

**ADIRA ENERGY LTD.**  
**(Formerly AMG OIL LTD.)**  
**(An Exploration Stage Company)**  
Consolidated Financial Statements  
For the three month period ended December 31, 2009  
(Expressed in United States Dollars)  
(UNAUDITED)

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These interim consolidated financial statements for Adira Energy Ltd. have been prepared in accordance with Canadian generally accepted accounting principles consistently applied. The most significant of these accounting principles are set out in the September 30, 2009 audited consolidated financial statements. Only changes in accounting information have been disclosed in these interim consolidated financial statements. These interim consolidated financial statements are presented on an accrual basis of accounting. A precise determination of many assets and liabilities is dependent upon future events and accordingly, estimates and approximations have been made using careful judgment. Management is satisfied that these interim consolidated financial statements have been fairly presented.

The auditors of Adira Energy Ltd. have not performed a review of these interim consolidated financial statements.

**ADIRA ENERGY LTD.**  
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Consolidated Balance Sheet  
As at December 31, 2009  
(Expressed in United States Dollars)

	<b>December 31,</b>	<b>September 30,</b>
	<b>2009</b>	<b>2009</b>
<b>Assets</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 2,044,232	\$ 2,354,628
Amounts receivable	30,090	9,437
Prepaid expenses	17,542	12,978
<b>Total Current Assets</b>	2,091,864	2,377,043
Equipment	324,330	372,600
Oil and Gas Licenses (note 4)	8,966	6,662
<b>Total Assets</b>	\$ 2,425,160	\$ 2,756,305
<b>Liabilities and Shareholders' Equity</b>		
<b>Current Liabilities</b>		
Accounts payable and accrued liabilities	171,621	\$ 126,977
<b>Total Current and Long-Term Liabilities</b>	\$ 171,621	\$ 126,977
<b>Shareholders' Equity</b>		
Share Capital (note 6)	3,478,894	3,478,894
Contributed Surplus	519,061	519,061
Deficit	(1,744,416)	(1,368,627)
<b>Total Shareholders' Equity</b>	2,253,539	2,629,328
<b>Total Liabilities and Shareholders' Equity</b>	\$ 2,425,160	\$ 2,756,305

Nature of Operations, Basis of Presentation and Going Concern (note 1)

See notes to consolidated financial statements

**ADIRA ENERGY LTD.**  
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Consolidated Statement of Operations, Comprehensive Loss and Deficit  
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	<b>Income</b>	
Equipment rental income	\$	25,530
	<b>Expenses</b>	
Consulting fees	\$	148,047
Technical consulting		73,646
Exploration expenses		57,786
Salaries & benefits		32,207
Office and general		21,313
Public company costs		21,310
Professional fees		20,083
Travel and entertainment		16,423
Amortization		8,300
Marketing expenses		2,419
Foreign exchange		16
<b>Total expenses</b>		<u>401,550</u>
<b>Loss before other items</b>		<u>(376,020)</u>
Interest earned		479
Interest paid		(250)
<b>Net loss and comprehensive loss for the period</b>		<u>(375,791)</u>
Deficit, beginning of period		(1,368,625)
Deficit, end of period	\$	<u><u>(1,744,416)</u></u>
Basic and diluted loss per share	\$	0.01
Weighted average number of common shares outstanding		<u><u>62,640,001</u></u>

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Consolidated Statement of Cash Flows  
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**Operating Activities**

Net loss for the period	\$	(375,791)
Non-cash item		
Amortization		8,300
		<u>(367,491)</u>
Changes in non-cash working capital		
Amounts receivable		(20,653)
Prepaid expenses		(4,564)
Accounts payable and accrued liabilities		44,647
Cash used for operating activities		<u>(348,061)</u>

**Investing Activities**

Equipment		39,970
Oil and gas licenses		(2,304)
Cash used for investing activities		<u>37,666</u>

Decrease in cash and cash equivalents		(310,396)
Cash and cash equivalents, beginning of period		2,354,628
Cash and cash equivalents, end of period	\$	<u><u>2,044,232</u></u>

**Supplemental cash flow information**

Interest paid	\$	250
Income taxes paid	\$	<u>-</u>

See notes to consolidated financial statements

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Notes to Consolidated Financial Statements  
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**1. Nature of Operations, Basis of Presentation and Going Concern**

AMG Oil 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 September 1, 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) Adira subsequently changed its name to Adira Energy Holdings Corp.

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. 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 stage company and has not earned any revenues to date.

There can be no assurance that the Company will be able to continue to raise funds in which case the Company may be unable to meet its obligations. Should the Company be unable to continue as a going concern, the net realizable value of its assets may be materially less than amounts recorded on the consolidated balance sheet. These consolidated financial statements do not include any adjustments to the recoverability and classification of recorded asset amounts and classification of liabilities that might be necessary, should the Company be unable to continue as a going concern.

**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 (note 8).

Pursuant to the share exchange agreement dated September 1, 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 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.

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**3. Significant Accounting Policies**

**Basis of Presentation**

These interim consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles (“GAAP”). The balance sheet at December 31, 2009 has been derived from the consolidated financial statements at that date but does not include all of the information and footnotes required by GAAP for annual consolidated financial statements. The interim consolidated financial statements follow the same accounting policies and methods of their application as the most recent annual consolidated financial statements.

**Principles of Consolidation**

These interim consolidated financial statements include the accounts of the Company and its wholly-owned legal subsidiary, Adira, and its wholly-owned integrated subsidiaries, Adira Energy Israel Ltd. and Adira Energy Israel Service Ltd., hereinafter collectively referred to as the “Company”. All intercompany account balances and transactions have been eliminated.

**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.

**Future accounting changes**

*International Financial Reporting Standards (“IFRS”)*

In February 2008, the Canadian Accounting Standards Board (“AcSB”) confirmed that GAAP for publicly accountable enterprises will be converged with IFRS effective for fiscal years beginning on or after January 1, 2011. The Company will therefore be required to report using IFRS commencing with its unaudited interim financial statements for the three months ended December 31, 2011, which must include restated interim results for the three month period ended December 31, 2010, prepared on the same basis. The conversion to IFRS will impact the Company’s accounting policies, information technology and data system, internal control over financial reporting, and disclosure controls and procedures. The Company is currently evaluating the future impact of IFRS on its consolidated financial statements.

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**4. Oil and Gas Licenses**

The Company has one onshore and two offshore licenses to explore for oil and gas in Israel. The onshore license awarded (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 licenses was awarded to a Company controlled by certain Directors of the Company and subsequent to the incorporation of Adira Energy Israel, was transferred to the Company.

The first offshore license awarded (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 year period. The second offshore license awarded (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.

The revenues generated from the licenses are subject to 12.5% royalty payable to the government of Israel.

**5. Related Party Transactions**

During the three month period ended December 31, 2009, the Company incurred the following with related parties:

- \$ 83,500 in consulting fees to individuals that are directors and officers of the Company or to private companies which are controlled by a director or officer of the Company;
- \$ 40,600 in technical consulting fees to officers of the Company or corporations controlled by an officer.

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.

**6. Share Capital**

- (a) Authorized  
Unlimited number of common shares without nominal or par value.

- (b) Issued and outstanding common shares:

	<b>Number of Shares</b>	<b>Amount</b>
December 31, 2009		
September 30, 2009	62,640,001	\$3,478,894

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.

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**6. Share Capital** (continued)

The Company has four 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) A summary of the status of the stock option plan and changes during the period is as follows:

	Number of Options Outstanding	Weighted Average Exercise Price
Balance, September 30, 2009	3,984,000	\$ 0.25
Options granted	-	
Options expired	-	
Balance, December 31, 2009	3,984,000	\$ 0.25

Stock Option Type	Expiry Date	Grant Date Fair Value	Exercise Price	Number of Options	Average Remaining Contractual Life
Type A	August 20, 2014	\$ 0.30	\$ 0.25	1,263,000	4.64
Type B	August 20, 2014	\$ 0.30	\$ 0.25	746,000	4.64
Type C	August 20, 2014	\$ 0.30	\$ 0.25	1,325,000	4.64
Type A	September 23, 2014	\$ 0.23	\$ 0.25	150,000	4.73
Type D	September 23, 2014	\$ 0.23	\$ 0.25	500,000	4.73
				3,984,000	



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**6. Share Capital** (continued)

(d) Share purchase warrants

As at December 31, 2009, the Company has share purchase warrants outstanding entitling the holders to acquire common shares as follows:

Issue Date	Expiry Date	Grant Date Fair Value	Exercise Price	Number of Warrants	Weighted Average Exercise Price
Balance, December 31, 2009 and September 30, 2009				4,500,770	\$ 0.47
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	

**7. Segmented Information**

	Canada	Israel	Total
Cash and cash equivalents	\$1,988,652	\$55,580	\$2,044,232
Equipment	-	324,330	324,330
Oil and gas licenses	-	8,966	8,966
Other assets	47,630	-	47,630
<b>Total</b>	<b>\$2,036,282</b>	<b>\$388,876</b>	<b>\$2,425,158</b>

**8. Subsequent events**

In January 2010 the Company's wholly owned subsidiary Adira Energy Israel Ltd. ("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 Adira's Gabriella offshore license. The agreement will enable MELP to farm in to 70% (of 100%) (the "Modiin Earn-In Rights") of certain rights of participation in the Company's Gabriella License. As part of the agreement, the general partner of MEGP has committed to invest a total of US\$ 300,000 for the purchase by way of a private placement of 600,000 Subscription Receipts to purchase shares of Adira Energy Ltd (the "Subscription Receipts") at a price of US\$ 0.50 each. The Subscription Receipts will be exchanged automatically without any further consideration for 600,000 common shares in the capital of Adira ("Common Shares") on the date upon which the Common Shares will be listed for trading on a recognized stock exchange in Canada.

The agreement is subject to certain conditions and upon certain approvals being obtained.