

ADIRA ENERGY LTD.
(Formerly AMG OIL LTD.)
(An Exploration Stage Company)
Consolidated Interim Financial Statements
For the three and nine month periods ended June 30, 2010
(Expressed in United States Dollars)
(UNAUDITED)

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These consolidated interim 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.
(Formerly AMG OIL LTD.)
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Consolidated Balance Sheet
(Expressed in United States Dollars)

	<u>June 30,</u> <u>2010</u>	<u>September 30,</u> <u>2009</u>
Assets		
Current Assets		
Cash and cash equivalents	\$ 809,360	\$ 2,354,628
Restricted cash (note 4(b))	2,000,000	-
Amounts receivable	72,739	9,437
Prepaid expenses	3,891	12,978
Total Current Assets	2885,990	2,377,043
Equipment	865,387	372,600
Oil and Gas Licenses (note 4(b))	15,402	6,662
Total Assets	\$ 3,766,779	\$ 2,756,305
Liabilities and Shareholders' Equity		
Current Liabilities		
Accounts payable and accrued liabilities	\$ 301,425	\$ 126,977
Due to Gabriella venture (note 4(b))	2,000,000	-
Total Current Liabilities	2,301,425	126,977
Shareholders' Equity		
Share Capital (note 6)	3,478,894	3,478,894
Contributed Surplus	989,100	519,061
Deficit	(3,002,640)	(1,368,627)
Total Shareholders' Equity	1,465,354	2,629,328
Total Liabilities and Shareholders' Equity	\$ 3,766,779	\$ 2,756,305

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

See notes to consolidated financial statements

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Consolidated Statement of Operations, Comprehensive Loss and Deficit
(Expressed in United States Dollars)

	Three month period ended June 30, 2010	Nine month period ended June 30, 2010
Income		
Equipment rental income	\$ 56,254	\$ 162,675
Expenses		
Operating, general and administration expenses	\$ 385,647	\$ 1,320,189
Share compensation expense	330,538	470,039
Foreign exchange loss	3,829	6,858
Amortization	(10,263)	-
Total expenses	<u>709,751</u>	<u>1,797,086</u>
Loss before other items	<u>(653,497)</u>	<u>(1,634,411)</u>
Interest income	36	648
Interest expense	-	(250)
	<u> </u>	<u> </u>
Net loss and comprehensive loss for the period	(653,461)	(1,634,013)
Deficit, beginning of period	(2,349,179)	(1,368,627)
Deficit, end of period	<u>\$ (3,002,640)</u>	<u>\$ (3,002,640)</u>
Basic and diluted loss per share	<u>\$ 0.03</u>	<u>\$ 0.01</u>
Weighted average number of common shares outstanding –basic and diluted	<u>62,640,001</u>	<u>62,640,001</u>

The Company has not included in the calculation of basic and diluted loss per share, the effect of stock options and warrants as the effect would be anti-dilutive.

See notes to consolidated financial statements

ADIRA ENERGY LTD.
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Consolidated Statement of Cash Flows
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	Three month period ended June 30, 2010	Nine month period ended June 30, 2010
Operating Activities		
Net loss for the period	\$ (653,461)	\$ (1,634,013)
Non-cash item		
Share based payments	330,538	470,039
Amortization	(10,263)	-
	(333,186)	(1,163,974)
Changes in non-cash working capital		
Amounts receivable	54,743	(63,302)
Prepaid expenses	4,057	9,087
Accounts payable and accrued liabilities	55,011	174,448
Due to Gabriella venture	2,000,000	-
Cash provided by (used in) operating activities	1,780,625	(1,043,741)
Investing Activities		
Restricted cash	(2,000,000)	-
Equipment	(503,319)	(492,787)
Oil and gas licenses	(6,436)	(8,740)
Cash used in investing activities	(2,509,755)	(501,527)
Decrease in cash and cash equivalents	(729,130)	(1,545,268)
Cash and cash equivalents, beginning of period	1,538,490	2,354,628
Cash and cash equivalents, end of period	\$ 809,360	\$ 809,360
Supplemental cash flow information		
Interest paid	\$ -	\$ 250
Income taxes paid	\$ -	\$ -

See 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.

In May 2010, the Company established two Israeli subsidiaries: Adira Oil Technologies Ltd., which is 100% held by Adira and Adira GeoGlobal Ltd., which is 60% held by Adira. The purpose of the formation of these subsidiaries was to receive a new offshore license in Israel – see note 4(e). Both the abovementioned subsidiaries have been inactive from formation through to June 30, 2010.

These consolidated interim 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.

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 June 30, 2010 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., Adira Energy Israel Service Ltd., Adira Oil Technologies Ltd and its 60% owned integrated subsidiary Adira GeoGlobal 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.

Financial Instruments and Risk Management

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

Cash and cash equivalents	- held-for-trading; and
Accounts payable	- other financial liabilities.

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

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3. Significant Accounting Policies (continued)

Credit risk

The Company manages credit risk, in respect of cash and cash equivalents, by holding them at major Canadian 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.

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. The Company's accounts payable and accrued liabilities are due within 30 days.

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.

(ii) Foreign currency risk

The Company is exposed to financial risk related to the fluctuation of foreign exchange rates. The Company operates in Canada, the United States and 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. A significant change in the currency rates between the Canadian dollar 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 shekel relative to the US dollar would not have a significant effect on the Company.

(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.

Capital Management

The Company is an exploration stage company and currently does not generate 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.

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3. Significant Accounting Policies (continued)

Capital Management (continued)

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.

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 will report under IFRS for interim and annual periods beginning January 1, 2011. Comparative information will be restated to comply with IFRS reporting requirements.

4. Oil and Gas Licenses

The Company has onshore and offshore licenses to explore for oil and gas in Israel.

- (a) 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 Energy Israel, was transferred to the Company.
- (b) 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 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 the Gabriella offshore license. Under the terms of the agreement, MELP can farm in up to 70% (of 100%) (the "Modiin Earn-In Rights") of certain rights of participation in the Gabriella License. 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.

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4. Oil and Gas Licenses (continued)

On June 17, 2010 Adira Israel received \$2,000,000 from MEGP on behalf of MELP, representing 85% of the total initial capital call of \$2,352,941 in respect of the work program, being \$1,647,059 on MELP's behalf and \$352,941 on behalf of Adira Israel. The \$2,000,000 received has been recorded as "Restricted Cash" in the balance sheet with a corresponding balance sheet liability of \$2,000,000 recorded as "Due to Gabriella venture".

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

- (c) 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. No capital call has been made.

- (d) In April 2010, the Company signed a binding conditional Letter Of Intent ("LOI") with Coalbed Gas Hachula Ltd. ("CGH") an Israel-based Coalbed Methane Development company to farm-in to 70% in its "Notera" Petroleum License No. 355 ("Notera"). Notera is approximately 19,000 acres and contiguous and directly to the south of the Company's Eitan License.

- (e) 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 Company holds a combined minimum interest of 38.25% in the Samuel License held through its subsidiaries Adira Oil Technologies Ltd. and Adira GeoGlobal Ltd. A gross overriding royalty in an amount equal to 3% shall be granted to and registered in the name of Adira GeoGlobal Ltd. Adira GeoGlobal Ltd. and GeoGlobal Resources (India) Inc have been designated as joint operators of the Samuel License. Adira GeoGlobal 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 revenues generated from the Company's licenses are subject to a 12.5% royalty payable to the government of Israel.

5. Related Party Transactions

During the nine month period ended June 30, 2010, the Company incurred the following transactions with related parties:

\$163,000 in consulting fees to individuals that are directors and officers of the Company or to private companies which are controlled by such directors or officers of the Company (three month period ended June 30, 2010 \$39,000);

\$214,000 in technical consulting fees to officers of the Company or to companies controlled by such officers (three month period ended June 30, 2010 \$103,000).

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.

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6. Share Capital

(a) Authorized

Unlimited number of common shares without nominal or par value.

(b) Issued and outstanding common shares:

	Number of Shares	Amount
September 30, 2009	62,640,001	\$3,478,894
June 30, 2010	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 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	1,820,000	\$0.60
Options expired	(270,000)	\$0.25
Balance, June 30, 2010	5,534,000	\$0.37

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6. Share Capital (continued)

(c) Stock Option Plan (continued)

Stock Option Type	Expiry Date	Grant Date Fair Value	Exercise Price	Number of Options	Average Remaining Contractual Life
Type A	August 20, 2014	\$ 0.23	\$ 0.25	1,263,000	4.14
Type B	August 20, 2014	\$ 0.23	\$ 0.25	476,000	4.14
Type C	August 20, 2014	\$ 0.23	\$ 0.25	1,325,000	4.14
Type A	September 23, 2014	\$ 0.23	\$ 0.25	150,000	4.24
Type D	September 23, 2014	\$ 0.23	\$ 0.25	500,000	4.24
Type A	January 27, 2015	\$0.55	\$0.60	1,675,000	4.58
Type C	January 27, 2015	\$0.55	\$0.60	45,000	4.58
Type B	January 27, 2015	\$0.55	\$0.60	100,000	4.58
				5,534,000	

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 January 27, 2010:

Risk-free interest rate	2.46%
Expected life	5 years
Expected stock price volatility	175%
Expected dividend yield	0.00%

The options issued January 27, 2010 have various vesting provisions over the next three years.

(d) Share purchase warrants

As at June 30, 2010 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, June 30, 2010 and December 31, 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	

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7. Segmented Information

The Company operates in the oil and gas exploration and development segment. Its head office is located in Toronto, Canada.

	Canada	Israel	Total
Cash and cash equivalents	\$ 716,053	\$ 93,307	\$ 809,360
Restricted cash	-	2,000,000	2,000,000
Equipment	-	865,387	865,387
Oil and gas licenses	-	15,402	15,402
Other assets	11,999	64,631	76,630
Total	<u>\$ 728,052</u>	<u>\$ 3,038,727</u>	<u>\$ 3,766,779</u>

8. Subsequent events

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.