for the registration of the Eitan License.

Development costs, which include the costs of wellhead equipment, development drilling costs and handling facilities, applicable geological and geophysical costs, and the costs of acquiring or constructing support facilities and equipment, are capitalized. Costs incurred to operate and maintain wells and equipment and to lift oil and gas to the surface will be expensed as operating costs. If and when the Company achieves production, acquisition costs of proved properties will be depleted using the unit-of-production method based on proved reserves. Capitalized exploratory drilling costs and development costs will be depleted on the basis of proved developed reserves by area. Support facilities and equipment will be depreciated on a straight-line basis over their useful lives.

Property costs by area are reviewed for impairment at least annually to consider whether there are conditions that may indicate impairment. The carrying value of each property is compared to its net recoverable amount as estimated by quantifiable evidence of the market value of similar land or geological resources. If the carrying value is found to exceed the estimated net recoverable amount, a write down will be recorded.

Income Taxes

We follow the asset and liability method of accounting for income taxes. Under this method of tax allocation, future income tax assets and liabilities are determined based on differences between the financial statement carrying values and their respective income tax basis (temporary differences). Future income tax assets and liabilities are measured using the tax rates expected to be in effect when the temporary differences are likely to reverse. The effect on future income tax assets and liabilities of a change in tax rates is included in operations in the period in which the change is enacted or substantially enacted. The amount of future income tax assets recognized is limited to the amount of the benefit that is more likely than not to be realized.

Share-Based Compensation

We account for share-based compensation using a fair value based method with respect to all stock-based payments measured and recognized, to directors, employees and non-employees. For payments of services through the issuance of shares, the fair value is the market price of the shares issued by us or the value of the services received, depending on which is the more reliable measure.

For directors and employees, the fair value of the options is measured at the date of grant. For non-employees, the fair value of the options or warrants are measured on the earlier of the date at which the counterparty performance is completed or the date the performance commitment is reached or the date at which the equity instruments are granted if they are fully vested and non-forfeitable. The fair value of the options or warrants are accrued and charged either to operations, oil and gas interests, or share issue costs with the offset credit to contributed surplus. For directors and employees the options are recognized over the vesting period, and for non-employees the options are recognized over the related service period. If and when the stock options are ultimately exercised, the applicable amounts of contributed surplus are transferred to share capital.

Adoption of International Financial Reporting Standards

January 1, 2011 has been confirmed by the Canadian Accounting Standards Board as the date that International Financial Reporting Standards ("IFRS") will replace Canadian GAAP as the financial reporting framework for publicly accountable enterprises. The Company will report under IFRS for interim and annual periods beginning October 1, 2011. Comparative information for 2010 will be restated to comply with IFRS reporting requirements.

The Company has initiated an assessment of those components of its operations that are likely to be impacted as a result of the adoption of IFRS to replace Canadian GAAP. The Company's approach to implementation of IFRS reporting is to identify those components of its financial statements that are likely to be impacted by the adoption of IFRS reporting, assess the extent of such impact, determine a process to implement the change to IFRS reporting and determine the restatement of comparative figures required as a result of the implementation of certain IFRS reporting standards.

While the adoption of IFRS will not change the actual cash flows of the Company, it will result in changes to its reported financial position and results of operations, which could materially impact the Company's reported financial position and results of operations.

The Company identified a three phase plan to adopt IFRS by 2011 as follows:

Phase 1 -Scoping and Planning

This phase involves identifying differences between IFRS and existing Canadian GAAP, and determining their applicability and impact on the Company's reporting requirements. This phase was completed in the second quarter of 2010.

Phase 2 - Evaluation and Design

This phase includes the detailed review and selection of accounting policy options, required to comply with IFRS standards. Also included, is the assessment of the conversion to IFRS on business activities, controls over financial reporting, and disclosure requirements.

IFRS 1 - First Time Adoption of IFRS and Opening Balance Sheet Quantifications

IFRS 1 requires an entity to comply with each IFRS effective at the reporting date for its first IFRS financial statements. In particular, the IFRS requires an entity to do the following in the opening IFRS balance sheet that it prepares as a starting point for its accounting under IFRSs:

(a) recognize all assets and liabilities whose recognition is required by IFRSs;

(b) not recognize items as assets or liabilities if IFRSs do not permit such recognition;

(c) reclassify items that it recognized under previous GAAP as one type of asset, liability or component of equity, but are a different type of asset, liability or component of equity under IFRSs; and

(d) apply IFRSs in measuring all recognized assets and liabilities.

IFRS 1 offers entities adopting IFRS for the first time with a number of exemptions (optional and in some areas mandatory). The Company is currently evaluating exemptions available to determine the most appropriate to its circumstances. The most appropriate IFRS 1 exemptions applicable to the Company that have been identified to date are:

Property, Plant and Equipment

The IFRS 1 election related to property, plant and equipment allows the Company to report property, plant and equipment in its balance sheet on the transition date at a deemed cost instead of actual cost. The exemption can be applied on an asset-by-asset basis.

IAS 36 Impairment of Assets

The objective of this Standard is to prescribe the procedures that an entity applies to ensure that its assets are carried at no more than their recoverable amount.

The Company is currently assessing the impact of this standard on its reporting requirements.

IFRS 2 Share Based Payments

This standard provides guidance for the recognition and measurement of share-based payments. Management must determine the fair value of a share-based payment at the grant date and the period over which this fair value should be recognized.

The Company is evaluating the impact of this standard.

IFRS 6 Exploration for and Evaluation of Mineral Resources

The objective of this standard is to specify the financial reporting for the exploration for and evaluation of mineral resources. Under IFRS 6, the Company may continue to use its current accounting policies for reporting on and evaluating its mineral resources. This includes continuing to use recognition and measurement practices that are part of those accounting policies.

The Company is currently reviewing its impairment testing requirements under IFRS 6 and the requirement to report the allocation of exploration assets to cash-generating units or groups of cash-generating units for the purpose of assessing such assets for impairment.

IAS 16 Property, Plant and Equipment

This standard establishes the requirements for the recognition, measurement, depreciation and impairment of Property, Plant and Equipment (Excluding exploration and evaluation assets).

The Company is currently assessing the impact of this standard on its reporting requirements.

IAS 37 Provisions, Contingent Liabilities and Contingent Assets

This requires that appropriate recognition criteria and measurement bases are applied to provisions, contingent liabilities and contingent assets and that sufficient information is disclosed in the notes to enable users to understand their nature, timing and amount.

The Company is currently assessing the impact of this standard on its reporting requirements.

IAS 12 Income Taxes

The objective of this standard is to prescribe the accounting treatment for income taxes. For the purposes of this standard, income taxes include all domestic and foreign taxes which are based on taxable profits. Income taxes also include taxes, such as withholding taxes, which are payable by a subsidiary, associate or joint venture on distributions to the reporting entity.

As the Company is still in the exploration phase, this standard will not have any immediate impact on the Company's reporting requirements

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Phase 3 - Implementation and Review

The phase involves the actual implementation of IFRS standards which will involve the finalization of IFRS conversion impacts, approval and implementation of accounting policies and disclosures, implementation and testing of new processes, systems and controls, and the provision of detailed training where required.

The Company is currently assessing the consequence of the conversion to IFRS on its reporting obligations.

C. Research and Development, Patents and Licences

Not applicable.

D. Trend Information

We are not aware of any trends that have or are reasonably likely to have a current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that is material to investors. For information on risks associated to the Company refer to Item 3.D - "Risk Factors".

E. Off-Balance Sheet Arrangements

We do not have any off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that is material to investors.

F. Tabular Disclosure of Contractual Obligations

The following sets forth our contractual obligations as of the date hereof:

	Payments due by period				
Contractual Obligations	**Total**	**Less than 1 year**	**1-3 years**	**3-5 years**	**More than 5 years**
Long-Term Debt Obligations	-	-	-	-	-
Capital (Finance) Lease Obligations	-	-	-	-	-
Operating Lease Obligations	497,619	146,929	337,128	13,562	0

Purchase Obligations	-	-	-	-	-
Other Long-Term Liabilities Reflected on the Company's Balance Sheet under the GAAP of the primary financial statements	-	-	-	-	-
Total	**497,619**	**146,929**	**337,128**	**13,562**	**0**

G. Safe Harbor

The safe harbor provided in s. 27A of the Securities Act and s. 21E of the Exchange Act shall apply to forward-looking information provided pursuant to Item 5.E and F where applicable.

ITEM 15 CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

Disclosure controls and procedures are defined in Rule 13a-15(e) and 15d-15(e) under the *Securities Exchange Act of 1934* ("**Exchange Act**") to mean controls and other procedures of an issuer that are designed to ensure that information required to be disclosed by the issuer in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms and includes, without limitation, controls and procedures designed to ensure that such information is accumulated and communicated to the issuer's management, including its principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

Under the supervision and with the participation of our Chief Executive Officer and Chief Financial Officer, our management conducted a re-evaluation of the effectiveness of our Company's disclosure controls and procedures as of September 30, 2010, given that certain audited financial statements of Adira Israel were omitted from the Original Filing, as we had not yet determined that Adira Israel was our predecessor entity. Our Chief Executive Officer and Chief Financial Officer, after completing this evaluation, concluded that, as of such date, our disclosure controls and procedures were not effective in ensuring that information required to be disclosed by the Company was recorded, processed, summarized and reported within the time periods specified in the Exchange Act Rules and forms.

Management's Annual Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting. The Exchange Act in Rule 13a-15(f) and 15d-15(f) defines this as a process designed by, or under the supervision of, the company's principal executive and principal financial officers and effected by the company's board of directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles and includes those policies and procedures that:

- pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company;
- provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and
- provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the company's assets that may have a material effect on the financial statements.

Under the supervision and with the participation of our chief executive officer and chief financial officer, our management assessed the effectiveness of the Company's internal control over financial reporting as at September 30, 2010. In making this assessment, the Company's management used the criteria, established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based upon this assessment, our management concluded that the Company's internal control over financial reporting was effective as at September 30, 2010.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness of internal control over financial reporting to future periods are subject to risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

This Annual Report does not include an attestation report of the Company's registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by the Company's registered public accounting firm pursuant to a final rule of the SEC that permits the Company to provide only management's report in the Annual Report.

Changes in Internal Control over Financial Reporting

During the period ended September 30, 2010, there were no changes in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) of the Exchange Act) that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART III

ITEM 17 FINANCIAL STATEMENTS

The following attached financial statements are incorporated herein:

1. Audited Consolidated Financial Statements of the Company for the period ended September 30, 2010, comprised of the following:

   (A) Consolidated balance sheet as at September 30, 2010

   (B) Consolidated statement of operations, comprehensive loss and deficit for the year ended September 30, 2010

   (C) Consolidated statement of cash flows for the year ended September 30, 2010

   (D) Notes to consolidated financial statements

2. Audited Financial Statements of Adira Israel for the period ended April 7, 2009, comprised of the following:

   (A) Balance sheet as at April 7, 2009

   (B) Statement of changes in equity for the 164-day period from incorporation (October 26, 2008) to April 7, 2009

   (C) Notes to financial statements

ADIRA ENERGY LTD.
(Formerly AMG OIL LTD.)
(An Exploration Stage Enterprise)
Consolidated Financial Statements
For the Year Ended September 30, 2010 and for the 175-day period ended September 30, 2009
(Expressed in United States Dollars)

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MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The accompanying consolidated financial statements of Adira Energy Ltd. (An Exploration Stage Enterprise) have been prepared by management in accordance with Canadian generally accepted accounting principles and reflect management's best estimates and judgment based on information currently available. The financial information contained elsewhere in this information circular has been reviewed to ensure consistency with the consolidated financial statements.

Management maintains systems of internal control designed to provide reasonable assurance that the Company's assets are safeguarded. All transactions are authorized and duly recorded and financial records are properly maintained to facilitate financial statements in a timely manner. The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and is ultimately responsible for reviewing and approving the financial statements. The Board carries out this responsibility principally through its Audit Committee.

The Audit Committee of the Board of Directors has reviewed the consolidated financial statements with management and the external auditors. The consolidated financial statements for the years ended September 30, 2010 and 2009 have been audited by MSCM LLP on behalf of the shareholders. They have audited the consolidated financial statements in accordance with Canadian generally accepted auditing standards to enable them to express to the shareholders their opinion on the consolidated financial statements for the years ended September 30, 2010 and 2009.

"Ilan Diamond"	*"Gadi Levin"*
Chief Executive Officer	Chief Financial Officer

Toronto, Ontario
January 28, 2011

Auditors' Report

To the Shareholders of
Adira Energy Ltd. (Formerly AMG OIL LTD.)
(An Exploration Stage Enterprise)

We have audited the consolidated balance sheet of Adira Energy Ltd. (formerly AMG OIL LTD.) (An Exploration Stage Enterprise) as at September 30, 2010 and the consolidated statements of operations and comprehensive loss and deficit, and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at September 30, 2010 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

The consolidated financial statements as at September 30, 2009 and for the 175-day period ended September 30, 2009 were audited by other auditors who expressed an opinion without reservation on those statements in their report dated November 13, 2009.

Toronto, Ontario
January 28, 2011

ADIRA ENERGY LTD.
(Formerly AMG OIL LTD.)
(An Exploration Stage Enterprise)
Consolidated Balance Sheets
As of September 30, 2010 and 2009
(Expressed in United States Dollars)

	September 30, 2010	September 30, 2009
Assets		
Current Assets		
Cash and cash equivalents	$ 357,560	$ 2,354,628
Accounts receivable	553,225	9,437
Prepaid expenses and consumables	459,126	12,978
Total Current Assets	1,369,911	2,377,043
Equipment deposit (note 6)	-	372,600
Property, plant and equipment (note 6)	397,631	-
Oil and gas licenses (note 7)	19,356	6,662
Total Assets	$ 1,786,898	$ 2,756,305
Liabilities and Shareholders' Equity		

Current Liabilities		
Accounts payable and accrued liabilities (note 7)	$ 568,912	$ 126,977
Total Current and Long-Term Liabilities	568,912	126,977
Shareholders' Equity		
Share Capital (note 9)	3,478,894	3,478,894
Contributed Surplus (note 9(e))	1,140,812	519,061
Deficit	(3,401,720)	(1,368,627)
Total Shareholders' Equity	1,217,986	2,629,328
Total Liabilities and Shareholders' Equity	$ 1,786,898	$ 2,756,305

Going concern (note 1)
Commitments and contingencies (note 11)
Subsequent events (note 13)

Approved on Behalf of the Board

"Alan Friedman" (signed) Director

"Ilan Diamond" (signed) Director

The accompanying notes are an integral part of these consolidated financial statements.

ADIRA ENERGY LTD.
(Formerly AMG OIL LTD.)
(An Exploration Stage Enterprise)
Consolidated Statements of Operations, Comprehensive Loss and Deficit
For the year ended September 30, 2010 and for the 175-day period ended September 30, 2009
(Expressed in United States Dollars)

	Year ended September 30, 2010	**175-day period ended September 30, 2009**
Revenue		
Consulting fees and management fees	$ 912,597	$ -
Expenses		
Share-based compensation (note 9(c))	621,751	418,907
Exploration expenses (note 7)	962,727	102,664
Operating expenses (note 8)	1,346,648	861,764
Foreign exchange loss (gain)	7,520	(14,708)
Amortization	1,222	-
Total expenses	2,939,868	1,368,627
Loss before other items	(2,027,271)	(1,368,627)
Interest income	398	-
Income taxes	(6,220)	-
Net loss and comprehensive loss for the period	(2,033,093)	(1,368,627)
Deficit, beginning of period	(1,368,627)	-
Deficit, end of period	$ (3,401,720)	$ (1,368,627)
Basic and diluted loss per share	$ (0.05)	$ (0.05)
Weighted average number of common shares outstanding, basic and diluted	62,640,001	26,415,343

The accompanying notes are an integral part of these consolidated financial statements

ADIRA ENERGY LTD.
(Formerly AMG OIL LTD.)
(An Exploration Stage Enterprise)
Consolidated Statements of Cash Flows
For the year ended September 30, 2010 and for the 175-day period ended September 30, 2009
(Expressed in United States Dollars)

		Year ended September 30, 2010		175-day period ended September 30, 2009
Operating Activities				
Net loss for the period	$	(2,033,093)	$	(1,368,627)
Non-cash items				
Shares issued for consulting fees		-		485,929
Share-based compensation		621,751		418,907
Amortization		1,222		
		(1,410,120)		(463,791)
Changes in non-cash working capital				
Accounts receivable		(543,788)		(9,437)
Prepaid expenses and consumables		(446,148)		(12,978)
Accounts payable and accrued liabilities		441,935		126,977
Cash used for operating activities		(1,958,121)		(359,229)
Investing Activities				
Equipment deposit		-		(372,600)
Property, plant and equipment, net		(26,253)		-
Oil and gas licenses		(12,694)		(6,662)
Cash used for investing activities		(38,947)		(379,262)
Financing Activities				
Net proceeds from the issuance of common shares		-		2,195,771
Cash acquired through the acquisition of AMG Oil Ltd.		-		897,348
(Decrease) increase in cash and cash equivalents		(1,997,068)		2,354,628
Cash and cash equivalents, beginning of period		2,354,628		-
Cash and cash equivalents, end of period	$	357,560	$	2,354,628
Supplemental cash flow information				
Interest paid	$	-	$	-
Income taxes paid	$	-	$	-
Shares issued as finder's fees related to the reverse takeover transaction	$	-	$	60,000
Warrants issued to agents as compensation for services provided	$	-	$	100,154

The accompanying notes are an integral part of these consolidated financial statements

1. Nature of Operations, Basis of Presentation and Going Concern

Adira Energy Ltd. was incorporated on February 20, 1997 under the name Trans New Zealand Oil Company in the State of Nevada, United States of America. It changed its name to AMG Oil Ltd. ("AMG" or the "Company") on July 27, 1998. On November 25, 2008, the Company's shareholders approved the change of its jurisdiction of incorporation from the State of Nevada to the Canadian federal jurisdiction. On August 31, 2009, AMG completed a share exchange with Adira Energy Corp. ("Adira"), an oil and gas exploration and development company incorporated under the Ontario *Business Corporations Act*, on April 8, 2009 which resulted in a reverse takeover by Adira of AMG (note 2). On December 24, 2009 the corporate name of the Company has been changed to become Adira Energy Ltd.

These consolidated financial statements have been prepared on a going concern basis, which assumes the realization of assets and liquidation of liabilities in the normal course of business. As of September 30, 2010, the Company has incurred losses of $3,401,720 since inception. The ability of the Company to continue as a going concern depends upon the discovery of economically recoverable reserves, the ability of the Company to obtain financing to complete development, and upon future profitable operations from the properties or proceeds from their disposition. The Company is an exploration early-stage enterprise and has not earned significant revenues to date.

2. Share Exchange Agreement

On April 29, 2009, AMG entered into a letter of intent to purchase all of the issued and outstanding shares of Adira in exchange for shares of AMG. As part of the arrangement, Adira conducted a share split to increase Adira's number of issued and outstanding common shares from 22,500,000 to 31,200,000. The share exchange ratio was one common share of AMG for each issued and outstanding common share of Adira. The proposed transaction was further subject to Adira completing a private placement of a minimum of $2,000,000 by issuance of 8,000,000 units.

Pursuant to the share exchange agreement dated August 31, 2009, AMG acquired all of the issued and outstanding common shares of Adira by issuing 39,040,001 common shares of the Company to Adira's shareholders on a one for one basis.

As a result, the original shareholders of AMG own 37% of the shares of the resulting Company and the former shareholders of Adira own 63% of the resulting Company as follows (note 9(b)):

Issued and outstanding number of shares after share exchange		Percentage
AMG	23,200,000	37%
Adira	39,040,001	63%
Total outstanding shares	62,240,001	100%

As the shareholders of Adira obtained control of the resulting Company, the share exchange was considered to be a reverse takeover ("RTO") transaction. Accordingly, for accounting purposes Adira is the acquirer. The assets and liabilities of Adira are included at carrying value and the assets and liabilities of AMG are included at fair value.

Share capital represents the authorized and issued number of shares of AMG (the legal parent) and the share capital amount, contributed surplus and deficit of Adira (the legal subsidiary), the ongoing operating company (note 9).

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3. Significant Accounting Policies

Management has prepared the accompanying consolidated financial statements in United States dollars and in accordance with Canadian generally accepted accounting principles ("GAAP"). Canadian GAAP differs in certain respects from accounting principles generally accepted in the United States, as described in note 14. The significant accounting policies used in the presentation of the consolidated financial statements are as follows:

Basis of Consolidation

These consolidated financial statements include the accounts of Adira Energy Ltd., the accounts of its wholly-owned Canadian subsidiary, Adira Energy Holding Ltd. and the accounts of its wholly and partially-owned Israeli subsidiaries, Adira Energy Israel Ltd. (100%) ("Adira Israel"), Adira Energy Israel Services Ltd. (100%), Adira Oil Technologies Ltd. (100%) and Adira Geo Global Ltd. (60%), (together "the Company"). The other 40% of Adira Geo Global Ltd is held by Geoglobal Resourses (Barbados) Inc., an unrelated party. Adira Oil Technologies Ltd. and Adira Geo Global Ltd. were incorporated under the laws of Israel in May 2010.

Joint Operations

Substantially all of the Company's exploration and development activities are conducted jointly with others and, accordingly, the consolidated financial statements reflect only the Company's proportionate interest in such activities.

Foreign Currency Translation

The Company's functional and reporting currency is the United States ("US") dollar. The Company's foreign operations are considered financially and operationally integrated. All transactions in currencies other than the US dollar are translated as follows:

- Monetary assets and liabilities are translated at the rate of exchange in effect as of the balance sheet date;
- Non-monetary assets and liabilities, at the exchange rates prevailing on the date of the acquisition of the asset or assumption of the liabilities; and
- Revenues and expenses, at the rate in effect on the date of the transaction.

Gains or losses resulting from the translation are included in the determination of net income or loss for the period.

Measurements Uncertainty

The preparation of financial statements in conformity with Canadian GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingencies at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Significant areas requiring the use of management estimates relate to accrued liabilities, useful lives of property, plant and equipment, the determination of variables used in the calculation of share-based compensation, warrants issued to agents, and determination of the valuation allowance for future income tax assets. While management believes the estimates are reasonable, actual results could differ from those estimates and could impact future results of operations and cash flows.

Cash and Cash Equivalents

Cash and cash equivalents include cash balances held with reputable financial institutions and highly liquid investments with an initial maturity of three months or less. The Company places its temporary cash and cash equivalents with high credit quality financial institutions.

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3. Significant Accounting Policies (continued)

Earnings (loss) per Common Share

Basic earnings (loss) per common share are calculated using the weighted average number of common shares outstanding during the period. The Company uses the treasury stock method to compute the dilutive effect of options, warrants and similar instruments. Under this method the dilutive effect on earnings (loss) per share is calculated presuming the exercise of outstanding options, warrants and similar instruments. It assumes that the proceeds of such exercise would be used to repurchase common shares at the average market price during the period. However, the calculation of diluted earnings (loss) per share excludes the effects of various conversions and exercise of options and warrants that would be anti-dilutive.

Financial Instruments

All financial instruments are classified as one of the following: held-to-maturity, loans and receivables, held-for-trading, available-for-sale or other financial liabilities. Financial assets and liabilities held-for- trading are measured at fair value with gains and losses recognized in net income (loss). Financial assets held-to-maturity, loans and receivables, and other financial liabilities are measured at amortized cost using the effective interest method. Available-for-sale instruments are measured at fair value with unrealized gains and losses recognized in other comprehensive income (loss) and reported in shareholders' equity. Any financial instrument may be designated as held-for-trading upon initial recognition.

Transaction costs that are directly attributable to the acquisition or issue of financial instruments that are classified as other than held-for-trading, which are expensed as incurred, are included in the initial carrying value.

Comprehensive income or loss is defined as the change in equity from transactions and other events from sources other than the Company's shareholders. Other comprehensive income or loss refers to items recognized in comprehensive income or loss that are excluded from operations calculated in accordance with GAAP.

The Company has no items of other comprehensive income in the period presented. Therefore, net loss as presented in the Company's consolidated statement of operations equals comprehensive loss.

Share-Based Compensation

The Company accounts for share-based compensation using a fair value based method with respect to all stock-based payments measured and recognized, to directors, employees and non-employees. For payments of services through the issuance of shares, the fair value is the market price of the shares issued by the Company or the value of the services received, depending on which is the more reliable measure.

For directors and employees, the fair value of the options is measured at the date of grant. For non- employees, the fair value of the options or warrants are measured on the earlier of the date at which the counterparty performance is completed or the date the performance commitment is reached or the date at which the equity instruments are granted if they are fully vested and non-forfeitable. The fair value of the options or warrants are accrued and charged either to operations, oil and gas interests, or share issue costs with the offset credit to contributed surplus. For directors and employees the options are recognized over the vesting period, and for non-employees the options are recognized over the related service period. If and when the stock options are ultimately exercised, the applicable amounts of contributed surplus are transferred to share capital.

Revenue Recognition

Management, operator and consulting fees, are recognized as revenues on a monthly basis when the services are rendered and collectability is reasonably assured.

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3. Significant Accounting Policies (continued)

Property, Plant and Equipment

Property, plant and equipment include a drilling rig and related equipment and computer hardware, software and accessories, and are recorded at cost less accumulated amortization. Amortization is calculated using the methods set out below, at annual rates from the date of acquisition based on their estimated useful lives as follows:

Asset Class	Annual Rate	Method
Drilling rig	10%	Straight-line
Computer equipment	33%	Straight-line

Impairment of Long-Lived Assets

Long-lived assets to be held and used by the Company, other than petroleum and natural gas properties, are reviewed for possible impairment whenever planned principal operations or changes in circumstances indicate that the carrying amount of the assets may not be recoverable. An impairment is considered to exist if total estimated future cash flows on an undiscounted basis are less than the carrying amount of the asset. An impairment loss is measured and recorded based on the estimated fair value of the assets. Assumptions underlying future cash flow estimates are subject to risks and uncertainties. Any differences between significant assumptions used and actual market conditions and/or the Company's performance could have a material effect on the Company's financial position and results of operations.

Income Taxes

The Company follows the asset and liability method of accounting for income taxes. Under this method of tax allocation, future income tax assets and liabilities are determined based on differences between the financial statement carrying values and their respective income tax basis (temporary differences). Future income tax assets and liabilities are measured using the tax rates expected to be in effect when the temporary differences are likely to reverse. The effect on future income tax assets and liabilities of a change in tax rates is included in operations in the period in which the change is enacted or substantially enacted. The amount of future income tax assets recognized is limited to the amount of the benefit that is more likely than not to be realized.

Asset Retirement Obligations ("ARO")

The Company recognizes an estimate of the liability associated with an ARO in the consolidated financial statements at the time the liability is incurred. The estimated fair value of the ARO is recorded as a long-term liability, with a corresponding increase in the carrying amount of the related asset. The capitalized amount will be depleted on a straight-line basis over the estimated life of the asset. The liability amount is increased each reporting period due to the passage of time and the amount of accretion is charged to earnings in the period. The ARO can also increase or decrease due to changes in the estimates of timing of cash flows or changes in the original estimated undiscounted cost. Actual costs incurred upon settlement of the ARO are charged against the ARO to the extent of the liability recorded. As of September 30, 2010, the Company has determined that it has no material ARO's to record in the consolidated financial statements.

For the year ended September 30, 2010 and for the 175-day period ended September 30, 2009
(Expressed in United States Dollars)

3. Significant Accounting Policies (continued)

Oil and Gas Properties

The Company follows the successful efforts method of accounting for its exploration activities. Under the successful efforts method, acquisition costs of proved and unproved properties are capitalized. Costs of unproved properties are transferred to proved properties when proved reserves are confirmed. Exploration costs, including geological and geophysical costs, are expensed as incurred. Exploratory drilling costs are initially capitalized. If it is determined that a specific well does not contain proved reserves, the related capitalized exploratory drilling costs are charged to expense. To date all exploration costs have been charged to operations.

Development costs, which include the costs of wellhead equipment, development drilling costs and handling facilities, applicable geological and geophysical costs, and the costs of acquiring or constructing support facilities and equipment, are capitalized. Costs incurred to operate and maintain wells and equipment and to lift oil and gas to the surface will be expensed as operating costs. If and when the Company achieves production, acquisition costs of proved properties will be depleted using the unit-of-production method based on proved reserves. Capitalized exploratory drilling costs and development costs will be depleted on the basis of proved developed reserves by area. Support facilities and equipment will be depreciated on a straight-line basis over their useful lives.

Property costs by area are reviewed for impairment at least annually to consider whether there are conditions that may indicate impairment. The carrying value of each property is compared to its net recoverable amount as estimated by quantifiable evidence of the market value of similar land or geological resources. If the carrying value is found to exceed the estimated net recoverable amount, a write down will be recorded.

Warrants

Proceeds received on the issuance of units, consisting of common shares and warrants, are allocated first to common shares based on the market trading price of the common shares at the time the units are priced or issued, and any excess is allocated to warrants.

Recent Accounting Pronouncements

In January 2009, the CICA issued the new handbook Section 1582, "Business Combinations," effective for fiscal years beginning on or after January 1, 2011. Earlier adoption of Section 1582 is permitted. This pronouncement further aligns Canadian GAAP with IFRS and changes the accounting for business combinations in a number of areas. It establishes principles and requirements governing how an acquiring company recognizes and measures, in its financial statements, identifiable assets acquired, liabilities assumed, any non-controlling interest in the acquiree, and goodwill acquired. The section also establishes disclosure requirements that will enable users of the acquiring company's financial statements to evaluate the nature and financial effects of its business combinations. Although the Company is considering the impact of adopting this pronouncement on its consolidated financial statements in connection with its conversion to IFRS, the impact will be limited to any future acquisitions beginning in fiscal 2011.

In January 2009, the CICA issued the new Handbook Section 1601, "Consolidated Financial Statements," and Section 1602, "Non-Controlling Interests," effective for fiscal years beginning on or after January 1, 2011. Earlier adoption of these recommendations is permitted. These pronouncements further align Canadian GAAP with US GAAP and IFRS. Sections 1601 and 1602 change the accounting and reporting of ownership interests in subsidiaries held by parties other than the parent. Non-controlling interests are to be presented in the consolidated statements of financial position within equity but separate from the parent’s equity. The amount of consolidated net income attributable to the parent and to the non-controlling interest is to be clearly identified and presented on the face of the consolidated statement of income. In addition, these pronouncements establish standards for a change in a parent’s ownership interest in a subsidiary and the valuation of retained non-controlling equity investments when a subsidiary is deconsolidated. They also establish reporting requirements for providing sufficient disclosures that clearly identify and distinguish between the interests of the parent and the interests of the non-controlling owners. The Company is currently considering the impact of adopting these pronouncements on its consolidated financial statements in fiscal 2011 in connection with its conversion to IFRS.

3. Significant Accounting Policies (continued)

Recent accounting pronouncements (continued)

The Canadian Accounting Standards Board has confirmed that publicly accountable, profit oriented enterprises will be required to adopt IFRS for fiscal years beginning on or after January 1, 2011. The Company will be required to begin reporting under IFRS for its first quarter ending December 31, 2011 with restatement of comparative information presented. The conversion to IFRS will impact the Company's accounting policies, information technology systems, taxes, contractual commitments involving GAAP based clauses, long-term employee compensation plans and performance metrics. Accordingly the Company is in the process of putting measures into place to provide training to key finance personnel, to review contracts and agreements and to increase the level of awareness and knowledge amongst management, the Board of Directors and the Audit Committee. Additional resources will be engaged to ensure the timely conversion to IFRS. As of September 30, 2010, the Company has completed an IFRS diagnostic, is in the process of finalizing the elections under IFRS 1 "First Time Adoption to IFRS", is in the process of determining accounting policies choices and procedures, IT and data systems, internal control over financial reporting, and training of its employees impacted in the IFRS conversion.

4. Financial Instruments and Risk Management

The Company's financial instruments have been designated as follows:

Cash and cash equivalents	- Held-for-trading;
Accounts receivable	- Loans and receivables;
Accounts payable and accrued liabilities	- Other financial liabilities.

The carrying values of cash and cash equivalents, accounts receivable and accounts payable and accrued liabilities approximate their fair values due to the short-term maturity of these consolidated financial instruments.

Fair value

The Company's financial instruments consist of cash and cash equivalents, accounts receivable and accounts payable and accrued liabilities. The fair values of these financial instruments approximate their carrying value due to their short-term to maturity. The Company categorizes its financial instruments carried at fair value into one of three different levels depending on the observability of the inputs employed in the measurement.

Level 1: includes assets and liabilities measured at fair value based on unadjusted quoted prices for identical assets or liabilities in active markets that are accessible at the measurement date. An active market for an asset or liability is considered to be market where transactions occur with sufficient frequency and volume to provide pricing information on an ongoing basis. As of September 30, 2010, the Company valued its cash and cash equivalents using Level 1 inputs.

Level 2: includes assets and liabilities measured at fair value using directly observable inputs other than quoted prices included in Level 1. Level 2 valuations are based on inputs including quoted forward prices, time value, volatility factors and broker quotes that can be observed or corroborated in the market for the entire duration of the derivative instrument. As of September 30, 2010, the Company did not have any assets or liabilities which it valued using Level 2.

Level 3: includes all assets and liabilities measured at fair value based on inputs which are less observable, unavailable or where the observable data does not support a significant portion of the instrument's fair value. As of September 30, 2010, the Company did not have any assets or liabilities which it valued using Level 3.

The following table includes all the fair value measurements recognized in the balance sheet as of September 30, 2010.

4. Financial Instruments and Risk Management (continued)

Fair value (continued)

	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	$ 357,560	$ -	$ -	$ 357,560
Total	$ 357,560	$ -	$ -	$ 357,560

Credit risk

The Company manages credit risk, in respect of cash and cash equivalents, by holding them at major Canadian and Israeli financial institutions in accordance with the Company's investment policy. The Company places its temporary cash and cash equivalents with high credit quality financial institutions. As times such investments may be in excess of the Federal Deposit Insurance Corporation insurance limit. Concentration of credit risk exists with respect to the Company's cash and cash equivalents and accounts receivable. The Company's exposure is for cash held in bank accounts in the amount of $357,560 and on accounts receivable $553,225. None of the Company's accounts receivable are overdue as at September 30, 2010.

Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in obtaining funds to meet current obligations and future commitments. The Company's approach to managing liquidity risk is to forecast cash requirements to provide reasonable assurance that it will have sufficient funds to meet its liabilities when due. The Company maintains sufficient working capital in order to meet short-term business requirements. As of September 30, 2010, the Company had cash and cash equivalents of $357,560, and account receivable of $553,225 against current accounts payable and accrued liabilities in the amount of $568,912.

Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk is comprised of three types of risk: interest rate risk, foreign currency risk and other price risk.

(i) Interest rate risk

The Company is not exposed to significant interest rate risk due to the short-term maturity of its cash equivalents.

(ii) Foreign currency risk

The Company is exposed to financial risk related to the fluctuation of foreign exchange rates. The Company operates in Israel. Most of the Company's monetary assets are held in US dollars and most of the Company's expenditures are made in US dollars. However, the Company also has expenditures in New Israeli Shekels ("NIS") and Canadian dollars. A significant change in the currency rates between the NIS and the Canadian dollars relative to the US dollar could have a material effect on the Company's future results of operations, financial position or cash flows depending on the Company's currency management techniques. The Company has not hedged its exposure to currency fluctuations. An increase or decrease of 10% on the Canadian dollar or the Israeli Shekels relative to the US dollar would not have a significant effect on the Company. This year the Company has recorded an exchange rate loss of $7,520 (September 30, 2009 - a gain of $14,708).

(iii) Other price risk

Other price risk is the risk that the fair or future cash flows of a financial instrument will fluctuate because of changes in market prices, other than those arising from interest rate risk or foreign exchange risk. The Company is not exposed to significant other price risk.

5. Capital Management

The Company is an early-stage exploration company and currently does not generate significant cash flows from operations. The Company's primary source of funds comes from the issuance of share capital. The Company does not use other sources of financing that require fixed payments of interest and principal and is not subject to any externally imposed capital requirements.

The Company defines its capital as share capital. To effectively manage the Company's capital requirements, the Company has a planning and budgeting process in place to ensure that adequate funds are available to meet its strategic goals. The Company monitors actual expenses to budget to manage its costs and commitments.

The Company's capital management objective is to maximize investment returns to its equity-linked stakeholders within the context of relevant opportunities and risks associated with the Company's operating segment. Achieving this objective requires management to consider the underlying nature of exploration activities, availability of capital, the cost of various capital alternatives and other factors. Establishing and adjusting capital requirements is a continuous management process.

Although the Company has been successful at raising funds in the past through the issuance of share capital, it is uncertain whether it will continue this financing due to uncertain economic conditions. The Company has sufficient funds to meet its exploration program, administrative overhead and working capital needs for the coming year.

6. Property, Plant and Equipment

As of September 30, 2010:

	Cost	Accumulated amortization	Net book value
Drilling equipment (*)	$ 388,635	$ -	$ 388,635
Computer equipment	10,218	1,222	8,996
Balance, September 30, 2010	$ 398,853	$ 1,222	$ $397,631

As of September 30, 2009, the Company paid a deposit for the drilling equipment in the amount of $372,600.

(*) The drilling rig has not been depreciated as it was not in use during the year ended September 30, 2010.

7. Oil and Gas Licenses

The Company has been granted the following petroleum licenses from the state of Israel:

(a) Eitan and Notera

The Company's onshore license (the "Eitan License") comprises an area of approximately 31,060 acres in the Hula Valley in Northern Israel. The Eitan License was awarded in December 2008 for a term of three years, expiring in December 2011, and may be renewed upon fulfillment of certain conditions for a further four year period. The Eitan License was awarded prior to the incorporation of the Company. The license was awarded to a company controlled by certain Directors of the Company and subsequent to the incorporation of Adira Israel, was transferred to the Company.

The Company has a 100% working interest in the license.

The Company has provided the Israel Lands Authorities with a guarantee in the amount of $13,772 to cover future restoration costs.

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7. Oil and Gas Licenses (continued)

(a) Eitan and Notera (continued)

During April 2010 a letter of intent has been signed with Coalbed Gas Hachula Ltd., an Israel-based Coal bed Methane Development company or CGH, pursuant to which the Company has a right to farm in to 70% of the Notera License which is approximately 19,000 acres and contiguous and directly to the south of the Eitan License.

(b) Gabriella

The Company's offshore Gabriella license (the "Gabriella License") comprises an area of approximately 97,000 acres. The Gabriella License was awarded to the Company in July 2009 for a term of three years, expiring July 2012 and may be renewed upon fulfillment of certain conditions for a further four years.

In January, 2010 Adira Israel signed an agreement with Modiin Energy Limited Partnership ("MELP") and Modiin Energy General Partners ("MEGP") (collectively "Modiin") to facilitate the full initial funding of the Gabriella License. Under the terms of the agreement, MELP can farm in up to 70% (of 100%) of certain rights of participation in the Gabriella License (the "Gabriella Project"). MEGP has agreed to fund its 70% share as well as the Company's 15% share of the work program up to a total of $8 million. As part of the agreement, the general partner of MELP had the right to purchase by way of a private placement, 600,000 Subscription Receipts at a price of $0.50 per Subscription Receipt, which would be exchanged automatically without any further consideration for 600,000 common shares in the capital of the Company ("Common Shares") on the date upon which the Common Shares were listed for trading on a recognized stock exchange in Canada. The funds received, which were held in escrow subject to certain conditions and certain approvals being obtained. These conditions were not met and the funds were returned to Modiin.

The Company has an option to purchase 15% of the Gabriella License (or 21.43% of MELP's 70% interest) anytime until six months after a discovery or within seven years. The exercise price for this option is the actual cost incurred on that 15% through to the exercise date.

On June 17, 2010 the Gabriella Project received $2,000,000 from MELP, representing 85% of the total initial capital call of $2,352,941 (the "initial capital call") in respect of the work program, being $1,647,059 on MELP's behalf and $352,941 on behalf of the Company.

In January 2010, Brownstone Ventures Inc. ("Brownstone") exercised its option to farm into 15% of the Gabriella License and in August 2010, the Gabriella Project received $352,941 from Brownstone, representing its 15% share of the initial capital call.

The Company currently has a 15% carried interest in the Gabriella Project; is the operator of the Gabriella License and is entitled to receive a 7.5% operating fee on all expenditure on the Gabriella Project.

(c) Yitzhak

The Company's offshore Yitzhak license (the "Yitzhak License") comprises an area of approximately 31,555 acres. The Yitzhak License is effective until October 2012 and may be renewed upon fulfillment of certain conditions for a further four year period. The Yitzhak License is directly to the north of and contiguous to the Company's Gabriella License.

In January 2010, Brownstone exercised its option to farm into 15% of the Yitzhak License.

For the year ended September 30, 2010, the Company's share of the Yitzhak License net liabilities and expenses are both $27,207, and are included in accounts payable and accrued liabilities in the consolidated balance sheet, and exploration expenses in the consolidated statements of operations, comprehensive loss and deficit, respectively.

The Company is the operator of this license and is entitled to receive a 7.5% operating fee on all expenditure on this license.

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7. Oil and Gas Licenses (continued)

(d) Samuel

On June 15, 2010, the Company received notification that the Israeli Petroleum Commissioner's office had awarded the Samuel License, an offshore license to explore for oil and gas, to a consortium led by the Company.

The Samuel License covers 88,708 acres (359 sq. km) approx. 17 km offshore Israel adjacent to the shoreline between the City of Ashkelon in the South and the City of Rishon Le'tziyon in the North.

The Company holds a combined minimum interest of 38.25% in the Samuel License held through its subsidiaries Adira Oil Technologies Ltd. and Adira Geo Global Ltd. A gross overriding royalty in an amount equal to 3% shall be granted to and registered in the name of Adira Geo Global Ltd. Adira Geo Global Ltd. and Geo Global Resources (India) Inc. have been designated as joint operators of the Samuel License. Adira Geo Global Ltd. shall be paid an aggregate operating fee equal to 7.5% of the cumulative direct costs incurred in connection with operating the Samuel License.

For the year ended September 30, 2010, the Company's share of the Samuel License's net liabilities and expenses are both $22,436, and are included in accounts payable and accrued liabilities in the consolidated balance sheet, and in exploration expenses in the consolidated statements of operations, comprehensive loss and deficit, respectively.

(e) Myra and Sara

In August 2010, the Company announced that it has signed a definitive co-operation agreement with Geo Global Resources Inc., and its wholly-owned subsidiary, Geo Global Resources (India) Inc. (collectively "GGR") confirming the terms whereby GGR has agreed to assign an option it has to acquire up to a 5% participating interest in each of two deepwater licenses offshore Israel known as Petroleum Licenses 347 "Myra" and 348 "Sara", to the Company.

The Sara and Myra Licenses are each subject to joint operating agreement among the holders of the participating interests in the respective licenses, which joint operating agreements govern the operations with respect to the exploration work on the licenses and the change of any interest holders in these licenses. Upon receipt and review of geoscience and 3D seismic survey conducted on these licenses, the Company may, at its discretion, purchase the 5% participating interest in the licenses from GGR. As a condition to the acquisition of such 5% interest, the Company will also be required to become a signatory to the joint operating agreements and approval of the Israeli Petroleum Commissioner must also be obtained. Upon the exercise of the 5% and receipt of approval the Company will be required to pay $1,200,000 in one lump sum payment to certain parties of the joint operating agreements, which signature requires the approval of existing signatories to the joint operating agreement in accordance with the terms of the joint operating agreements. Additionally, the Company will be expected to pay its pro rata share of expenditures which may be incurred after exercise of the option, pursuant to the joint operating agreements. The option is dependent upon a number of circumstances beyond the control of the Company and there is no assurance that the Company will be able to exercise the option.

The Sara and Myra Licenses are located offshore Israel approximately 60 km west of the City of Hadera. These license areas total 800 square kilometres.

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8. Related Party Transactions

During the year ended September 30, 2010, the Company incurred the following expenses with related parties:

- $204,452 in consulting fees to individuals that are directors and officers of the Company or to private companies which are controlled by a director and officers of the Company (September 30, 2009 - $148,152);
- $279,149 in technical consulting fees to a company in which a director is the President and Chief Operating Officer (September 30, 2009 - $75,000); and
- $112,166 in technical consulting fees to a corporation controlled by an officer (September 30, 2009 - $20,000).

The above transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

9. Share Capital

(a) Authorized

Unlimited number of common shares without nominal or per value.

(b) Issued and outstanding common shares:

	Number of Shares		Amount
Balance as of September 30, 2010 and September 30, 2009	62,640,001	$	3,478,894

(c) Stock Option Plan

The Company has a stock option plan whereby options may be granted to eligible directors, officers and employees, provided that the number of shares issued under the plan does not exceed 10% of issued and outstanding common shares of the Company. Stock options may be issued at a term and exercise price to be determined by the Company's Board of Directors provided that the exercise price is no less than the market price at the date of the grant.

The Company has seven categories of stock options that have different vesting periods:

(i) Type A stock options vest over 2 years, with 12.5% vesting each quarter with the initial amount vesting on the date three months after the grant date.

(ii) Type B stock options vest 8.5% at the end of each quarter for the first two years and 8% at the end of each quarter thereafter. The initial amount will vest three months after the grant date.

(iii) Type C stock options vest over 4 years, with 6.25% vesting at the end of each quarter with the initial amount vesting on the date three months after the grant date.

(iv) Type D stock options vest at 12.5% each quarter and the initial amount vests on the business day immediately on which each of the optionees is elected or appointed as a director of the Company. In the event they are not elected as a director, all options granted expire immediately.

(v) Type E stock options vest over 2 years, with 12.5% vesting at the end of each quarter with the initial amount vesting on the date three months after the grant date.

9. Share Capital (Continued)

(c) Stock Option Plan (continued)

(vi) Type F stock options vest over 4 years, with 6.25% vesting at the end of each quarter with the initial amount vesting on the date three months after the grant date.

(vii) Type G stock options vest 8.5% at the end of each quarter over two years and 8.0% at the end of each quarter thereafter with the initial amount vesting on the date three months after the grant date.

(viii) Type H stock options vest 12.5% each quarter over two years with the initial amount vesting on the date three months after the grant date.

A summary of the stock option plan and changes during the year ended September 30, 2010 was as follows:

	Number of Options Outstanding	Weighted Average Exercise Price
Balance, April 8, 2009	-	$ -
Options granted	3,984,000	0.25
Balance, September 30, 2009	3,984,000	0.25
Options granted	2,745,000	0.60
Options cancelled	(1,070,000)	0.43
Balance, September 30, 2010	5,659,000	$ 0.39

The following table summarizes information about stock options outstanding and exercisable as of September 30, 2010:

Stock Option Type	Expiry Date	Grant Date Fair Value	Exercise Price	Number of Options Outstanding	Number of Options Exercisable	Average Remaining Contractual Life
Type A	August 20, 2014	$ 0.30	$ 0.25	1,263,000	631,500	3.89
Type B	August 20, 2014	$ 0.30	$ 0.25	746,000	253,640	3.89
Type C	August 20, 2014	$ 0.30	$ 0.25	1,055,000	263,750	3.89
Type A	September 23, 2014	$ 0.23	$ 0.25	150,000	75,000	3.98
Type D	September 23, 2014	$ 0.23	$ 0.25	250,000	125,000	3.98
Type E	January 27, 2015	$ 0.55	$ 0.60	1,125,000	281,250	4.33
Type F	January 27, 2015	$ 0.55	$ 0.60	45,000	5,625	4.33
Type G	January 27, 2015	$ 0.55	$ 0.60	100,000	17,000	4.33
Type H	July 22, 2015	$ 0.23	$ 0.60	925,000	115,625	4.81
				5,659,000	1,768,390	

Stock options granted are expensed as share-based payments. The Company uses the Black-Scholes option pricing model to value stock options granted. The model requires management to make assumptions, which are subjective and may not be representative of actual results. Changes in assumptions can materially affect estimates of fair values. The following assumptions were used for the options granted during the year ended September 30, 2010:

Risk-free interest rate	2.29% -2.38%
Expected life	5 years
Expected stock price volatility	100%-175%
Expected dividend yield	0.00%
Fair Value per stock option granted on August 31, 2009	$ 0.30
Fair Value per stock option granted on September 23, 2009	$ 0.23
Fair Value per stock option granted on January 27, 2010	$ 0.55
Fair Value per stock option granted on July 22, 2010	$ 0.23

9. Share Capital (continued)

(d) Share purchase warrants

As of September 30, 2010 and September 30, 2009, the Company had share purchase warrants outstanding entitling the holders to acquire common shares as follows:

	Number of Warrants	Weighted Average Exercise Price
Balance, September 30, 2010 and September 30, 2009	4,500,770	$ 0.47

The following tables summarized information about warrants and broker warrants outstanding at September 30, 2010:

Issue Date	Expiry Date	Grant Date Fair Value	Exercise Price	Number of Warrants
August 4, 2009	August 4, 2011	$0.25	$ 0.50	4,000,000
August 4, 2009	August 4, 2011	$0.25	$ 0.25	500,770
				4,500,770

(e) Contributed surplus

Balance, April 8, 2009	$ -
Stock options	418,907
Agent's warrants issued	100,154
Balance, September 30, 2009	519,061
Stock options	621,751
Balance, September 30, 2010	$ 1,140,812

The Stock options granted totaling $621,751 have been expensed as share-based compensation in the Statement of Operations, Comprehensive Loss and Deficit (September 30, 2009 - $418,907).

10. Income Taxes

A reconciliation of income tax provision computed at the statutory rate to the reported income tax provision is as follows:

	2010	2009
Income tax benefit computed at statutory rate	$ (634,300)	$ (451,600)
Share issue costs	(24,900)	(12,700)
Share-based compensation	198,960	138,300
Change in timing difference	-	(56,100)
Effects of change in tax rates	170,240	46,400
Change in valuation allowance	290,000	335,700
	$ -	$ -

Future income tax assets and liabilities are recognized for temporary differences between the carrying amounts of the balance sheet items and their corresponding tax values as well as for the benefit of losses available to be carried forward to future years for tax purposes that are likely to be realized.

The significant components of future income tax assets are as follows:

	2010	2009
Future tax assets		
Share issue costs	$ 165,000	$ 165,000
Non-capital losses carried forward	3,803,200	2,392,000
Total future income tax assets	3,968,200	2,557,000
Tax rate	26%	29%
	1,031,700	741,500
Valuation allowance	(1,031,700)	(741,500)
Net future income tax assets	$ -	$ -

The valuation allowance reflects the Company's estimate that the tax assets more likely than not will not be realized in the foreseeable future.

As of September 30, 2010, the Company has approximately $3,803,200 of non-capital losses that may be applied to reduce future income for Canadian income tax purposes. The potential future tax benefit of these losses has not been recorded in these consolidated financial statements.

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10. Income Taxes (continued) The losses expire as follows:

	September 30, 2010
Expiry Date	
2017	$ 21,800
2018	178,000
2019	89,000
2020	246,300
2021	124,300
2022	90,700
2023	62,600
2024	64,000
2025	18,800
2026	36,300
2027	25,300
2028	282,700
2029	1,152,100
2030	1,411,300
	$ 3,803,200

11. Commitment and Contingencies

Environmental Expenditures

The operations of the Company have been, and may in the future be, affected from time to time in varying degree by changes in environmental regulations, including those for site restoration costs. Both the likelihood of new regulations and their overall effect upon the Company vary greatly from country to country and are not predictable.

Environmental expenditures that relate to ongoing environmental and reclamation programs are charged against operations as incurred or capitalized and amortized depending on their expected future economic benefit. Estimated future removal and site restoration costs are recognized when the ultimate liability is reasonably determinable, and are charged against operations over the estimated remaining life of the related business operations.

12. Segmented Information

The Company operates in one segment, the oil and gas business, conducts its operations in Israel with its head office in Canada. The geographical segmentation of the Company's income and net assets is as follows**:**

2010

	Canada	Israel	Total
Consulting fees and management fees	$ -	$ 912,597	$ 912,597
Cash and cash equivalents	$ 30,359	$ 327,201	$ 357,560
Oil and gas licenses	-	19,356	19,356
Receivables	9,754	543,471	553,225
Prepaid expenses and consumables	25,718	433,408	459,126
Equipment	-	397,631	397,631
Total	$ 65,831	$ 1,721,067	$ 1,786,898

2009

	Canada	Israel	Total
Consulting fees and management fees	$ -	$ -	$ -
Cash and cash equivalents	$ 2,354,628	$ -	$ 2,354,628
Equipment deposit	-	372,600	372,600
Oil and gas licenses	-	6,662	6,662
Other assets	22,415	-	22,415
Total	$ 2,377,043	$ 379,262	$ 2,756,305

13. Subsequent Events

(a) Share Capital

On November 22, 2010, the Company completed a private placement of 27,500,000 subscription receipts ('Receipts') for gross proceeds of $11,000,000. On December 3, 2010, the Receipts were converted into 27,500,000 common shares at $0.40 per share and 13,750,000 common share purchase warrants ("Warrants") with an exercise price of US $0.55 for each Warrant. In addition, 1,307,375 broker warrants were issued.

Following the conversion, the Company had 90,140,001 common shares outstanding and 19,558,145 warrants outstanding.

On December 2, 2010, the common shares of the Company commenced trading on the TSX Venture Exchange (the "TSX-V") under the trading symbol "ADL".

28,233,745 common shares, 2,848,000 options and 118,200 warrants are subject to TSX-V Escrow requirements.

(b) Share Options

On January 11, 2011, the Company granted 1,650,000 share options to directors and officers at an exercise price of $0.79 per common share. 12.5% of the options granted vest every six months, with the initial amount vesting on the date that is six months from the date of the grant.

13. Subsequent Events (continued)

(c) Eitan

Following receipt of the Israel Lands Authority ("ILA") approval in September 2010, a contract was entered into between the Company and ILA on October 7, 2010 and the Company made the required statutory payment and posted a restoration bond. The Company has now fulfilled all requirements regarding the ILA approval and all other approvals required under the Kibbutz Agreement have been obtained. The Company commenced its drilling work program in December 2010.

(d) Gabriella

In November 2010, the Gabriella Project received $3,518,871 and $754,416 from MELP and Brownstone, respectively, in respect of the second cash call. The Company completed a 3D seismic program in January 2011.

(e) Yitzhak

In November and December 2010, the Yitzhak License received $131,095 and $1,106,453 from Brownstone and Adira, respectively in respect of the first cash call. The Company completed a 3D seismic program in January 2011.

(f) Samuel

On November 2010, the Samuel License received a total of $3,851,625 from the partners in the Samuel licence in proportion to each participated percentage holdings. Due to a delay in executing the 3D Seismic program, in January 2011, $1,498,918 was returned to the consortium.

(g) Lease

Subsequent to September 30, 2010, the Company and the Adira Energy Israeli Services Ltd. each signed agreements for lease of the offices in Toronto, Canada and Ramat-Gan, Israel, respectively, for a period through 2014. The total minimum annual future non-cancellable lease payments under the above-mentioned lease agreements amount to approximately $467,000. The lease in respect of the Toronto office was signed with a company controlled by a Director of the Company. The lease costs are at market values. Total minimum annual future non-cancellable lease payments in respect of the Toronto office agreement amounts to approximately $346,000.

14. Differences Between Canadian GAAP and US GAAP

Recent accounting pronouncements:

In June 2009, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Codification ("ASC") 105, "Generally Accepted Accounting Principles". ASC 105 establishes the FASB Codification as the source of authoritative accounting principles recognized by the FASB to be applied by non-governmental entities in the preparation of financial statements in conformity with US GAAP for Securities and Exchange Commission ("SEC") registrants. All guidance contained in the Codification carries an equal level of authority. The Codification supersedes all existing non-SEC accounting and reporting standards. The FASB will now issue new standards in the form of Accounting Standards Updates ("ASU"). The FASB will not consider ASUs as authoritative in their own right. ASUs will serve only to update the Codification, provide background information about the guidance and provide the basis for conclusions on the changes in the Codification. The Company has updated references to US GAAP.

In April 2009, the Company adopted guidance issued by the FASB and included in (a) ASC 805, "Business Combinations", and (b) ASC 810, "Non-Controlling Interests in Consolidated Financial Statements". The application of these ASCs is intended to improve, simplify and converge internationally the accounting for business combinations and the reporting of non-controlling interests in the Company's consolidated financial statements.

(a) ASC 805 requires an acquiring entity in a business combination to: (i) recognize all (and only) the assets acquired and the liabilities assumed in the transaction; (ii) establish an acquisition-date fair value as the measurement objective for all assets acquired and liabilities assumed; and (iii) disclose to investors and other users all of the information they will need to evaluate and understand the nature of, and the financial effect of, the business combination; and (iv) recognize and measure the goodwill acquired in the business combination or a gain from bargain purchase.

14. Differences Between Canadian GAAP and US GAAP (continued)

Recent accounting pronouncements (continued):

(b) ASC 810 is intended to improve the relevance, comparability and transparency of financial information provided to investors by requiring all entities to: (i) report non-controlling (minority) interests in subsidiaries in the same manner, as

equity but separate from the parent's equity, in consolidated financial statements; (ii) net income attributable to the parent and to the non-controlling interest must be clearly identified and presented on the face of the consolidated statement of operations; and (iii) any changes in the parent's ownership interest while the parent retains the controlling financial interest in its subsidiary be accounted for consistently.

In January 2010, FASB issued ASU 2010-06, "Fair Value Measurements and Disclosures (Topic 820) - Improving Disclosures about Fair Value Measurements." This ASU requires some new disclosures and clarifies some existing disclosure requirements about fair value measurement as set forth in Accounting Standards Codification ("ASC") 820. ASU 2010-06 amends ASC 820 to now require: (1) a reporting entity should disclose separately the amounts of significant transfers in and out of Level 1 and Level 2 fair value measurements and describe the reasons for the transfers; and (2) in the reconciliation for fair value measurements using significant unobservable inputs, a reporting entity should present separately information about purchases, sales, issuances, and settlements. In addition, ASU 2010-06 clarifies the requirements of existing disclosures. ASU 2010-06 is effective for interim and annual reporting periods beginning after December 15, 2009, except for the disclosures about purchases, sales, issuances, and settlements in the roll forward of activity in Level 3 fair value measurements. Those disclosures are effective for fiscal years beginning after December 15, 2010, and for interim periods within those fiscal years. Early application is permitted. The Company will comply with the additional disclosures required by this guidance upon its adoption in fiscal 2011.

Also in January 2010, the FASB issued ASU 2010-03, "Extractive Activities - Oil and Gas - Oil and Gas Reserve Estimation and Disclosures." This ASU amends the "Extractive Industries - Oil and Gas" Topic of the Codification to align the oil and gas reserve estimation and disclosure requirements in this Topic with the SEC's Release No. 33-8995, "Modernization of Oil and Gas Reporting Requirements (Final Rule)," discussed below. The amendments are effective for annual reporting periods ending on or after December 31, 2009, and the adoption of these provisions on September 30, 2010 did not have a material impact on the consolidated financial statements.

In January 2010, the FASB issued the FASB ASU 2010-01 *"*Equity Topic 505 – Accounting for Distributions to Shareholders with Components of Stock and Cash*"*, which clarify that the stock portion of a distribution to shareholders that allows them to elect to receive cash or stock with a potential limitation on the total amount of cash that all shareholders can elect to receive in the aggregate is considered a share issuance that is reflected in EPS prospectively and is not a stock dividend for purposes of applying Topics 505 and 260 (Equity and Earnings Per Share ("EPS")). Those distributions should be accounted for and included in EPS calculations in accordance with paragraphs 480-10-25- 14 and 260-10-45-45 through 45-47 of the FASB Accounting Standards codification. The amendments in this Update also provide a technical correction to the Accounting Standards Codification. The correction moves guidance that was previously included in the Overview and Background Section to the definition of a stock dividend in the Master Glossary. That guidance indicates that a stock dividend takes nothing from the property of the corporation and adds nothing to the interests of the stockholders. It also indicates that the proportional interest of each shareholder remains the same, and is a key factor to consider in determining whether a distribution is a stock dividend.

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14. Differences Between Canadian GAAP and US GAAP (continued)

In January 2010, the FASB issued the FASB ASU 2010-02 *"*Consolidation Topic 810 – Accounting and Reporting for Decreases in Ownership of a Subsidiary – a Scope Clarification*"*, which provides amendments to Subtopic 810-10 and related guidance within U.S. GAAP to clarify that the scope of the decrease in ownership provisions of the Subtopic and related guidance applies to the following:

1. A subsidiary or group of assets that is a business or nonprofit activity;
2. A subsidiary that is a business or nonprofit activity that is transferred to an equity method investee or joint venture; and

3. An exchange of a group of assets that constitutes a business or nonprofit activity for a non-controlling interest in an entity (including an equity method investee or joint venture).

The amendments in this Update also clarify that the decrease in ownership guidance in Subtopic 810-10 does not apply to the following transactions even if they involve businesses:

1. Sales of in substance real estate. Entities should apply the sale of real estate guidance in Subtopics 360-20 (Property, Plant, and Equipment) and 976-605 (Retail/Land) to such transactions; and
2. Conveyances of oil and gas mineral rights. Entities should apply the mineral property conveyance and related transactions guidance in Subtopic 932-360 (Oil and Gas-Property, Plant, and Equipment) to such transactions.

If a decrease in ownership occurs in a subsidiary that is not a business or nonprofit activity, an entity first needs to consider whether the substance of the transaction causing the decrease in ownership is addressed in other U.S. GAAP, such as transfers of financial assets, revenue recognition, exchanges of nonmonetary assets, sales of in substance real estate, or conveyances of oil and gas mineral rights, and apply that guidance as applicable. If no other guidance exists, an entity should apply the guidance in Subtopic 810-10.

In February 2010, the FASB issued ASU 2010-09, "Subsequent Events" (Topic 855), amending guidance on subsequent events to alleviate potential conflicts between FASB guidance and SEC requirements. Under this amended guidance, SEC filers are no longer required to disclose the date through which subsequent events have been evaluated in originally issued and revised financial statements. This guidance was effective immediately and was adopted by the Company for the year ended September 30, 2010. The adoption of this guidance did not have a material impact on the consolidated financial statements.

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14. Differences Between Canadian GAAP and US GAAP (continued)

In May 2010, the FASB issued ASU 2010-19, "Foreign Currency" (Topic 830): Foreign Currency Issues: Multiple Foreign Currency Exchange Rates. The amendments in this Update are effective as of the announcement date of March 18, 2010. The Company does not expect the provisions of ASU 2010-19 to have a material effect on the Company's financial position, results of operations or cash flows.

There are no material differences between Canadian and US GAAP; however, potential differences that could occur are summarized as follows:

Exploration expenditures

Under Canadian GAAP, exploration costs of oil and gas properties and exploration expenditures may be capitalized. Under US GAAP, exploration costs are expensed as incurred. When proven and probable reserves are determined for a property and a feasibility study is prepared, then subsequent exploration and development costs of the property would be capitalized. The capitalized costs of such properties are measured periodically for recoverability of carrying values.

Development stage company

Pursuant to US GAAP, the Company would be subject to the disclosure requirements applicable to a development stage enterprise as the Company is devoting its efforts to establishing commercially viable mineral properties. However, the identification of the Company as such for accounting purposes does not impact the measurement principles applied to these consolidated financial statements.

Income taxes

Under US GAAP the provisions prescribe a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The interpretation requires that the Company recognize the impact of a tax position in the financial statements if that position is more likely than not of being sustained on audit, based on the technical merits of the position. The requirement also provides guidance on de-recognition, classification, interest and penalties, accounting in interim periods and disclosure. In accordance with the provisions, any cumulative effect resulting from the change in accounting principle is to be recorded as an adjustment to the opening balance of deficit. The accounting policy did not result in a material impact on the Company's consolidated financial position or results of operations.

ADIRA ENERGY ISRAEL LTD.

FINANCIAL STATEMENTS

AS OF APRIL 7, 2009

IN U.S. DOLLARS

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of

ADIRA ENERGY ISRAEL LTD.

We have audited the accompanying balance sheet of Adira Energy Israel Ltd. ("the Company") as of April 7, 2009 and the related statement of changes in equity for the 164-day period from incorporation (October 26, 2008) to April 7, 2009. These financial statements

are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Company's internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company as of April 7, 2009, in conformity with Israeli generally accepted accounting principles ("Israeli GAAP"). Reconciliation to US generally accepted accounting principles is presented in Note 4 to the financial statements.

Tel-Aviv, Israel
November 16, 2011

BALANCE SHEET
In U.S. dollars

	April 7, 2009
ASSETS	
CURRENT ASSETS:	
Exploration and evaluation asset (Note 2)	$ 3,544
Total assets	$ 3,544
LIABILITIES AND SHAREHOLDERS' EQUITY	
CURRENT LIABILITIES:	
Accounts payable and accrued liabilities	$ 3,541
SHAREHOLDERS' EQUITY	
Share capital	
Common shares of NIS 0.01 par value - 1,000 shares authorized, issued and outstanding	3
Total shareholders' equity	3
Total liabilities and shareholders' equity	$ 3,544

The accompanying notes are an integral part of the financial statements.

STATEMENT OF CHANGES IN EQUITY
In U.S. dollars

	Share Capital		Total
	Number	Amount	Equity
Balance at October 26, 2008 (date of incorporation)	-	$ -	$ -
Shares issued	1,000	3	3
Balance at April 7, 2009	1,000	$ 3	$ 3

The accompanying notes are an integral part of the financial statements.

NOTE 1:- GENERAL

a. Nature of operations

Adira Energy Israel Ltd. ("the Company") is a privately held company, incorporated in Israel on October 26, 2008. The Company is the predecessor company of Adira Energy Ltd.

All issued and outstanding shares of the Company were registered in the name of Adira Africa Corp. ("Adira Africa"), a privately-owned Canadian corporation, as a trustee for and on behalf of a corporation to be incorporated in Ontario- namely, Adira Energy Corp. ("Adira"), which was subsequently incorporated on April 8, 2009 pursuant to a Declaration of Trust dated November 16, 2008 (the "Declaration of Trust").

In December 2008, upon application to Ministry of National Infrastructures of the State of Israel, the Company obtained the Eitan License No. 356, covering 31,060 acres (125.7 sq. km.) in the Hula Valley in Northern Israel (the "Eitan License"), for no consideration other than the payment of a nominal stamp duty in the amount of $3,544.

The Eitan license was awarded for a term of three years, expiring in December 2011, and may be renewed upon fulfillment of certain conditions for a further four year period.

Upon the incorporation of Adira on April 8, 2009, Adira Africa transferred the Company's shares to Adira for no consideration, as contemplated by the Declaration of Trust. The only activity undertaken in the Company from December 2008 to April 7, 2009 was the application for, and the receipt of the Eitan License.

Due to the fact that pursuant to the Declaration of Trust, Adira is in substance treated as the owner of the Company's shares since its inception, the investment in the Company was recorded in the accounts of Adira at the carrying amount of the net assets of the Company on the date the shares were transferred.

These financial statements do not include a statement of operations and statement of cash flows for the 164-day period from incorporation (October 26, 2008) to April 7, 2009, as there were no revenues, expenses or cash transactions during this period. Subsequent to April 7, 2009, all activities of the Company are reflected in the consolidated financial statements of Adira Energy Ltd.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared in accordance with Israeli generally accepted accounting principles ("GAAP"). The significant accounting policies applied in the preparation of the financial statements, are as follows:

a. Use of estimates in preparation of financial statements:

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the financial statements. Actual results could differ from those estimates.

b. Functional and foreign currencies:

1. Functional and presentation currencies:

The financial statements are presented in U.S. dollars, which is the Company's functional currency.

The functional currency is the currency that best reflects the economic environment in which the Company operates and conducts its transactions and is used to measure its financial position and operating results.

2. Transactions, assets and liabilities in foreign currency:

Transactions denominated in foreign currency (other than the functional currency) are recorded on initial recognition at the exchange rate at the date of the transaction. After initial recognition, monetary assets and liabilities denominated in foreign currency are translated at each balance sheet date into the functional currency at the exchange rate at that date. Exchange rate differences are recognized in the statement of income. Non-monetary assets and liabilities denominated in foreign currency and measured at fair value are retranslated into the functional currency using the exchange rate prevailing at the date when the fair value was determined.

NOTE 2:-SIGNIFICANT ACCOUNTING POLICIES (Cont.)

c. Exploration and evaluation assets:

Oil and natural gas exploration and development expenditure is accounted for using the successful efforts method of accounting.

Once the legal right to explore has been acquired, costs directly associated with an exploration well are capitalized as exploration and evaluation intangible assets until the drilling of the well is complete and the results have been evaluated. All such costs are subject to technical, commercial and management review as well as review for impairment at least once a year to confirm the continued intent to develop or otherwise extract value from the discovery. When this is no longer the case, the costs are written off. When proved reserves of oil are determined and development sanctioned, the relevant expenditure is transferred to oil and gas properties after impairment is assessed and any resulting impairment loss is recognized.

The exploration and evaluation asset of $ 3,544 at April 7, 2009 is in respect of a stamp duty cost for the registration of the Eitan License.

NOTE 3:-FINANCIAL INSTRUMENTS

The Company's financial instruments have been designated as follows:

Accounts payable and accrued liabilities - Other financial liabilities.

The carrying values of accounts payable and accrued liabilities approximate their fair values due to the short-term maturity of these financial instruments.

NOTE 4:- RECONCILIATION OF THE FINANCIAL STATEMENTS UNDER ISRAELI GAAP TO FINANCIAL STATEMENTS UNDER US GAAP

There are no differences between Israeli GAAP and US GAAP in respect of the financial position and results of operations of the Company.

ITEM 19 EXHIBITS

The following exhibits are included in this Form 20-F:

Exhibit Number	**Description**
1.1	Articles of Conversion (1)
1.2	Articles of Continuance (1)
1.3	By-Laws (1)
1.4	Certificate and Articles of Amendment (3)
4.1	Securities Exchange Agreement among the Company, Adira Energy, Alan Friedman, Dennis Bennie and Ilan Diamond.(2)
4.2	Form of Securities Exchange Agreement among the Company, Adira Energy and the Minority Shareholders of Adira Energy.(2)
4.3	2009 Stock Option Plan (2)
4.4	Agency Agreement between Adira Energy and Sandfire Securities Inc. (2)
4.5	Form of Subscription Agreement for Adira Energy August 2009 Private Placement (2)
4.6	Form of Subscription Agreement for September 2009 Private Placement (3)
4.7	Form of Subscription Agreement for Adira Financing (4)
4.8	Summary of Agreement with the Modi'in Energy Limited Partnership, its general partner, Modi'in Energy Management (1992) Limited and Brownstone Ventures, Inc.(4)
4.9	Letter of Intent with Brownstone Ventures, Inc dated September 10, 2010 (4)
4.10	Agency Agreement between Adira Energy and DS Apex Mergers & Acquisitions Ltd dated November 22, 2010 (4)
4.11	Nominee Agreement with BRM Group Ltd (4)

8.1	List of Subsidiaries
12.1	Certificate of Chief Executive Officer pursuant to Section 302 of the *Sarbanes-Oxley Act* of 2002 (5)
12.2	Certificate of Chief Financial Officer pursuant to Section 302 of the *Sarbanes-Oxley Act* of 2002 (5)
13.1	Certificate of Chief Executive Officer pursuant to Section 906 of the *Sarbanes-Oxley Act* of 2002 (5)
13.2	Certificate of Chief Financial Officer pursuant to Section 906 of the *Sarbanes-Oxley Act* of 2002 (5)
15.1	Letter from Smythe Ratcliffe LLP egarding disclosure in Item 16F of this Annual Report on Form 20F (4)

(1) Incorporated by reference from our current report on Form 8-K filed with the SEC on December 2, 2008.

(2) Incorporated by reference from our Form 20-F shell company report filed with the SEC on September 4, 2009.

(3) Incorporated by reference from our Form 20-F report filed with the SEC on January 22, 2010.

(4) Incorporated by reference from our Form 20-F report filed with the SEC on February 3, 2011.

(5) Filed as an exhibit hereto.

SIGNATURES

The Registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this Form 20-F on its behalf.

ADIRA ENERGY LTD.

Per: /s/ Hezi Kugler
Name: Hezi Kugler
Title: Chief Executive Officer

Date: November 21, 2011