

Registration No. 333 - 164935

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

Amendment No. 4

To

FORM F-1

REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933

**BONTAN CORPORATION INC.**

(Exact name of registrant as specified in its charter)

**Province of Ontario**  
(State or other jurisdiction of  
incorporation or organization)

**1382**  
(Primary Standard Industrial  
Classification Code Number)

**N/A**  
(I.R.S. Employer  
Identification No.)

**47 Avenue Road, Suite 200, Toronto, Ontario, Canada M5R 2G3**

**Telephone: (416) 929-1806**

(Address, including zip code and telephone number, including area code, of Registrant's principal executive offices)

**Kam Shah**  
**Chief Executive Officer**  
**47 Avenue Road, Suite 200**  
**Toronto, Ontario, Canada M5R 2G3**  
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(Name, address, including zip code and telephone number, including area code, of agent for service)

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**Approximate date of commencement of proposed sale to the public:** From time to time after this registration statement becomes effective.

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, check the following box:

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

**The registrant hereby amends this registration statement on such date or dates as may be necessary to delay its effective date until the registrant shall file a further amendment which specifically states that this registration statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the registration statement shall become effective on such date as the Securities and Exchange Commission, acting pursuant to said Section 8(a), may determine.**

The information in this prospectus is not complete and may be changed. These securities may not be sold until the registration statement filed with the Securities and Exchange Commission is effective. This preliminary prospectus is not an offer to sell nor does it seek an offer to buy these securities in any jurisdiction where an offer or sale is not permitted.

Subject to Completion Dated November 22, 2010

**PROSPECTUS**

**Bontan Corporation Inc.**

**46,472,500 Shares of Common Stock**

This prospectus relates to the sale of up to 46,472,500 shares of our common stock by the selling stockholders listed in the table under "Selling Stockholders." The common shares registered for resale under this registration statement are:

- 17,975,000 common shares;
- 10,747,500 common shares issuable upon exercise of warrants at an exercise price of USD \$0.35 per share;
- 7,000,000 common shares issuable upon exercise of warrants, which have a cashless exercise feature, at an exercise price of USD \$0.35 per share; and
- 10,750,000 common shares issuable upon exercise of warrants at an exercise price of USD \$0.10 per share.

We will not receive any proceeds from the sale of the shares offered by the selling stockholders; however, if the warrants are exercised on a cash basis, we will receive the exercise price of the warrants, if exercised at all.

The selling stockholders may offer the shares from time to time through public or private transactions at prices related to prevailing market prices, or at privately negotiated prices. Additional information on the selling stockholders, and how they may sell the shares registered hereby, is provided under "Selling Stockholders" and "Plan of Distribution."

Our common stock is quoted on the Over-the-Counter (OTC) Bulletin Board under the symbol "BNTNF." The high and low bid prices for our common stock on the OTC Bulletin Board on November 17, 2010 were US\$0.199 and US\$0.20 per share respectively. These quotations reflect inter-dealer prices, without retail mark-up, mark-down or commissions, and may not represent actual transactions.

**Investing in our common shares involves a high degree of risk. See "Risk Factors" beginning on page 5.**

**Neither the SEC nor any state securities commission has approved or disapproved these securities or passed upon the accuracy or adequacy of this prospectus. Any representation to the contrary is a criminal offense.**

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**Prospectus dated**

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## ABOUT THIS PROSPECTUS

This prospectus is part of a registration statement on Form F-1 that we filed with the U.S. Securities and Exchange Commission, or the SEC, using a "shelf" registration process. Under this process, the selling shareholders listed in the table commencing on page 30 may, from time to time, sell the offered securities described in this prospectus in one or more offerings, up to a total of 46,472,500 common shares. No shares are being registered hereunder for sale by Bontan.

We have not authorized any broker, dealer, salesperson or other person to give any information or to make any representation regarding any of the securities offered hereby. You should rely only on the information contained or incorporated by reference in this prospectus and applicable prospectus supplement.

This prospectus does not constitute an offer to sell or the solicitation of an offer to buy the securities in any jurisdiction in which an offer or solicitation is not authorized or in which the person making such offer or solicitation is not qualified to do so or to anyone to whom it is unlawful to make an offer or solicitation. You should assume that the information contained in this prospectus is accurate only as of any date on the front cover page.

This prospectus does not contain all of the information included in the registration statement and the exhibits thereto. This prospectus includes statements that summarize the contents of contracts and other documents that are filed as exhibits to the registration statement. These statements do not necessarily describe the full contents of such documents, and you should refer to those documents for a complete description of these matters. It is important for you to read and consider all information contained in this prospectus and any prospectus supplement, together with the additional information described below under the heading "Where You Can Find More Information."

In this prospectus, references to "Bontan," "our company," "we," "us" and "our" are to Bontan Corporation Inc. and its consolidated subsidiaries, unless the context suggests otherwise. References to "U.S. dollars" or "USD \$" are to the lawful currency of the United States, and references to "CDN \$" or "\$" are to the lawful currency of Canada. All financial information set forth in this prospectus is expressed in Canadian dollars, except where otherwise indicated.

## PROSPECTUS SUMMARY

This summary highlights the key information contained in this prospectus. Because it is a summary, it does not contain all the information you should consider before investing in our common shares. You should read carefully this entire prospectus; including the section entitled "Risk Factors" and the financial statements included elsewhere in this prospectus.

### About Bontan

We invest in the exploration and development of oil and gas wells. We focus on partnering with established developers and operators. We have never had any oil and gas operations and do not currently own any oil and gas properties with proven reserves. We currently own a 5.23% indirect working interest in two drilling licenses in the Levantine Basin, approximately 40 kilometers off the west coast of Israel. The two drilling licenses, Petroleum License 347 ("Myra") and Petroleum License 348 ("Sara"), cover approximately 198,000 acres. We currently own no other property interests.

Bontan's interest is held through its 76.79% equity interest in Israel Petroleum Company, Limited or IPC Cayman, a Cayman Islands limited company. IPC Cayman owns 50% of I.P.C. Oil and Gas (Israel), Limited Partnership, ("IPC Partnership") which is the registered holder of 13.609% interest in the above licenses.

In addition to IPC Cayman, our major joint venture partners in the offshore Israel project include Emanuelle Energy Limited and IDB-DT Energy (2010) Ltd. Mr. Ofer Nimrodi controls Emanuelle Energy Ltd., and is a director and CEO of Tel Aviv-based Israel Land Development Company Ltd. IDB-DT Energy (2010) Ltd. is a joint venture of IDB Development Corporation Ltd., which is affiliated with Avraham Livnat Company, and Du-Tzah Ltd., which is affiliated with Manor Holdings and Yitzak "Zachi" Sultan. Our rights and the rights of our joint venture partners in the Myra and Sara licenses have been approved and registered by the Israeli Petroleum Commissioner on June 17, 2010. In this document we sometimes refer to Emanuelle Energy Ltd. and IDB-DT Energy (2010) Ltd as the "Lead Investors." Geoglobal Resources (India) Inc. has been appointed operator for the Myra and Sara licenses.

The following table shows ownership of the rights in the Myra and Sara licenses registered with the Ministry of National Infrastructures of the State of Israel as at August 10, 2010:

#### Myra License (400000 dunams) Validity 14/07/2008 - 13/07/2011

* Emanuelle Energy Limited.	24.1610 %
Modiin Energy Limited Partnership	19.2820 %
Emanuelle Energy Oil & Gas Limited Partnership	19.1610 %
I.P.C. Oil and Gas (Israel) Limited Partnership	13.6090 %
Blue Water Oil & Gas Exploration Limited	8.7870 %
GeoGlobal Resources (India) Inc.	5.0000 %
IDB Development Corporation Limited	5.0000 %
Israel Land Development Company Limited	5.0000 %

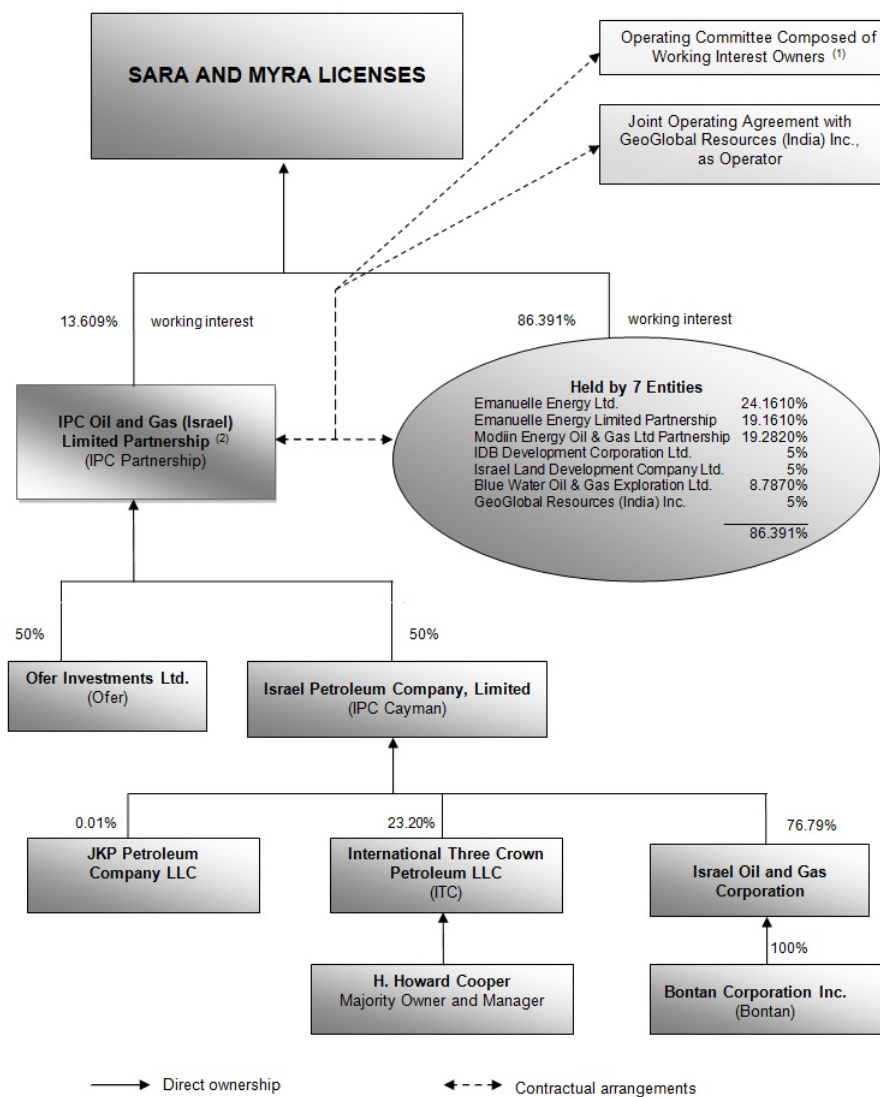
#### Sara License (400000 dunams) 07/2008 - 13/07/2011

* Emanuelle Energy Limited.	24.1610 %
Modiin Energy Limited Partnership	19.2820 %
Emanuelle Energy Oil & Gas Limited Partnership	19.1610 %
I.P.C. Oil and Gas (Israel) Limited Partnership	13.6090 %
Blue Water Oil & Gas Exploration Limited	8.7870 %
GeoGlobal Resources (India) Inc.	5.0000 %
IDB Development Corporation Limited	5.0000 %
Israel Land Development Company Limited	5.0000 %

Note: (a) I.P.C. Oil and Gas (Israel) Limited Partnership (or IPC Partnership) is currently owned 50% by IPC Cayman and 50% by Ofer Investments Ltd. We own 76.79% of IPC Cayman. Hence our indirect working interest in the above licenses is 5.23% (13.609 x 50% x 76.79%). This interest may decrease further if Geoglobal Resources (India) Ltd. exercises its option to acquire an additional 2.5% working interest in the licenses pro rata from the Lead Investors and IPC Cayman.

(b) We understand that recently Blue Water Oil & Gas Exploration Limited failed to fulfil its financial obligation under a cash call and as a result forfeited its interest to Emanuelle Energy Limited and Modiin Energy Limited Partnership. We have however not received any written confirmation of this matter. It also does not affect our interest in the two licenses.

The following diagram illustrates the ownership structure with respect to the Myra and Sara licenses as of the date of this prospectus.



<sup>(1)</sup> Currently, the Operating Committee has 4 members: H. Howard Cooper (IPC Cayman), Ohad Marani (Emanuelle Energy Ltd. ), and Ron Maor (Modiin Energy Oil & Gas Ltd. Partnership plus a representative from GeoGlobal Resources (India) Inc.

<sup>(2)</sup> ITC is the general partner of IPC Partnership.

The following table shows the overriding royalty interests held by various parties in the Myra and Sara licenses:

<b>Name of Holder</b>	<b>Percentage Interest</b>
Royalty Trust for the benefit of the shareholders of PetroMed Corporation as of March 25, 2010	3.0%
East Mediterranean Exploration Company Ltd.	4.5%
Three Crown Petroleum LLC – an affiliate of ITC	0.5%
Ofer Energy Enterprises LP	0.5%
Israel Land Development Company Ltd.	1.33%
IDB-DT (2010) Energy Ltd	0.138%
Modiin Energy Limited Partnership	0.532%
<b>TOTAL OVERRIDING ROYALTY INTERESTS</b>	<b>10.5%</b>

Our goal is to advance the offshore Israel project to the drilling stage aggressively, as prudent financing will allow us to determine the presence of oil or natural gas. If we are successful in doing so, we believe our joint venture partners can attract the attention of the existing oil and gas companies already operating in the region or new oil and gas companies to enter into a development agreement.

We were incorporated under the laws of the Province of Ontario in 1973. Since April 2003, we have been focused on participating in oil and gas exploration, development and exploitation projects worldwide by acquiring joint venture, indirect and direct participation interests and working interests in those projects. During the fiscal year 2006, we sold our indirect participation interest in an oil exploration project and wrote off our working interest in a gas project owing to a dry test well. Since 2006, we have been pursuing and evaluating various business opportunities in the oil and gas sector. We currently have only one oil and gas project.

Our principal office is located at 47 Avenue Road, Suite 200, Toronto, Ontario M5R 2G3 and our telephone number is 416-929-1806.

## Background and Status of Offshore Israel Project

In November 2009, IPC Cayman initially acquired a 95.5% interest in the Myra and Sara drilling licenses and an exploration permit, Petroleum Preliminary Permit 199 ("Benjamin"), from PetroMed Corporation, a Belize corporation. The transfer of rights was subject to approval by the Israeli Petroleum Commissioner. Disputes arose among PetroMed Corporation, IPC Cayman, us and others regarding the transfer of rights in the two drilling licenses and the exploration permit. To settle the disputes and to ensure that the future of the offshore Israel project is not jeopardized, we and IPC Cayman accepted an offer from two Israeli investors with significant financial and local influence to join the project as major partners. On March 25, 2010, International Three Crown Petroleum LLC or ITC, a Colorado limited liability company, IPC Cayman, PetroMed Corporation, Emanuelle Energy Ltd., IDB-DT Energy (2010) Ltd. and others entered into an Allocation of Rights and Settlement Agreement. This agreement provides for, among other things:

- The dismissal of certain lawsuits and mutual release of claims among the parties;
- The payment by the Lead Investors of: (i) \$10.5 million to Western Geco International Ltd. for the release of 2D and 3D seismic data relating to the Myra and Sara licenses, and (ii) \$5.7 million to settle various disputes with PetroMed Corporation and to acquire its control.
- A new allocation of working interests in the offshore Israel project as follows: 14.325% to IPC Cayman; 27.15% to IDB-DT Energy (2010) Ltd.; and 54.025% to Emanuelle Energy Ltd.;
- With respect to IPC Cayman's 14.325% working interest, an allocation of 11% to Bontan and 3.325% to International Three Crown Petroleum LLC;
- For purposes of the application to effect the transfer of rights in the Myra and Sara licenses, the Lead Investors to prove (without incurring any actual monetary obligation) the financial capability requirement under Israel Petroleum Law in respect of IPC Cayman's interest in the licenses;
- The grant of overriding royalty interests, totaling 11.5%, to certain persons;
- The cancellation of the common shares and warrants of Bontan issued to PetroMed Corporation in November 2009; and
- The formation of a steering committee composed of two representatives of the Lead Investors and one representative of IPC Cayman, to manage the project with respect to the Myra and Sara licenses.

In a letter dated May 16, 2010, Petroleum Commissioner confirmed that the two licenses are fully valid and approved changes in the work plan submitted by the steering committee. The Petroleum Commissioner approved deadlines for submitting various work plans between July 15, 2010 and March 31, 2011. With respect to the financial capability requirement for approval of the transfer of rights, the Petroleum Commissioner has indicated that the joint venture partners must demonstrate liquidity equal to at least half of the cost of the first well drilling, which he estimates to be approximately USD \$50 million.

Geoglobal Resources (India) Inc. has been appointed operator for the Myra and Sara licenses. The operator is a wholly owned subsidiary of Geoglobal Resources Inc., a public company headquartered in Calgary, Alberta. The operator has acquired a 5% working interest in the Myra and Sara licenses pro rata from the Lead Investors and IPC Cayman for USD \$1.2 million which at that time decreased our indirect working interest to 10.45%. The operator also will have an option to acquire an additional 2.5% working interest in one or both licenses pro rata from the Lead Investors and IPC Cayman.

On May 20, 2010, the joint venture partners submitted an application to the Israeli Petroleum Commissioner to approve the transfer and registration of the rights in the Myra and Sara licenses. On June 16, 2010, the Commissioner approved the application and registered the interests in the two licenses in favour of the joint venture partners.

The Benjamin permit originally held by PetroMed Corporation and acquired by IPC Cayman expired in February 2010 because the required seismic data was not timely submitted to the Petroleum Commissioner. The Israeli Ministry of Petroleum invited new applications for three licenses covering the same area as the original Benjamin permit. The Lead Investors and IPC Cayman paid for and obtained the required 2D seismic data for this application and submitted an application for only one of the licenses, Michael license on May 20, 2010. On June 16, 2010, the Ministry of Petroleum notified the Lead Investors that the application of Michael license was not accepted.



Under the Allocation of Rights and Settlement Agreement, we are required to prove financial capability of approximately \$12 million on or before December 1, 2010 to our joint venture partners to cover our share of the cost of the two test wells. On October 13, 2010, IPC Cayman and IPC Partnership signed a Partnership Subscription and Contribution Agreement with Ofer Investments Ltd., an Israeli company, and Ofer Energy Enterprises LP (together, "Ofer"). Under this agreement, Ofer agreed to contribute up to US\$ 28 million towards the IPC Partnership's share of the cost of drilling of the initial two exploratory wells under the Sara and Myra licenses and related exploration costs in exchange for a 50% limited partnership interest in IPC Partnership and certain voting and management rights related to IPC Partnership. We believe Ofer's contribution under the agreement satisfies our financial capability requirement under the Allocation of Rights and Settlement Agreement. However, Mr. Cooper has communicated to us that we have not satisfied our financial commitments under the Contribution Agreement and we are negotiating to resolve this claim.

On October 25, 2010, IPC Cayman entered into an agreement with Shaldieli Ltd., an Israeli shell public company ("Shaldieli"), for IPC Cayman to acquire 90% of Shaldieli's common equity in exchange for IPC Cayman's 50% interest in IPC Partnership. The Shaldieli transaction is subject to Bontan's approval as the majority stockholder of IPC Cayman and to Israeli regulatory approvals. Bontan expects it will be required to seek approval from its stockholders as a pre-condition to any such transaction, assuming Bontan determines to proceed with proposed Shaldieli transaction. In light of past actions taken without Bontan's consent to register the 13.609% working interest in IPC Partnership rather than in IPC Cayman, and to sell off a 50% interest in IPC Partnership to Ofer, Bontan cannot assure that IPC Cayman and IPC Partnership will not attempt to consummate the proposed transaction with Shaldieli without Bontan's consent. We are currently trying to settle our disputes with Mr. Cooper, ITC and IPC Cayman regarding these actions and other claims. Failure to resolve these disputes could have a material adverse effect on our business, results of operations and financial condition.

On November 8, 2010, joint operating agreements relating to each of the Myra and Sara licenses were signed by the joint venture partners and GeoGlobal, as operator. The agreements contain substantially similar provisions that relate to the rights and obligations of the parties with regard to operations under the licenses, including joint exploration, appraisal, development, production and disposition of oil and natural gas produced from the areas covered by the licenses. Under the joint operating agreements, an operating committee is created to supervise and direct operations and activities carried out by the operator with respect to each license. The operating committee (which we understand replaces the steering committee created by the Allocation of Rights and Settlement Agreement) will be comprised of representatives of each joint venture partner holding a working interest. Decisions of the operating committee are determined by an affirmative vote of two or members representing at least 51% of the working interests; provided that the vote must include the affirmative vote of Emanuelle Energy Ltd., Emanuelle Energy Oil and Gas Limited Partnership, Israel Land Development Company Ltd., IDB Development Corporation Ltd., and Modiin Energy Limited Partnership as long as each of them holds at least 50% of its original working interest. Currently, we understand that there are four members on the operating committee – one each from IDB-DT Energy (2010) Ltd., Emanuelle Energy Ltd., GeoGlobal Resources (India) Inc., and IPC Cayman. Mr. Howard Cooper currently represents IPC Cayman. While we own 76.79% of IPC Cayman, we agreed to have IPC Cayman's representative on the operating committee be appointed by ITC. We believed at that time that ITC's representative would be Mr. Howard Cooper. Mr. Cooper has significant experience in handling oil and gas projects and has been actively involved in developing of the offshore Israel project.

**Manager of IPC Cayman**

International Three Crown Petroleum LLC ("ITC") is the sole director of IPC Cayman and the general partner of IPC Partnership, and is representing our interest in the offshore Israel project through participation in the steering committee. ITC owns a 23.20% equity interest in IPC Cayman and JKP Petroleum Company LLC ("JKP") owns a 0.01% equity interest in IPC Cayman. The majority member and principal of ITC is H. Howard Cooper. Under a Stockholders Agreement, ITC cannot be removed other than for willful misconduct that adversely affects the offshore Israel project or in the event of a transfer of ownership of ITC, such that Mr. Howard Cooper is no longer the managing member.

H. Howard Cooper is currently the manager of ITC. Mr. Cooper is also the manager of Power Petroleum LLC. ITC was formed by Mr. Cooper in 2005 to identify and purchase oil and gas leases, primarily in the U.S. Rocky Mountain Region. Power Petroleum, which was formed by Mr. Cooper in 2007, puts drilling prospects together in Colorado, Montana, Utah and North Dakota. From 1996 until February 2005, Mr. Cooper was the chairman of the board of directors of Teton Energy Corporation, a U.S. publicly traded company formerly known as Teton Petroleum Company. Mr. Cooper also served as president and CEO of Teton from 1996 until May 2003. During his tenure with Teton, Teton primarily engaged in oil and gas exploration, development, and production in Western Siberia, Russia.

IPC Cayman will pay ITC a monthly management fee of \$20,000 for its services as director of IPC Cayman and will reimburse reasonable out-of-pocket expenses incurred by the director on behalf of IPC Cayman. In connection with any farmout, sale or other transfer of all or a portion of the offshore Israel project, ITC will receive a disposition fee equal to the product of 5% of our percentage ownership interest in IPC Cayman and the total cash proceeds received by us or our shareholders in such transaction. In addition, ITC will receive a warrant to purchase a number of our common shares which is equal to the product of 5% of our percentage ownership interest in IPC Cayman and the fair market value of all consideration received by us in such transaction, divided by the market price of one common share as of the date of issuance of the warrant. The exercise price of the warrant will be equal to the market price.

**The Offering**

This prospectus relates to the sale of up to 46,472,500 shares of our common stock, including 28,497,500 shares issuable upon the exercise of warrants, by the selling stockholders listed in this prospectus. We issued the shares and warrants to the selling stockholders in connection with the acquisition of our indirect working interest in the offshore Israel project and the subsequent funding of the project. We will not receive any proceeds from the sale of the shares offered by the selling stockholders. We may receive proceeds from the exercise of the warrants, if and when exercised on a cash basis.

## RISK FACTORS

*You should carefully consider the following risks in addition to the other information set forth in this prospectus before making any investment in our stock. The risks and uncertainties described below are not the only ones we face. Additional risks and uncertainties not presently known to us or that we currently believe to be immaterial may also adversely affect our business. If any of these risks actually occur, the price of our stock could decline and you could lose part or all of your investment.*

### **Risks Related to our Business**

***We have a history of operating losses and may never achieve profitability in the future.***

We have incurred significant operating losses. It is unlikely that we will generate significant revenues while we seek to complete our exploration and development activities in the offshore Israel project. As of June 30, 2010, we had an accumulated deficit of approximately \$37 million. We do not have any proved reserves or current production of oil or gas. Our success is substantially dependent upon the successful exploration, drilling and development of the offshore Israel project. We cannot assure you that we will be profitable in the future.

Our consolidated financial statements for the year ended March 31, 2010 have been prepared assuming that we will continue as a going concern, however, there can be no assurance that we will be able to do so. Our ability to continue as a going concern is dependent upon our ability to access sufficient capital to complete exploration and development activities, identify commercial oil and gas reserves and ultimately achieve profitable operations. These financial statements do not reflect the adjustments to the carrying values of assets and liabilities and the reported expenses and balance sheet classifications that would be necessary if we were unable to realize our assets and settle our liabilities as a going concern in the normal course of operations. Such adjustments could be material.

***IPC Cayman is a newly formed development stage company with no operating history.***

IPC Cayman, the company in which we acquired a 76.79% equity interest, is newly formed and has no operating history. Its operations will be subject to all of the risks inherent in exploration stage companies with no revenues or operating history. Its potential for success must be considered in light of the problems, expenses, difficulties, complications and delays frequently encountered in connection with a new business, especially the oil and natural gas exploration business. No assurance can be given that any particular investment return will be achieved.

***We will be substantially dependent upon our joint venture partners to develop the offshore Israel project.***

We will be substantially dependent on IPC Cayman and our other joint venture partners and their respective affiliates to develop the offshore Israel project. We will not control the management or operations of the offshore Israel project.

Investments in joint ventures may, under certain circumstances, involve risks not present were a third party not involved, including the possibility that joint venture partners might become bankrupt or fail to fund their share of financial commitments. Joint venture partners may have economic or other business interests or goals which are inconsistent with our business interests or goals, and may be in a position to take actions contrary to our interests or objectives, and they may have competing interests in our markets that could create conflict of interest issues. Such investments may also have the potential risk of impasses on decisions, such as a sale, because neither we nor our joint venture partners would have full control over the joint venture. Disputes between us and our joint venture partners may result in litigation or arbitration that would increase our expenses and prevent our officers and/or directors from focusing their time and effort on our business. Our investment in the offshore Israel project may exceed returns from the project.

***We cannot control activities on properties or drilling locations that we do not operate and are unable to control their proper operation and profitability.***

We do not operate any of the properties in which we own an interest, and we own an indirect minority interest in the properties. As a result, we have limited ability to exercise influence over, and control the risks associated with, the operations of these properties. The failure of an operator of our wells to adequately perform operations, an operator's breach of the applicable agreements or an operator's failure to act in ways that are in our best interests could adversely affect us from realizing our target returns for those properties. The success and timing of exploration and development activities on properties operated by others therefore will depend upon a number of factors outside of our control, including:

- the nature and timing of drilling and operational activities;
- the timing and amount of capital expenditures;
- the operator's expertise and financial resources;
- the approval of other participants in drilling wells; and
- the operator's selection of suitable technology.

***The Myra and Sara licenses must be drilled by July 13, 2011 or the licenses could be forfeited.***

Our joint venture must commence test well drilling on each of the Myra and Sara licenses on or before July 13, 2011 or the licenses could be forfeited. If our joint venture fails to drill timely wells before the license expiration, we will lose the drilling opportunities and our investment in the expired licenses.

***Prospects that our joint venture decides to drill may not yield natural gas or oil in commercially viable quantities.***

The joint venture is conducting seismic surveys and other geological and geophysical analysis to identify and develop prospects in the areas covered by the Myra and Sara licenses. A prospect is a property on which indications of natural gas and oil have been identified based on available seismic and geological information and analyses. The prospects will require substantial additional seismic data processing and interpretation. However, the use of seismic data and other technologies and the study of data in the same and nearby areas will not enable the joint venture to know conclusively prior to drilling and testing whether natural gas or oil will be present or, if present, whether natural gas or oil will be present in sufficient quantities to recover drilling or completion costs or to be economically viable. If the seismic and other data are inconclusive or unsatisfactory, the joint venture may not be able to attract industry partners to conduct exploratory drilling on its properties.

***There is currently no infrastructure to market oil or gas if hydrocarbons are discovered.***

The Myra and Sara licenses are located in an area of the eastern Mediterranean where there has not previously been production of oil and gas. Accordingly, there is not currently any infrastructure in place to market oil or gas if hydrocarbons are discovered. The Israeli government will have to approve the installation of infrastructure, and the construction of infrastructure will require significant capital investment.

***Failure to fund capital expenditures could adversely affect our properties interests.***

The oil and gas industry is capital intensive. The joint venture's exploration and development activities will require substantial capital expenditures to meet requirements in the licenses. Although IPC Cayman's share of the drilling and related exploration costs of the initial two exploratory wells under the Myra and Sara licenses will be covered by the US\$ 28 million contribution to be made by Ofer under the Ofer agreement, we will however be responsible to the extent of our share of IPC Cayman's commitment for any overruns in the drilling and related exploration costs of the initial two wells as well as the costs of any subsequent wells.

We do not expect that debt financing will be available to us or any of our joint venture partners to support exploratory operations of the type required to establish commercial viability of the properties. Cash flows from the offshore Israel project will be subject to a number of variables, such as the success of drilling operations, production levels from successful wells, prices of crude oil and natural gas, availability of infrastructure and markets, and costs of services and equipment. In addition, our joint venture partners could seek farmout arrangements with third parties. These farmouts could result in us giving up a substantial interest in the oil and gas properties, comprising two licenses for offshore exploration for gas and/or oil, we have acquired. If we or IPC Cayman are not able to fund our or its share of capital expenditures, our interests in the properties might be reduced or forfeited as a result.

***Market conditions could impede access to capital or increase the cost of capital, which could significantly impede development of the offshore Israel project.***

The oil and gas industry is cyclical in nature and tends to reflect general economic conditions. Recent and continuing disruptions and volatility in the global financial markets may, among other things, make it more difficult for us and our joint venture partners to obtain, or increase the cost of obtaining, capital and financing for the offshore Israel project. Access to additional capital may not be available on acceptable terms or at all. Difficulties in obtaining capital and financing or increased costs for obtaining capital and financing could significantly delay development of our property interests.

***Our business is not geographically diversified.***

Our property interests are located off the west coast of Israel. We currently own no other working interests, leases or properties. As a result, our current business will be concentrated in the same geographic region. Our success or failure will be dependent upon the drilling and production results of any wells identified on the offshore Israel properties.

***We face significant competition and many of our competitors have resources in excess of our available resources.***

The oil and natural gas industry is highly competitive. We face intense competition from a large number of independent, technology-driven companies as well as both major and other independent crude oil and natural gas companies in a number of areas such as:

- seeking to acquire desirable producing properties or new leases for future exploration;
- marketing our crude oil and natural gas production;
  
- seeking to acquire the equipment and expertise necessary to operate and develop properties; and
- attracting and retaining employees with certain skills.

Many of our competitors have financial, technical and other resources substantially in excess of those available to us. This highly competitive environment could have an adverse impact on our business.

#### **Risks of Oil and Natural Gas Investments**

***Oil and natural gas investments are highly risky.***

The selection of prospects for oil and natural gas drilling, the drilling, ownership and operation of oil and natural gas wells and the ownership of non-operating interests in oil and natural gas properties are highly speculative. There is a possibility you will lose all or substantially all of your investment in us. We cannot predict whether any prospect will produce oil or natural gas or commercial quantities of oil and natural gas, nor can we predict the amount of time it will take to recover any oil or natural gas we do produce. Drilling activities may be unprofitable, not only from non-productive wells but also from wells that do not produce oil or natural gas in sufficient quantities or quality to return a profit.

***Oil and natural gas prices are volatile and a reduction in these prices could adversely affect our financial condition and results of operations.***

The price we may receive for oil or natural gas production from wells, in which we have an interest, will significantly affect our revenue, cash flow, access to capital and future growth. Historically, the markets for oil and natural gas have been volatile and are likely to continue to be volatile in the future. The markets and prices for oil and natural gas depend on numerous factors beyond our control. These factors include:

- changes in supply and demand for oil and natural gas;
- actions taken by foreign oil and gas producing nations;
- political conditions and events (including political instability or armed conflict) in oil or natural gas producing regions;
- the level of global oil and natural gas inventories and oil refining capacity;
- the price and level of imports of foreign oil and natural gas;
- the price and availability of alternative fuels;
- the availability of pipeline capacity and infrastructure;
- the availability of oil transportation and refining capacity;
- weather conditions;
- speculation as to future prices of oil and natural gas and speculative trading of oil or natural gas futures contracts;
- domestic and foreign governmental regulations and taxes; and
- global economic conditions.

The effect of these factors is magnified by the concentration of our interests in Israel, where some of these forces could have disproportionate impact, such as war, terrorist acts or civil disturbances, changes in regulations and taxation policies by the Israeli government, exchange rate fluctuations, laws and policies of Israel affecting foreign investment, trade and business conduct and the availability of pipeline capacity and infrastructure.

A significant or extended decline in oil and natural gas prices may have a material adverse effect on our and IPC Cayman's financial condition, results of operations, liquidity, ability to finance planned capital expenditures or ability to secure funding from industry partners.

***Exploration, development and production of oil and natural gas are high risk activities with many uncertainties that could adversely affect our financial condition and results of operations.***

The joint venture's drilling and operating activities will be subject to many risks, including the risk that commercially productive wells will not be discovered. Drilling activities may be unprofitable, not only from dry holes but also from productive wells that do not generate sufficient revenues to return a profit. In addition, drilling and producing operations may be curtailed, delayed or canceled as a result of other factors, including:

- environmental hazards, such as natural gas leaks, pipeline ruptures and spills;
- fires;
- explosions, blowouts and cratering;
- unexpected or unusual formations;
- pressures;
- facility or equipment malfunctions;
- unexpected operational events;
- shortages of skilled personnel;
- shortages or delivery delays of drilling rigs and equipment;
- compliance with environmental and other regulatory requirements;
- adverse weather conditions; and
- natural disasters.

Any of these risks could adversely affect operations or result in substantial losses as a result of personal injury or loss of life; severe damage to or destruction of property and equipment; pollution; environmental contamination; repair and remediation costs; loss of wells; and regulatory fines and penalties. Uninsured liabilities could have a material adverse effect on our financial condition and results of operations.

***We will be subject to various governmental regulations which may result on material liabilities and costs.***

Political developments and laws and regulations will affect the offshore Israel project. In particular, price controls, taxes and other laws relating to the oil and natural gas industry, changes in these laws and changes in administrative regulations have affected and in the future could affect oil and natural gas production, operations and economics. We cannot predict how agencies or courts in the State of Israel will interpret existing laws and regulations or the effect these adoptions and interpretations may have on our business or financial condition.

We and our joint venture partners are subject to laws and regulations promulgated by the State of Israel relating to the exploration for, and the development, production and marketing of, oil and natural gas, as well as safety matters. Legal requirements can change and are subject to interpretation and we are unable to predict the ultimate cost of compliance with these requirements or their effect on the offshore Israel project. We and our joint venture partners may be required to make significant expenditures to comply with governmental laws and regulations.

We and our joint venture partners are subject to Israeli environmental laws and regulations. Because of the recent nature of the discoveries in the eastern Mediterranean and the absence of production, there has not been consideration of the impact that operations in this area may have on environmental laws and regulations, which could be changed in ways that could negatively impact the offshore Israel project. The discharge of natural gas, oil, or other pollutants into the air, soil or water may give rise to significant liabilities and may require us and our joint venture partners to incur substantial costs of remediation. In addition, we and our joint venture partners may incur costs and penalties in addressing regulatory agency procedures involving instances of possible non-compliance. The financial implications, if any, cannot be estimated at this stage.

**Potential regulations regarding climate change could alter the way the joint venture conducts business.**

As awareness of climate change issues increases, governments around the world are beginning to address the matter. This may result in new environmental regulations that may unfavorably impact us and our joint venture partners. The cost of meeting these requirements may have an adverse impact on our financial condition, results of operations and cash flows.

**The potential lack of availability or high cost of drilling rigs, equipment, supplies, personnel and other oil field services could adversely affect the joint venture's ability to execute exploration and development plans on a timely basis and within budget.**

From time to time, there is a shortage of drilling rigs, equipment, supplies or qualified personnel in the oil and natural gas industry. During these periods, the costs of rigs, equipment and supplies are substantially greater and their availability may be limited, particularly in international locations that typically have more limited availability of equipment and personnel, such as Israel. During periods of increasing levels of exploration and production in response to strong demand for oil and natural gas, the demand for oilfield services and the costs of these services increase. Additionally, these services may not be available on commercially reasonable terms.

**Risks Related to the Manager of IPC Cayman**

**The loss of IPC Cayman's manager could adversely affect our business.**

ITC is the sole director of IPC Cayman and H. Howard Cooper is the manager of ITC. Mr. Cooper has significant experience in developing international oil and gas projects. While the joint venture plans to retain an international operator, consultants and contractors with extensive experience in managing and operating these kinds of international projects, Mr. Cooper's unavailability for any reason could negatively impact our business.

**We have an ongoing dispute with Mr. Howard Cooper for which we are currently trying to settle.**

We currently have an ongoing dispute with Mr. Howard Cooper, ITC and IPC Cayman as regards costs incurred and compliance with the terms of the Contribution and Assignment Agreement and Stockholders Agreement as well as the proposed Shaldeili transaction. While we are trying to resolve these disputes through negotiation, there is no guarantee that such negotiations will be successful or favorable to us. If our negotiations fail, we may need to take legal action to protect our rights and we also may need to defend against claims made by Mr. Cooper, ITC and IPC Cayman. The outcome of such litigation cannot be predicted. Any litigation could result in substantial costs and diversion of resources. An adverse outcome in this dispute could cause us to lose our interest in the licenses and write off our investments.



***We have limited control over the management of IPC Cayman***

Under the agreement between us and ITC, we have limited authority to participate in the management of IPC Cayman. Our rights as the holder of a majority of the shares of IPC Cayman will include the right to approve:

- Expansion of the scope of IPC Cayman's business beyond the acquisition, development and potential farmout or sale of the Myra and Sara licenses and Benjamin permit and any license that may be issued in lieu of such permit and any other oil and gas exploration and development activity within the offshore or onshore areas of the State of Israel;
- Sale or merger of IPC Cayman or sale or other disposition of all or substantially all of the assets of IPC Cayman (other than a sale or farmout to an industry partner in connection with a commitment to conduct exploratory or development operations on the licenses and permit);
- Admit additional owners to IPC Cayman;
- Liquidate IPC Cayman;
- Enter into any contract or agreement between IPC Cayman and ITC or any affiliate;
- Modify any compensation arrangement between IPC Cayman and ITC and any affiliate; and
- Amend the organizational and internal operating documents of IPC Cayman.

Other than those specified rights, ITC as the sole director of IPC Cayman will have the right to make operational decisions with respect to matters affecting the exploration and development of the licenses, including farming out or otherwise disposing of interests to third parties who will agree to assume the obligations to conduct required exploratory and development operations at their cost.

***There is no guarantee that IPC Cayman will make cash distributions to its owners, including us.***

Cash distributions are not guaranteed and will depend on future drilling and operating activities and performance of the offshore Israel project. The director of IPC Cayman has the authority to authorize and to make any distributions to its stockholders at such times and in such amounts as the director deems advisable. You may receive little or no return on your investment in us.

***Conflicts of interest may arise.***

Conflicts of interest may arise because of the relationships between and among IPC Cayman, ITC and us. The interests of ITC may not coincide with the interests of us and our shareholders. In addition, ITC and its majority member, H. Howard Cooper, may experience conflicts of interest in allocating their time and resources between IPC Cayman and other businesses, including other oil and gas projects. The organizational documents do not restrict ITC and its affiliates from engaging in other business activities or specify any minimum amount of time that ITC and its affiliates are required to devote to IPC Cayman.

**Risks Related to Ownership of our Stock**

***There is currently a limited trading market for our common shares.***

There currently is a limited public market for our common shares. Further, although our common shares are currently quoted on the OTC Bulletin Board, trading of our common shares may be extremely sporadic. As a result, an investor may find it difficult to sell, or to obtain accurate quotations of the price of, our common shares. There can be no assurance that a more active trading market for our common shares will develop. Accordingly, investors must assume they may have to bear the economic risk of an investment in our common shares for an indefinite period of time.

***Risks related to penny stocks.***

Our common shares are subject to regulations prescribed by the SEC relating to "penny stock." These regulations impose additional sales practice requirements on broker-dealers who sell such securities to persons other than established customers and accredited investors (as defined in Rule 501 of the U.S. Securities Act of 1933). These regulations could adversely impact market demand for our shares and adversely impact our trading volume and price.

**The issuance of common shares upon the exercise of our outstanding warrants and options will dilute the ownership interest of existing stockholders and increase the number of shares eligible for future resale.**

The exercise of some or all of our outstanding warrants and options could significantly dilute the ownership interests of our existing shareholders. As of November 17, 2010, we had outstanding warrants to purchase an aggregate of 73,071,420 common shares and outstanding options to purchase an aggregate of 5,775,000 common shares. To the extent the warrants and options are exercised, additional common shares will be issued and that issuance will increase the number of shares eligible for resale in the public market. The sale of a significant number of shares by our shareholders, or the perception that such sales could occur, could have a depressive effect on the public market price of our common shares.

***We expect to raise additional funds by issuing our stock which will dilute your ownership.***

We expect that we will likely issue a substantial number of shares of our capital stock in the future. Under these arrangements, we may agree to register the shares for resale soon after their issuance. The sale of additional shares could lower the value of your shares by diluting your ownership interest in us and reducing your voting power. Shareholders have no preemptive rights.

***Compliance with the rules established by the SEC pursuant to Section 404 of the Sarbanes-Oxley Act of 2002 are complex. Failure to comply in a timely manner could adversely affect investor confidence and our stock price.***

Rules adopted by the SEC pursuant to Section 404 of the Sarbanes-Oxley Act of 2002 require us to perform an annual assessment of our internal controls over financial reporting and certify the effectiveness of those controls. The standards that must be met for management to assess the internal controls over financial reporting as now in effect are complex, and require significant documentation, testing and possible remediation to meet the detailed standards. We may encounter problems or delays in completing activities necessary to make an assessment of our internal controls over financial reporting. If we cannot perform the assessment or certify that our internal controls over financial reporting are effective, investor confidence and share value may be negatively impacted.

***Your investment return may be reduced if we lose our foreign private issuer status.***

We are a "foreign private issuer," as such term is defined in Rule 405 under the U.S. Securities Act of 1933, and, therefore, we are not required to file quarterly reports on Form 10-Q or current reports on Form 8-K with the SEC. In addition, the proxy rules and Section 16 reporting and short-swing profit recapture rules are not applicable to us. If we lose our status as a foreign private issuer by our election or otherwise, we will be subject to additional reporting obligations under the Exchange Act which could increase our SEC compliance costs.

***We may be treated as a passive foreign investment company for U.S. tax purposes, which could subject United States investors to significant adverse tax consequences.***

A foreign corporation will be treated as a passive foreign investment company, or PFIC, for U.S. federal income taxation purposes, if in any taxable year either: (a) 75% or more of its gross income consists of passive income; or (b) 50% or more of the value of the company's assets is attributable to assets that produce, or are held for the production of, passive income. Based on our current income and assets and our anticipated future operations, we believe that we currently are not a PFIC. U.S. stockholders of a PFIC are subject to a disadvantageous U.S. income tax regime with respect to the income derived by the PFIC, the distributions they receive from the PFIC, and the gain, if any, they derive from the sale or other disposition of their shares in the PFIC. Because PFIC status is a fact-intensive determination made on an annual basis, no assurance can be given that we are not or will not become classified as a PFIC. The PFIC rules are extremely complex. A U.S. person is encouraged to consult his or her U.S. tax advisor before making an investment in our shares.

***U.S. shareholders may not be able to enforce civil liabilities against us.***

We are a corporation organized under the laws of the Province of Ontario, Canada. Most of our directors and executive officers are non-residents of the United States. Because a substantial portion of their assets and currently all of our assets are located outside the United States, it may not be possible for you to effect service of process within the United States upon us or those persons. Furthermore, it may not be possible for you to enforce against us or them in the United States, judgments obtained in U.S. courts based upon the civil liability provisions of the U.S. federal securities laws or other laws of the United States. There is doubt as to the enforceability, in original actions in Canadian courts, of liabilities based upon the U.S. federal securities laws and as to the enforceability in Canadian courts of judgments of U.S. courts obtained in actions based upon the civil liability provisions of the U.S. federal securities laws.

## SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This prospectus includes forward-looking statements. All statements other than statements of historical facts are forward-looking statements, including statements regarding our future financial position, business strategy, and plans and objectives for future operations. The words "may," "will," "believe," "expect," "estimate," "continue," "anticipate," "intend" and similar expressions are intended to identify forward-looking statements. We have based these forward-looking statements largely on our current expectations and projections about future events and trends that we believe may affect our financial condition, results of operations, business strategy, business operations and financial needs. For a discussion of risk factors affecting our business, see "Risk Factors."

We do not guarantee that the events anticipated by the forward-looking statements will occur or that they will happen at all. We do not undertake any obligation to update any of the forward-looking statements, except as may be required under federal securities laws.

## IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISORS

### Directors and Management Team

<b>Name and Position</b>	<b>Business Address</b>	<b>Position</b>
Kam Shah	47 Avenue Road, Suite 200 Toronto, Ontario, Canada M5R 2G3	CEO, CFO and Director
Dean Bradley	9300 Normandy Blvd., Suite 511 Jacksonville, Florida 32221	Director
Brett Rees	114 Newport Avenue Toronto, Ontario M1L 1J5	Director
Terence Robinson	47 Avenue Road, Suite 200 Toronto, Ontario, Canada M5R 2G3	Consultant

### Legal Advisers

Our Canadian legal advisers are Sui & Company, Solicitors, whose business address is The Exchange Tower, Suite 1800, 130 King Street West, Toronto, Ontario M5X 1E3. Our U.S legal advisers are Messerli & Kramer, P.A., whose business address is 1400 Fifth Street Towers, 100 South Fifth Street, Minneapolis, MN 55402.

### Auditor

Our auditors are Schwartz Levitsky Feldman LLP, whose business address is 1167 Caledonia Road, Toronto, Ontario M5A 2X1.

## OFFER STATISTICS AND EXPECTED TIMETABLE

The common shares offered by this prospectus are registered for the account of the selling stockholders named in this prospectus. There is no expected issue price. The selling stockholders may sell the common shares at fixed prices, at prevailing market prices at the time of sale or at negotiated prices. The approximate date of proposed sale of the common shares is from time to time after the registration statement of which this prospectus forms a part becomes effective, in amounts and on terms determined at the time of the sale.

**KEY INFORMATION**

**Selected Financial Data**

The following table presents selected historical consolidated financial data for the periods indicated. The selected financial data for the three fiscal years ended March 31, 2010 and as of March 31, 2010, 2009 and 2008 have been derived from the our audited consolidated financial statements included elsewhere in this prospectus. The selected financial data for the two fiscal years ended March 31, 2007 and as of March 31, 2007 and 2006 have been derived from the our audited consolidated financial statements for those years which are not included in this prospectus.

The selected financial data for the three months ended June 30, 2010 and 2009 and as of June 30, 2010 have been derived from our unaudited consolidated financial statements. The unaudited consolidated financial statements include all adjustments, consisting only of normal and recurring adjustments, which we consider necessary for a fair presentation of our financial position and results of operations for the periods presented

The historical results are not necessarily indicative of results to be expected in any future period, and interim results may not be indicative of results for the remainder of the year. Our consolidated financial statements are prepared in accordance with generally accepted accounting principles in Canada, or Canadian GAAP. Additional information is presented below to show the differences which would result from the application of U.S. GAAP to our financial statements.

**Summary Financial Information**

(Stated in Canadian Dollars – Calculated in accordance with Canadian GAAP)

	2010	2009	2008	2007	2006
				(Restated)	(Restated)
Revenue	-	7,901	73,300	\$93,278	\$1,238,940
Loss before non-controlling interests	\$(4,284,058)	\$(689,415)	\$(571,799)	\$(164,043)	\$(4,784,933)
Non-controlling interests	\$356,814	\$-	\$-	\$-	\$-
Net Loss	\$(3,927,244)	\$(689,415)	\$(571,799)	\$(164,043)	\$(4,784,933)
Net loss per share (1)	(\$0.09)	(\$0.02)	(\$0.02)	(\$0.01)	(\$0.31)
Working capital	\$371,130	\$1,431,495	\$5,173,892	\$6,624,466	\$5,285,784
Total assets	\$10,419,787	\$1,592,947	\$5,239,122	\$6,672,918	\$5,450,772
Capital stock	\$35,298,257	\$32,854,075	\$32,901,488	\$32,413,811	\$32,175,000
Warrants	\$7,343,886	\$2,192,927	\$2,153,857	\$2,215,213	\$951,299
Contributed surplus	\$4,573,748	\$4,154,266	\$4,077,427	\$4,069,549	\$4,069,549
Accumulated other comprehensive loss	(\$2,696,213)	(\$4,425,018)	(\$1,306,768)	\$-	\$-
Shareholders' equity	\$6,900,299	\$1,440,929	\$5,180,098	\$6,624,466	\$5,285,784
Weighted average number of shares outstanding ( 2 )	42,963,027	30,170,743	28,840,653	27,472,703	15,655,023

	2010	2009	2008	2007	2006
				(Restated)	(Restated)
Revenue	-	7,901	73,300	\$93,278	\$1,238,940
Loss before non-controlling interests	\$(4,284,058)	\$(689,415)	\$(571,799)	\$(164,043)	\$(4,784,933)
Non-controlling interests	\$356,814	\$-	\$-	\$-	\$-
Net Loss	\$(3,927,244)	\$(689,415)	\$(571,799)	\$(164,043)	\$(4,784,933)
Net loss per share (1)	(\$0.09)	(\$0.02)	(\$0.02)	(\$0.01)	(\$0.31)
Working capital	\$371,130	\$1,431,495	\$5,173,892	\$6,624,466	\$5,285,784
Total assets	\$10,419,787	\$1,592,947	\$5,239,122	\$6,672,918	\$5,450,772
Capital stock	\$35,298,257	\$32,854,075	\$32,901,488	\$32,413,811	\$32,175,000
Warrants	\$7,343,886	\$2,192,927	\$2,153,857	\$2,215,213	\$951,299
Contributed surplus	\$4,573,748	\$4,154,266	\$4,077,427	\$4,069,549	\$4,069,549
Accumulated other comprehensive loss	(\$2,696,213)	(\$4,425,018)	(\$1,306,768)	\$-	\$-
Shareholders' equity	\$6,900,299	\$1,440,929	\$5,180,098	\$6,624,466	\$5,285,784
Weighted average number of shares outstanding ( 2 )	42,963,027	30,170,743	28,840,653	27,472,703	15,655,023

1. The effect of potential share issuances pursuant to the exercise of options and warrants would be anti-dilutive and, therefore, basic and diluted losses per share are the same.

2. Weighted average number of shares for a year was calculated by dividing the total number of shares outstanding at the end of each of the months by twelve.

**Reconciliation to U.S. Generally Accepted Accounting Principles**

(Stated in Canadian Dollars – Calculated in accordance with U.S. GAAP)

	2010	2009	2008	2007	2006
Loss for year	(\$3,927,244)	(\$689,415)	(\$571,799)	(\$52,384)	(\$4,590,175)
Comprehensive Loss	(\$2,198,439)	(\$3,807,665)	(\$2,838,269)	\$795,658	(\$4,038,005)
Loss per share -Basic and diluted	(\$0.09)	(\$0.02)	(\$0.02)	\$0.00	(\$0.29)
Total assets	\$10,419,787	\$1,592,947	\$5,239,122	\$7,632,619	\$6,197,700
Shareholders' equity	\$6,900,299	\$1,440,929	\$5,180,098	\$7,584,167	\$4,734,269

The Company has not declared or paid any dividends in any of its last five financial years.

**Exchange Rates**

The exchange rates used herein were obtained from the Bank of Canada. On August 30, 2010, the exchange rate, based on the noon buying rates, for the conversion of Canadian dollars into United States dollars (the "Noon Rate of Exchange") was CDN \$1.0605 =USD \$1.

The following table sets out the high and low exchange rates in US dollar for one Canadian dollar for each of the last six months.

	2010	August	July	June	May	April	March
High for period		\$0.98	\$0.97	\$0.98	\$0.99	\$1.00	\$0.99
Low for period		\$0.94	\$0.94	\$0.94	\$0.93	\$0.98	\$0.96

The following table sets out the average exchange rates in US dollar for one Canadian dollar for the five most recent fiscal years calculated by using the average of the Noon Rate of Exchange on the last day of each month during the period.

Year Ended March 31,	2010	2009	2008	2007	2006
Average for the year	0.92	0.89	0.97	0.88	0.84

**Capitalization and Indebtedness**

The following table sets forth our capitalization as of June 30, 2010

Shareholders' equity:	
Capital stock	36,021,347
Warrants	8,690,756
Contributed surplus	4,573,748
Accumulated other comprehensive loss	(2,674,476)
Accumulated deficit	(37,748,226)
	<hr/>
Non-controlling interests	\$ 8,863,149
Total equity	(414,984)
	<hr/>
Total capitalization	8,448,165
Common shares issued and outstanding	78,314,076

## Reasons for the Offer and Use of Proceeds

This prospectus relates to the resale by the selling stockholders named in this prospectus of up to 17,975,000 common shares; 17,747,500 common shares issuable upon exercise of warrants at an exercise price of USD \$0.35 per share; and 10,750,000 common shares issuable upon exercise of warrants at an exercise price of USD \$0.10 per share. We issued all of these shares and warrants in transactions exempt from the registration requirements of the Securities Act of 1933, Rule 506 of Regulation D and/or Section 4(2) of the Securities Act of 1933. We will not receive any proceeds for the resale of shares by the selling stockholders. In addition, warrants to purchase 7,000,000 common shares at an exercise price of USD \$0.35 per share contain a cashless exercise feature, which allows the holder to pay the exercise price of the warrants by surrendering a portion of the shares issuable upon exercise of the warrant. If, however, the 21,497,500 warrants which do not contain a cashless exercise feature are exercised, we may receive proceeds of up to US\$4,836,625. If the warrants are exercised for cash, we will use the proceeds for working capital and other general corporate purposes, including for our indirect working interest in the offshore Israel project.

## INFORMATION ON BONTAN

### History and Development

We are a Canadian corporation incorporated under the laws of the Province of Ontario in 1973 under the original name of Kamlo Gold Mines Limited. We were inactive until 1985. Between 1986 and 1982, our company was involved in the development of a new technology for the marine propulsion business. During this period, our company went through three name changes.

Between 1993 and 1996, our company was involved in the distribution and manufacture of a snack food. During this period, our company went through two more name changes.

Our company remained inactive after the closure of the snack food business in November 1996 until December 1998 when we changed our name to Dealcheck.com Inc. and agreed on a new business strategy. This strategy focused on investing in new and emerging technology oriented projects and businesses. In 1999, our company raised \$3.2 million, which we invested in various projects and companies over the next two years as per the new business strategy of our company. Unfortunately, the IT sector performed poorly since 2001 and new and emerging technology-based businesses suffered significant losses, financial problems and bankruptcies. These factors adversely affected our company's investments and its profitability. Our company had to write off all its investments by the end of the fiscal 2003.

In April 2003, our company changed its business focus to the natural resource industry and completed a private placement of approximately 8.9 million common shares, raising approximately USD \$3.1 million. These funds were primarily invested in projects involving oil and gas exploration and diamond mining projects in Brazil between April 2003 and September 2005,

Diamond mining operations discontinued in December 2004. Our company sold its interest in an oil exploration project in Papua New Guinea in July 2005 for USD \$3.2 million. Our company's cost of this project was approximately USD \$1.6 million. Further, in October 2004, our company acquired a working interest in a gas exploration project in Louisiana, USA. Between March 2005 and September 2005, our company invested approximately \$3.9 million as its share of exploration costs. The exploration, however, proved a dry well and was therefore abandoned and the costs incurred were fully written off in December 2005.

Since 2006, our company has been actively pursuing oil and gas exploration and development projects. We found many projects to be too expensive while others did not meet our technical due diligence. In November 2009, we acquired (through our wholly owned subsidiary) an indirect 71.63% working interest in two drilling licenses and one exploration permit in the Levantine Basin, approximately 40 kilometres off the west coast of Israel. The two drilling licenses, Petroleum License 347 ("Myra") and Petroleum License 348 ("Sara"), cover approximately 198,000 acres of submerged land, and the exploration permit, Petroleum Preliminary Permit 199 ("Benjamin"), covers approximately 461,000 acres of submerged land adjacent to the land covered by the licenses. Our working interest was held in the form of a 75% equity interest in IPC Cayman, a Cayman Islands limited company that was formed to explore and develop the properties off the coast of Israel. Subsequently, disputes arose with respect to the transfer of rights in the two drilling licenses and the exploration permit to IPC Cayman and the Benjamin permit was lost in February 2010 due to the failure to timely submit the required seismic data to the Israel Petroleum Commissioner. In March 2010, IPC Cayman entered into an Allocation of Rights and Settlement Agreement with the Lead Investors and others under which, among other things, the Lead Investors acquired a greater than 50% working interest in the Myra and Sara licenses for approximately USD \$16.2 million. The sale proceeds were used primarily used to pay for the seismic data relating to the two drilling licenses and the permit and to settle various disputes with PetroMed Corporation, the original registered owner of a 95.5% working interest in the two drilling licenses and the permit.

Under the terms of an agreement dated April 14, 2010, International Three Crown Petroleum LLC (or ITC) is deemed to own a 23.21% equity interest in IPC Cayman represented by 2,321 ordinary shares of IPC Cayman and Bontan is deemed to own a 76.79% equity interest in IPC Cayman represented by 7,679 ordinary shares of IPC Cayman. Allied Ventures Incorporated is deemed not to have owned or to ever have owned any equity interest in IPC Cayman.

We currently own an indirect 5.23% working interest in the two drilling licenses through our 76.79% equity interest in IPC Cayman. ITC and an affiliated entity, JKP, own the balance of the 23.21% equity interest in IPC Cayman. ITC is representing our interest in the offshore Israel project through its participation in the operating committee that has been formed to govern activities with respect to the two drilling licenses.

In connection with the acquisition of our equity interest in IPC Cayman and as consideration for the PetroMed Corporation's sale of its interest in the licenses and permit in November 2009, we originally paid to the seller USD \$850,000 in cash, 8,617,686 common shares and a 7-year warrant to purchase 22,853,058 common shares, and paid USD \$500,000 to International Three Crown Petroleum LLC. In addition, we issued a 5-year warrant to purchase up to 5,000,000 common shares to International Three Crown Petroleum LLC and a 5-year warrant to purchase up to 2,000,000 common shares to Allied Ventures Ltd. These 5-year warrants have an exercise price of USD \$0.35 per share and cashless exercise option. Under the Allocation of Rights and Settlement Agreement, we cancelled the 8,617,686 common shares and the warrant to purchase 22,853,058 common shares issued to PetroMed Corporation.

To cover a portion of our acquisition costs, we also issued promissory notes in the aggregate principal amount of USD \$975,000, together with 5-year warrants to purchase a total of 1,125,000 common shares at an exercise price of USD \$0.35 per share. The notes bear an interest rate of 10% per year and are due and payable in November 2010. One note is secured by a pledge of our 1,125 shares of IPC Cayman.

In addition, we paid USD \$1.5 million to IPC Cayman for its operational costs and approximately USD \$2 million to Western Geco International Ltd. towards the cost of the seismic data.

Our company's registered office is situated at 47 Avenue Road, Suite 200 Toronto, Ontario, Canada M5R 2G3. We are a reporting issuer in the province of Ontario.

#### **Business Overview**

We invest in the exploration and development of oil and gas wells. We focus on partnering with established developers and operators. We have never had any oil and gas operations and do not currently own any oil and gas properties with proven reserves. We are currently focused on the offshore Israel project which currently includes the Myra and Sara licenses. We currently are not seeking to acquire additional property interests in Israel or any other region or to pursue other business opportunities. Our goal is to advance offshore Israel project to the drilling stage aggressively, as prudent financing will allow to determine the presence of oil or natural gas. If we are successful in doing so, we believe our joint venture partners can attract the attention of the existing oil and gas companies already operating in the region or new oil and gas companies to enter into a development agreement or farmout agreement.



## Background and Status of Offshore Israel Project

On October 15, 2009, International Three Crown Petroleum LLC (or ITC) entered into an option agreement with PetroMed Corporation under which ITC was granted the right to purchase all of PetroMed Corporation's rights in the Myra and Sara licenses and the Benjamin permit. On November 18, 2009, the right to purchase was exercised, and as part of the closing, PetroMed Corporation was paid the contractual consideration and PetroMed Corporation provided IPC Cayman, ITC's designee, with irrevocable deeds of assignment with respect to each of the licenses and permit.

Under Section 76(a) of the Israel Petroleum Law, the permit may be transferred only with the permission of the Petroleum Commissioner and the licenses may be transferred only with the permission of the Petroleum Commissioner and after the Petroleum Commissioner's consultation with the Petroleum Council. Accordingly, on January 18, 2010, IPC Cayman filed applications with the Petroleum Commissioner to transfer the licenses and permit, with the application to transfer the permit also including an application to be granted a license based on the permit and its attending priority rights.

PetroMed Corporation sent an e-mail to IPC Cayman and the Petroleum Commissioner on January 17, 2010, purporting to 'rescind' the PetroMed transaction and has, to the best of IPC Cayman's knowledge, further addressed the Petroleum Commissioner with claims that the Petroleum Commissioner denies the applications. In addition, IPC Cayman received verbal indication from the Petroleum Commissioner that the permit would lapse at the end of its term on February 5, 2010, and the Petroleum Commissioner would not approve the conversion of the permit into a license. Thereafter, PetroMed Corporation communicated its withdrawal of rescission to the Petroleum Commissioner with respect to the request to transfer the permit and convert it into a license and requested that the Petroleum Commissioner place the request for conversion of the permit before the Petroleum Council.

On January 19, 2010, PetroMed Corporation filed a complaint in the U.S. District Court for the Western District of Washington against Bontan, Howard Cooper and Three Crown Petroleum, LLC. The complaint requested, among other things, rescission of PetroMed Corporation's assignment of its 95.5% interest in the Myra and Sara licenses and Benjamin permit to IPC Cayman and a declaration that the contracts with the defendants are null and void.

On February 12, 2010, ITC and IPC Cayman filed a complaint in the Denver, Colorado District Court against PetroMed Corporation and other defendants. ITC and IPC Cayman alleged that the defendants were actively interfering with IPC Cayman's application before the Israel Ministry of Natural Infrastructure for transfer to IPC Cayman of PetroMed Corporation's 95.5% interest in the Myra and Sara licenses and Benjamin permit. In the lawsuit, ITC and IPC Cayman were seeking, among other matters, temporary, preliminary and permanent injunctive relief in order to avoid real, immediate and irreparable harm to ITC and IPC Cayman resulting from the defendants' alleged wrongful conduct. The lawsuit also requested damages for defendants' alleged multiple tortuous acts and materials breaches of contracts, and a declaration of the parties' rights and obligations under the contracts.

ITC had informed us that, in light of the dispute as to ownership of the Myra and Sara drilling licenses and the Benjamin exploration permit, the Petroleum Commissioner had declined to transfer the licenses and permit to IPC Cayman and had indicated to IPC Cayman that he would be terminating the permit and possibly the licenses.

Separately, because Western Geco International had not been paid its \$12.5 million in full, it refused to turn over the seismic data and its interpretation to IPC Cayman. Failure to deliver the seismic data and its interpretation to the Petroleum Commissioner would be a default under the permit and licenses that could lead to their termination by the Petroleum Commissioner.

To settle the disputes and to ensure that the future of the offshore Israel project is not jeopardized, we and IPC Cayman accepted an offer from two Israeli investors with significant financial and local influence to join the project as major partners. The major partners (or Lead Investors) in the offshore Israel project are Emanuelle Energy Ltd. and IDB-DT Energy (2010) Ltd. Mr. Ofer Nimrodi controls Emanuelle Energy Ltd. and is a director and CEO of Tel Aviv-based Israel Land Development Company Ltd. IDB-DT Energy (2010) Ltd. is a joint venture of IDB Development Corporation Ltd., which is affiliated with Avraham Livnat Company, and Du-Tzah Ltd., which is affiliated with Manor Holdings and Yitzak "Zachi" Sultan.

On March 25, 2010, ITC, IPC Cayman, PetroMed Corporation, Emanuelle Energy Ltd., IDB-DT Energy (2010) Ltd. and others entered into an Allocation of Rights and Settlement Agreement. This agreement provides for, among other things:

- The dismissal of certain lawsuits and mutual release of claims among the parties;
- The payment by the Lead Investors of: (i) \$10.5 million to Western Geco International Ltd. for the release of 2D and 3D seismic data relating to the Myra and Sara licenses, (ii) Approximately \$5.7 million to settle certain liabilities of PetroMed Corporation and to acquire its controlling interest.
- A new allocation of working interests in the offshore Israel project as follows: 14.325% to IPC Cayman; 27.15% to IDB-DT Energy (2010) Ltd.; and 54.025% to Emanuelle Energy Ltd.;
- With respect to IPC Cayman's 14.325% working interest, an allocation of 11% to Bontan and 3.325% to ITC;
- For purposes of the application to effect the transfer of rights in the Myra and Sara licenses, the Lead Investors to prove (without incurring any actual monetary obligation) the financial capability requirement under Israel Petroleum law in respect of IPC Cayman's interest in the licenses;
- The grant of overriding royalty interests, totaling 10.5%, to certain persons, including 1% to an affiliate of Mr. Cooper and 2% to Israel Land Development Company Ltd. and IDB-DT Energy (2010) Ltd.;
- The cancellation of the common shares and warrants of Bontan issued to PetroMed Corporation in November 2009; and
- The formation of a steering committee composed of two representatives of the Lead Investors and one representative of IPC Cayman, to manage the project with respect to the Myra and Sara licenses.

Under the Allocation of Rights and Settlement Agreement, the Lead Investors have agreed, for purposes of the application to effect the transfer of the rights in the Myra and Sara licenses, to prove (without incurring any actual monetary obligation) the financial capability requirement under Israel Petroleum Law in respect of IPC Cayman's interest in the licenses. This obligation will continue until the earlier of (i) five months from the registration of the licenses in the names of the Lead Investors and IPC Cayman in accordance with their respective ownership interests or (ii) June 30, 2011. If IPC Cayman fails to establish its independent financial capability after this obligation ends, IPC Cayman must elect one of the following options (on a licensee by licensee basis):

- 1) IPC Cayman may offer to sell to the Lead Investors its ownership interest in the license for which it has not established financial capability for a purchase price of \$240,000 per each 1% ownership interest;
- 2) IPC Cayman may contract to sell, farmout or otherwise dispose of its ownership interest in the applicable license and the Lead Investors have the right of first refusal to acquire any or all of the interest; or
- 3) IPC Cayman will be obligated to participate in the first well drilled under the applicable license by paying 200% of its share of the drilling costs and if it fails to do so, IPC Cayman will forfeit its ownership interest in the applicable license.

If IPC Cayman fails to complete option 1 or 2 within 60 days after the Lead Investors' obligation ends, it will be deemed to have elected option 3 above. As between us and ITC, if we fail to establish financial capability to the extent of our proportionate ownership of IPC Cayman, then ITC can establish such financial capability on behalf of IPC Cayman and the ownership of IPC Cayman will be readjusted to reflect the acquisition by ITC of our interest in the applicable license. As explained below, in October 2010, IPC Partnership secured funding of up to US\$ 28 million which we believe satisfies the financial capability requirements in respect of IPC Cayman's (including Bontan's) interest in the licenses.

In a letter dated May 16, 2010, Petroleum Commissioner confirmed that the two licenses are fully valid and approved changes in the work plan submitted by the steering committee. The Petroleum Commissioner approved deadlines for submitting various work plans between July 15, 2010 and March 31, 2011. With respect to the financial capability requirement for approval of the transfer of rights, the Petroleum Commissioner has indicated that the joint venture partners must demonstrate liquidity equal to at least half of the cost of the first well drilling, which we estimate to be approximately USD \$50 million.

On May 19, 2010, Geoglobal Resources (India) Inc. was appointed operator for the Myra and Sara licenses, subject to the execution of a joint operating agreement. The operator is a wholly owned subsidiary of Geoglobal Resources Inc., ("Geoglobal"), a public company headquartered in Calgary, Alberta. Geoglobal is primarily engaged since 2002 in exploration and development of oil and gas reserves – both on shore and off shore – in India. It has exploration rights through production sharing contracts in four offshore and onshore geological basins covering approximately 1.7 million net acres. The operator has acquired a 5% working interest in the Myra and Sara licenses pro rata from the Lead Investors and IPC Cayman for USD \$1.2 million. The operator also has an option to acquire an additional 2.5% working interest in one or both licenses pro rata from the Lead Investors and IPC Cayman.

The joint venture partners and the operator also entered into an option agreement dated as of May 19, 2010. Under this option agreement, the joint venture partners have the option to purchase up to a 12.5% ownership interest in a shallow water offshore drilling license known as the Samuel license, subject to the license being granted to the operator by the Israel Petroleum Commissioner. This agreement also provides that the joint venture partners shall have a right to increase their ownership interest in the Samuel license by a further 7.5% in return the operator is given a right to increase its interest in Sarah and Myra licenses by an additional 2.5%. The Samuel license has been granted to the operator, and IPC Cayman is entitled to acquire a 2.72% interest in the Samuel license, of which Bontan's share would be 2.09% and the minority shareholder of IPC Cayman will be entitled to the balance 0.63%. The Samuel license covers an area of approximately 400 square kilometers and is located in the Levantine Basin.

On May 20, 2010, the joint venture partners submitted an application to the Israeli Petroleum Commissioner to approve the transfer and registration of the rights in the Myra and Sara licenses. The approval was granted on June 16, 2010.

The Benjamin permit originally held by PetroMed Corporation and acquired by IPC Cayman expired in February 2010 because the required seismic data was not timely submitted to the Petroleum Commissioner. The Israeli Ministry of Petroleum invited new applications for licenses covering the same area as the original Benjamin permit. The Lead Investors and IPC Cayman paid for and obtained the required 2D seismic data for this application and submitted an application for the Michael license on May 20, 2010. On June 16, 2010, the Israeli Ministry of Petroleum informed the Lead Investors that their application for the Michael license was not approved.

On October 13, 2010, IPC Cayman and IPC Partnership signed a Partnership Subscription and Contribution Agreement with Ofer. Under the agreement, Ofer agreed to contribute up to US\$ 28 million towards IPC Partnership's share of the cost of drilling of the initial two exploratory wells under the Sara and Myra licenses and related exploration costs in exchange for a 50% limited partnership interest in IPC Partnership. In addition, Ofer was granted certain voting and management rights with respect to major operational decisions and material changes in the timing or costs of the initial drilling program. The agreement provides for Ofer to deposit at closing US\$ 2 million with IPC Partnership to cover future cash calls made by the operator relating to initial drilling and exploration costs. Ofer is required to contribute up to an additional US\$ 26 million, upon cash calls made by the operator, to pay for IPC Partnership's 13.609% share of the initial drilling and exploration costs. If IPC Partnership's aggregate share of the initial drilling and exploration costs for the initial two exploratory wells exceed \$28 million, then IPC Cayman and Ofer have agreed to increase their capital commitments to IPC Partnership in respect of the shortfall.

To the extent required by law, the consent of the Israeli Petroleum Commissioner is a condition precedent to the grant of rights to Ofer under the Ofer agreement. If such consent is required but not obtained by December 31, 2011, then (i) Ofer may terminate the Ofer agreement and IPC Partnership will be required to make a restitution payment to Ofer by June 30, 2013 in an amount equal to the capital contributions actually made by Ofer plus 10% interest from the date of each such contribution or (ii) IPC Partnership may terminate the Ofer agreement and IPC Partnership will be required to make the restitution payment referenced in (i) within seven days of the notice of termination. The agreement also provides that ITC and Ofer will use their best efforts to establish, no later than December 31, 2010, a new Israeli entity to replace ITC as the general partner of IPC Partnership.

On October 25, 2010, IPC Cayman entered into an agreement with Shaldieli Ltd., an Israeli shell public company ("Shaldieli"), for IPC Cayman to acquire 90% of Shaldieli's common equity in exchange for IPC Cayman's 50% interest in IPC Partnership. The Shaldieli transaction is subject to Bontan's approval as the majority stockholder of IPC Cayman and to Israeli regulatory approvals. Bontan expects it will be required to seek approval from its stockholders as a pre-condition to any such transaction, assuming Bontan determines to proceed with proposed Shaldeili transaction. In light of past actions taken without Bontan's consent to register the 13.609% working interest in IPC Partnership rather than in IPC Cayman, and to sell off a 50% interest in IPC Partnership to Ofer, Bontan cannot assure that IPC Cayman and IPC Partnership will not attempt to consummate the proposed transaction with Shaldeili without Bontan's consent. We are currently trying to settle our disputes with Mr. Cooper regarding these actions. Failure to resolve these disputes could have a material adverse effect on our business, results of operation and financial condition.

On November 8, 2010, joint operating agreements relating to each of the Myra and Sara licenses were signed by the joint venture partners and GeoGlobal, as operator. The agreements contain substantially similar provisions that relate to the rights and obligations of the parties with regard to operations under the licenses, including joint exploration, appraisal, development, production and disposition of oil and natural gas produced from the areas covered by the licenses. Under the joint operating agreements, an operating committee is created to supervise and direct operations and activities carried out by the operator with respect to each license. The operating committee (which we understand replaces the steering committee created by the Allocation of Rights and Settlement Agreement) will be comprised of representatives of each joint venture partner holding a working interest. Decisions of the operating committee are determined by an affirmative vote of two or members representing at least 51% of the working interests; provided that the vote must include the affirmative vote of Emanuelle Energy Ltd., Emanuelle Energy Oil and Gas Limited Partnership, Israel Land Development Company Ltd., IDB Development Corporation Ltd., and Modiin Energy Limited Partnership as long as each of them holds at least 50% of its original working interest. Currently, we understand that the operating committee has 4 members: H. Howard Cooper (IPC Cayman), Ohad Marani (Emanuelle Energy Ltd.), Ron Maor (Modiin Energy Oil & Gas Ltd. Partnership) and a representative from GeoGlobal Resources (India) Inc. While we own 76.79% of IPC Cayman, we agreed to have IPC Cayman's representative on the operating committee be appointed by ITC. We believed at that time that ITC's representative would be Mr. Howard Cooper. Mr. Cooper has significant experience in handling oil and gas projects and has been actively involved in developing of the offshore Israel project.

Each joint operating agreement designates GeoGlobal as the operator and contains provisions regarding the rights of the other parties to the agreement to remove GeoGlobal as operator (with or without cause) and to repurchase portions of its working interest under various stages of the project with varying amounts of reimbursement for amounts paid by GeoGlobal. The parties have agreed to indemnify the operator for any claim, loss, liability or expense arising out of or resulting from operations under the applicable license, except for actions taken by senior supervisory personnel which constitute gross negligence or willful misconduct.

## Current Ownership of Licenses

100% of the rights and interests in the Myra and Sara licenses have been allocated and registered with the Israel Ministry of National Infrastructure as follows:

Myra (400000 dunams) *Validity 14/07/2008 - 13/07/2011*

* Emanuelle Energy Limited	24.1610 %
Modiin Energy Limited Partnership	19.2820 %
Emanuelle Energy Oil & Gas Limited Partnership	19.1610 %
I.P.C. Oil and Gas Limited Partnership	13.6090 %
Blue Water Oil & Gas Exploration Limited	8.7870 %
GeoGlobal Resources (India) Inc.	5.0000 %
IDB Development Corporation Limited	5.0000 %
Israel Land Development Company Limited	5.0000 %

Sara (400000 dunams) *07/2008 - 13/07/2011*

* Emanuelle Energy Limited	24.1610 %
Modiin Energy Limited Partnership	19.2820 %
Emanuelle Energy Oil & Gas Limited Partnership	19.1610 %
I.P.C. Oil and Gas Limited Partnership	13.6090 %
Blue Water Oil & Gas Exploration Limited	8.7870 %
GeoGlobal Resources (India) Inc.	5.0000 %
IDB Development Corporation Limited	5.0000 %
Israel Land Development Company Limited	5.0000 %

Note: (a) I.P.C. Oil and Gas (Israel) Limited Partnership (or IPC Partnership) is currently owned 50% by IPC Cayman and 50% by Ofer Investments Ltd. We own 76.79% of IPC Cayman. Hence our indirect working interest in the above licenses is 5.23% (13.609 x 50% x 76.79%). This interest may decrease further if Geoglobal Resources (India) Ltd. exercises its option to acquire an additional 2.5% working interest in the licenses pro rata from the Lead Investors and IPC Cayman.

- (b) We understand that recently Blue Water Oil & Gas Exploration Limited failed to fulfil its financial obligation under a cash call and as a result forfeited its interest to Emanuelle Energy Limited and Modiin Energy Limited Partnership. We have however not received any written confirmation of this matter. It also does not affect our interest in the two licenses.

### Manager of Offshore Israel Project

International Three Crown Petroleum LLC (or ITC) is the sole director of IPC Cayman and the general partner of IPC Partnership. ITC owns a 23.20% equity interest and JKP Petroleum Company LLC ("JKP") owns a 0.01% equity interest in IPC Cayman. The majority member and principal of ITC and JKP is H. Howard Cooper.

H. Howard Cooper is currently the manager of ITC, which serves as the sole director of IPC Cayman. Mr. Cooper is also the manager Power Petroleum LLC. ITC was formed by Mr. Cooper in 2005 to identify and purchase oil and gas leases, primarily in the U.S. Rocky Mountain Region. Power Petroleum, which was formed by Mr. Cooper in 2007, puts drilling prospects together in Colorado, Montana, Utah and North Dakota. From 1996 until February 2005, Mr. Cooper was the chairman of the board of directors of Teton Energy Corporation, a U.S. publicly traded company formerly known as Teton Petroleum Company. Mr. Cooper also served as president and CEO of Teton from 1996 until May 2003. During his tenure with Teton, Teton primarily engaged in oil and gas exploration, development, and production in Western Siberia, Russia. Prior to joining Teton, Mr. Cooper served as a director and president of American Tyumen, a company he founded in 1996 and which shortly thereafter merged with Teton. From 1994 to 1995, Mr. Cooper was a principal with Central Asian Petroleum, an oil and gas company with its primary operations in Kazakhstan. From 1992 to 1994 Mr. Cooper served with AIG, an insurance group in New York, evaluating oil and gas projects in Russia. From 1981 - 1991, Mr. Cooper was an independent landman developing oil and gas opportunities in the U.S. Rocky Mountain Region.

Under a Stockholders Agreement dated as of November 14, 2009, we have limited authority to participate in the management of IPC Cayman. ITC as the sole director of IPC Cayman has the right to make operational decisions with respect to matters affecting the exploration and development of the licenses and permit, including farming out or otherwise disposing of interests to third parties who will agree to assume the obligations to conduct required exploratory and development operations at their cost. ITC cannot be removed other than for willful misconduct that adversely affects the offshore Israel project or in the event of a transfer of the ownership of ITC, such that Mr. Howard Cooper is no longer the managing member.

The director must get prior written approval of stockholders holding a majority of shares of IPC Cayman to take any of the following actions:

- Expansion of the scope of IPC Cayman's business beyond the acquisition, development and potential farmout or sale of the Myra and Sara licenses and Benjamin permit and any license that may be issued in lieu of such permit and any other oil and gas exploration and development activity within the offshore or onshore areas of the State of Israel;
- Sale or merger of IPC Cayman or sale or other disposition of all or substantially all of the assets of IPC Cayman (other than a sale or farmout to an industry partner in connection with a commitment to conduct exploratory or development operations on the licenses and permit);
- Admit additional owners to IPC Cayman;
- Liquidate IPC Cayman;
- Enter into any contract or agreement between IPC Cayman and ITC or any affiliate;
- Modify any compensation arrangement between the Project Company and ITC and any affiliate; and
- Amend the organizational and internal operating documents of IPC Cayman.

Under the Stockholders Agreement, IPC Cayman will pay ITC a monthly management fee of \$20,000 for its services as director of IPC Cayman and is obligated to reimburse reasonable out-of-pocket expenses incurred by the director on behalf of IPC Cayman. In connection with any farmout, sale or other transfer of all or a portion of the offshore Israeli project, ITC will receive a disposition fee equal to the product of 5% of our percentage ownership interest in IPC Cayman and the total cash proceeds received by us or our shareholders in such transaction. ITC will also receive a warrant to purchase a number of our common shares which is equal to the product of 5% of our percentage ownership interest in IPC Cayman and the fair market value of all consideration received by us in such transaction, divided by the market price of one common share as of the date of issuance of the warrant. The exercise price of the warrant will be equal to the market price. In addition, ITC will receive \$50,000 for every \$1,000,000 increase in current assets received by IPC Cayman or Bontan from investors introduced by ITC to IPC Cayman or Bontan.

The terms of the Stockholders Agreement have significantly been affected by the Allocation of Rights and Settlement Agreement. We are trying to negotiate with ITC to replace the current agreement with a new agreement to reflect all the changes.

#### **Israel's Petroleum Law**

Exploration and production of gas and oil in Israel is governed by the Petroleum Law, 1952 of the State of Israel. The administration and implementation of the Petroleum Law and the regulations promulgated there under is vested in the Minister of National Infrastructures and the Petroleum Commissioner, with the Petroleum Council generally playing an advisory role. The following discussion includes a brief summary of certain aspects of the current legal situation.

Petroleum resources are owned by the State of Israel, regardless of whether they are located on state lands or the offshore continental shelf. No person is allowed to explore for or produce petroleum without being granted a specific right under the Petroleum Law. Israeli law provides for three types of rights, two relevant to the exploration stage and the third for production:

- **Preliminary permit.** The preliminary permit allows a prospector to conduct preliminary investigations, such as field geology, airborne magnetometer surveys and seismic data acquisition, but does not allow test drilling. The holder of a preliminary permit is entitled to request a priority right on the permit area, which, if granted, prevents an award of petroleum rights on the permit area to any other party. The priority right may be granted for a period not to exceed 18 months. The maximum area for an offshore preliminary permit is 4,000,000 dunam. One dunam is equal to 1,000 square meters (approximately .24711 of an acre). There are no restrictions as to the number of permits that may be held by one prospector. However, the petroleum regulations mandate that the prospector demonstrate that he possesses requisite experience and financial resources necessary to execute a plan of operation.
- **License.** A license grants the exclusive right for further exploration work and requires the drilling of one or more test wells. The initial term of a license is up to three years and it may be extended for up to an additional four years. An offshore license area may not exceed 400,000 dunam (approximately 98,800 acres). No one entity may hold more than twelve licenses or hold more than a total of four million dunam in aggregate license area.
- **Production lease.** Upon discovery of petroleum in commercial quantities in the area of a license, a licensee has a statutory "right" to receive a production lease. The initial lease term is 30 years, extendable up to a maximum period of 50 years. A lease confers upon the lessee the exclusive right to explore for and produce petroleum in the lease area and requires the lessee to produce petroleum in commercial quantities (or pursue test or development drilling). The lessee is entitled to transport and market the petroleum produced, subject, however, to the right of the government to require the lessee to supply local needs first, at market price.

The holders of preliminary permits, licenses and leases are required to pay fees to the government of Israel to maintain the rights. The fees vary according to the nature of the right, the size and location (on-shore or off-shore) of the right, area subject of the right and, in the case of a license, the period during which the license has been maintained. The fees range from New Israeli Shekels (NIS) 66.72 (approx. USD \$17.78 at the Bank of Israel representative rate published on February 15, 2010) per 1,000 dunam (approx. 247.11 acres) per year for a permit to NIS 12131.52 (approx. USD \$3,233.35) per 1,000 dunam per year for a lease (except for 50,000 dunam around each producing well for which no fee is due). All fees are linked to the Israeli Consumer Price Index.

The holder of a right under the Petroleum Law, whether permit, license or lease, is required to conduct its operations in accordance with a work program set as part of the respective right, with due diligence and in accordance with the accepted practice in the petroleum industry. The holder is required to submit progress and final reports; provided, however, the information disclosed in such reports remains confidential for as long as the holder owns a right on the area concerned.

If the holder of a right under the Petroleum Law does not comply with the work program provided for by the terms of the right, the Petroleum Commissioner may issue a notice requiring that the holder cure the default within 60 days of the giving of the notice, together with a warning that failure to comply within the 60-day cure period may entail cancellation of the right. If such right is cancelled following such notice, the holder of the right may, within 30 days of the date of notice of the Petroleum Commissioner's decision, appeal such cancellation to the Minister of National Infrastructures. No right may be cancelled until the Minister has ruled on the appeal.

The holder of a license or lease on which there is a producing well is required to pay a royalty to the government of 12.5% of production. The government may elect to take the royalty in kind, or take payment in cash for its share of production.



### **Application of Israeli Law Outside of the Israeli Territorial Waters**

Current Israeli law provides that (a) the territorial waters of Israel are 12 miles from the shoreline and (b) the seabed and the subsea bed adjacent to the shoreline and outside of the territorial waters are included in the area of the State of Israel up to such depth as enables exploitation of natural resources. The waters above such subsea areas (high seas) are not considered as part of Israeli territory. Maritime law and international public law would apply to such areas. There are therefore certain ambiguities with respect to the application of Israeli law to activities taking place outside the territorial waters. Since the Myra and Sara licenses and Benjamin permit are outside of the Israeli territorial waters, as set out above, there is uncertainty as to the application of Israeli law to activities in their area, with the exception of the Petroleum Law, which does apply.

A proposal for a new subsea law is currently before the legislator, which would, if enacted, replace the above laws and determine Israel's sovereign rights in areas that extend beyond its territorial waters. It is anticipated that the area of the Myra and Sara licenses and Benjamin permit would be included in an Exclusive Economic Zone (EEZ) area to be declared under the new subsea law, and if the area of the EEZ is decreased, then the area of the licenses and the permit would be decreased in such manner so as to ensure that its entire area will fall within the area of the EEZ, without compensation to the owner of the licenses or permit.

We do not know and cannot predict whether any legislation in this area will be enacted and, if so, in what form and which of its provisions, if any, will relate to and affect our activities, how and to what extent nor what impact, if any, it might have on our financial statements.

Administrative approvals are required from a number of ministries and agencies in the field of oil and gas exploration and development. Over the past few years, a number of legislative bills which would affect this are have been proposed (but not yet passed), and such bills, if passed into law, could have a negative effect on our business and activities.

### **Environmental Matters**

Oil and gas drilling operations could potentially harm the environment if there are polluting spills caused by the loss of well control. The Petroleum Law and the regulations promulgated there under provide that the conduct of petroleum exploration and drilling operations be pursued in compliance with "good oil field practices" and that measures of due care be taken to avoid seepage of oil, gas and well fluids into the ground and from one geologic formation to another. The Petroleum Law and the regulations promulgated thereunder also require that, upon the abandonment of a well, it be adequately plugged and marked. Furthermore, the Petroleum Commissioner and the Minister of National Infrastructures have authority to enforce measures to prevent damages.

Our operations may also be subject to claims for personal injury and property damage caused by the release of chemicals or petroleum substance by us or others in connection with the conduct of petroleum operations on our behalf. Such claims could be advanced under public international law claims or under national laws of tort.

We do not know and cannot predict whether any legislation in the environmental area will be enacted and, if so, in what form and which of its provisions, if any, will relate to and affect our activities, how and to what extent nor what impact, if any, it might have on our financial statements.

### **Organizational Structure**

We have only one subsidiary, Israel Oil and Gas Corporation. It holds our 76.79% equity interest in IPC Cayman. Israel Oil and Gas was incorporated on February 20, 2004 as an Ontario corporation and is 100% owned by us. Israel Oil & Gas Corporation changed its name effective January 18, 2010 from Bontan Oil & Gas Corporation.

**Property, Plants and Equipment**

We currently lease office space at 47 Avenue Road, Suite 200, and Toronto, Ontario, Canada for approximately \$2,500 per month. The leased area is approximately 950 square feet. We signed a one –year lease effective August 1, 2010.

As described above, we have an indirect 5.23% working interest in two drilling licenses in the Levantine Basin, approximately 40 kilometers off the west coast of Israel. As of the date of this prospectus, we did not have any reserves associated with our interests in the oil and gas properties.

**OPERATING AND FINANCIAL REVIEW AND PROSPECTS**

You should read the following discussion with our historical financial statements and related notes included elsewhere in this prospectus.

**Operating results – Three months ended June 30, 2010 and 2009**

Three months ended June 30,	2010	2009
	in 000'CDNS	
Income	-	-
Expenses	(544)	(206)
Non-controlling interests	58	(206)
Net loss for period	(486)	(206)
Deficit at end of period	(37,748)	(33,541)

**Overview**

During the three months ended June 30, 2010, our indirect working interest in the two off shore drilling licenses was registered, an operator was appointed, a definite exploration work plan for the licenses was submitted and approved by the Israeli Ministry of National Infrastructure ("MNI") and further work on the 3-D seismic data began. We also completed a private placement which began in November 2009. This is further elaborated later in this report.

During the three months ended June 30, 2009, the main activity was the preparations for the 2009 annual financials and audit. We continued to receive and review business proposals and have focused on one proposal in a resource sector project. Currently, we are still reviewing the details with the other parties and are in an early stage of our due diligence.

We also continued to monitor over funds in short term marketable securities which have shown some improvement during the quarter. We realized gains of approximately \$2,800 and an unrealized gain of approximately \$316,000 at the end of the quarter.

**Income**

We had no revenue during the three months ended June 30, 2010 and 2009.

Expenses

The overall analysis of the expenses is as follows:

	Three months ended June 30	
	2010	2009
Operating expenses	126,088	77,290
Consulting fee & payroll	221,101	97,865
Exchange (gain)loss	(43,345)	23,020
Loss(gain) on disposal of short term investments	-	(2,819)
Professional fees	239,987	10,281
	<b>543,831</b>	<b>205,637</b>

## Operating Expenses

	Three months ended June 30,	
	2010	2009
Travel, meals and promotion	\$32,669	\$20,788
Shareholders information	43,273	37,238
Other	50,146	19,264
	<u>\$126,088</u>	<u>\$77,290</u>

### Travel, meals and promotions

These expenses were substantially incurred by the key consultant, Mr. Terence Robinson and other consultants in visiting Vancouver, UK and USA in connection with the Israel Offshore Project and fund raising efforts and local club and entertainment costs in business meetings

Expenses for the three months ended June 30, 2010 included a promotion fee of \$5,000 paid to an independent agency.

### Shareholder information

Shareholder information costs comprise investor and media relations fee, costs of holding annual general meeting of the shareholders and various regulatory filing fees.

Major cost consists of media relation and investor relation services provided by Current Capital Corp. under contracts dated July 1, 2004, which are being renewed automatically unless canceled in writing by a 30-day notice for a total monthly fee of US\$10,000. Current Capital Corp. is a shareholder Corporation where the Chief Executive and Financial Officer of the Company provide accounting services.

During the three months ended June 30, 2010, the Company incurred more press release costs due to increased number of press releases compared to the same period in 2009. The costs increased from \$ 115 in 2009 to \$3,000 in 2010. Further, the Company also applied for a listing on Canadian National Stock Exchange during the three months ended June 30, 2010 and paid an application fee of \$ 8,000.

Management believes that such services are essential to ensure our existing shareholder base and prospective investors/brokers and other interested parties are constantly kept in contact and their comments and concerns are brought to the attention of the management on a timely basis.

### Other operating costs

These costs include rent, telephone, Internet, transfer agents fees and other general and administration costs.

Increase in three months ended June 30, 2010 compared to earlier period was due to operations of a new subsidiary, IPC Cayman which added approximately \$ 17,200 in costs and transfer agent fees, which went up from \$ 725 in earlier period to \$ 4,800 due to increased treasury activities resulting from a private placement. Our Toronto office general costs also increased as a result of increased business activities.

**Consulting fees and payroll**

Three months ended June 30

**2010**

2009

Fees settled in common shares		<b>22,868</b>	20,484
Fees settled in cash	<b>185,821</b>		65,864
Payroll	<b>12,412</b>	11,517	
	<b>\$ 221,101</b>	<b>\$ 97,865</b>	

Stock based compensation is made up of the Company's common shares and options being issued to various consultants and directors of the Company for services provided. The Company used this method of payment mainly to conserve its cash flow for business investments purposes. This method also allows the Company to avail the services of consultants with specialized skills and knowledge in the business activities of the Company without having to deplete its limited cash flow.

During the three months ended June 30, 2010, two new consultants' fees were settled in shares. Mr. John Robinson was paid his fee of \$ 25,500 in cash while in the past his fee used to be settled in shares. Mr. Kam Shah's monthly fee increased to \$ 15,000 from \$10,000 during the 2009 period. In addition, IPC Cayman paid consulting fees of \$80,153. IPC Cayman did not exist in the previous quarter ended June 30, 2009.

The following were the key details forming part of consulting fee and payroll costs during the quarter ended June 30, 2009:

- Fee settled in common shares represented shares previously allotted to Mr. John Robinson, a consultant for his service being deferred and now expensed for the period. However, Mr. John Robinson returned all the shares – 350,000 common shares of the Company – on August 12, 2009 for cancelation and instead will be paid cash fee of \$82,000 as approved by the board of directors of the company. This transaction will be accounted for in the second quarter ending September 2009.
- Fees settled in cash consisted of fee of \$30,000 each paid to Mr. Kam Shah, the chief executive and financial officer and Mr. Terence Robinson, a key consultant for the quarter. The balance of the fee was paid to the two independent directors for their services as members of the audit committee.
- The administrative assistant was hired as an employee in May 2008 for the first time. The payroll reflected the salary and related expenses in connection with this position. In prior periods, administrative work used to be carried out by a contract person.

The Company created a new 2009 Consultant Stock Compensation Plan and registered it with Securities and Exchange Commission on April 7, 2009. Three million common shares of the company have been registered for issuance to consultants for services in lieu of cash fee. 983,833 shares have been issued to date. Similarly, the company still had 950,000 unallotted options from the 2005 Stock Option Plan.

**Exchange (gain)loss**

Exchange differences related to translation losses arising from converting foreign currency balances, mainly in US dollar into Canadian dollar, which is the reporting unit of currency, on consolidation.

The Company settled all its US dollar short term loans and most of its payables and accruals in April 2010 when Canadian dollar was almost in parity with the US dollar. Canadian dollar weakened subsequently to 1.06 per US dollar at June 30, 2010, as a result our US dollar cash, short term investment holdings and receivable gave rise to an exchange gain of approximately \$ 43,000.

During the quarter ended June 30, 2009, Canadian dollar strengthened against US dollar – from CDN \$ 1.26 at March 31, 2009 per US\$ 1 to 1.13 at June 30, 2009 – over 10% decline and hence US dollar based assets had lower Canadian values on translation at June 30, 2009 resulting in an exchange loss of approximately \$23,000.

**Gains on disposal of short term investments**

There were no movements in the short term investment portfolio during the three months ended June 30, 2010.

During the quarter ended June 30, 2009, the Company sold investments of approximately \$67,000 – earning approximately 5% return, while no new funds were invested.

**Professional fees**

Professional fees consist of audit, accounting and legal fees.

During the three months ended June 30, 2010, audit fee of \$ 15,000 was accrued on the basis of \$ 60,000 annual fee. Additional charges of \$ 5,500 were billed by the external auditors in connection with their work on F-1 registration and other non-audit matters. \$17,880 was charged by the IPC Cayman sole director for bookkeeping services, \$132,000 was charged by IPC accountants – these costs were not incurred in 2009

During the above period, legal costs were approximately \$ 69,000 in connection with various matters – F-1 registration of the units issued under private placement, defending legal suits from PetroMed and EastMed, application for listing on CNSX and general advice in connection with the Israeli project. These factors increased the professional fees substantially during 2010 quarter compared to 2009 quarter.

During the quarter ended June 30, 2009, audit fee was accrued at \$6,250 on the basis of the estimated annual fee of \$25,000. The balance of the fee for this period consisted of fees charged by our corporate lawyer and auditors to provide services in connection with review and filing of a new 2009 Consultant Stock Compensation Plan with the Securities and Exchange Commission in April 2009.

**Liquidity and Capital Resources****Working Capital**

As at June 30, 2010, the Company had a net working capital of approximately \$1.1 million compared to a working capital of approximately \$400,000 as at March 31, 2010.

Almost entire working capital at June 30, 2010 and March 31, 2010 was in the form of cash and short term investments.

Some improvement in the liquid working capital was entirely due to additional net cash raised through private placement of approximately \$ 2 million.

Cash on hand as at June 30, 2010 was approximately \$943,000 compared to \$2.4 million as at March 31, 2010.

We continue to monitor our expenses and short term portfolio closely. The Company settled its short term loans during the three months ended June 30, 2010 and has now no external borrowings.

We require working capital of approximately \$ 12 million to meet our exploration obligations with respect to our interest in the Israeli property by December 1, 2010. A going concern note included in our financials for the three months ended June 30, 2010 reflects this situation. On October 13, 2010, Ofer Investments Ltd agreed to contribute up to US\$ 28 million towards IPC Partnership's share of the cost of drilling of the initial two exploratory wells under the Sara and Myra licenses and related exploration costs in exchange for a 50% equity interest in IPC Partnership and certain voting and management rights. We believe Ofer's contribution under this agreement satisfies our working capital requirement.

#### **Operating cash flow**

During the three months ended June 30, 2010, operating activities required a net cash out flow of approximately \$ 1.1 million, which was met from the available cash and proceeds from the private placement.

During the quarter ended June 30, 2009, operating activities required a net cash outflow of approximately \$112,000 which was met partly from the proceeds of the sales of short term investments and balance from cash on hand.

The company expects its operating cash requirements to increase as the exploration work begins on the project and hopes to meet these requirements from further equity financing and other source

#### **Investing cash flows**

During the three months ended June 30, 2010, the company paid approximately US\$ 658,000 on the Israeli project on acquiring an additional 1% working interest and legal and other related expenses. Our short term investment portfolio had no activities during the period.

During the quarter ended June 30, 2009, the Company had little investment activities due to unfavourable stock market conditions and non-availability of surplus funds for investments. We sold some of our investments at a small gain and net proceeds of approximately \$67,000 were used for operational needs.

#### **Oil and gas properties and related expenditure**

The Company acquired 11% indirect working interest in two licenses in the Levantine Basin, approximately 40 kilometres off the west coast of Israel. Our interest is reduced to 10.45% as result of sale of 5% interest to the operator in May 2010. Our consolidated financials for the three months ended June 30, 2010 provide further details.

During the three months ended June 30, 2010, the Company paid \$ 254,544 to the Israeli partners for acquiring 1% interest from them under the new agreement dated March 25, 2010. The company also capitalized to the costs of oil and gas properties \$ 180,578 representing interest paid in the form of warrants in fiscal 2010 and was deferred at that time. IPC Cayman incurred additional direct costs of approximately \$397,000 which included legal costs of \$269,000.

Our indirect working interest in these licenses is held through our 76.79% equity interest in IPC Cayman, which owns a 13.609% interest in the licenses, through I.P.C. Oil and Gas (Israel) Limited Partnership, which is the registered holder of 13.609% interest in the above licenses in the Petroleum Registry in Israel.

The following key events happened during the above period in connection with our interest in the Israeli properties:

- (i) In a letter dated May 16, 2010, Petroleum Commissioner confirmed that the two licenses, in which the Company holds an indirect working interest, were fully valid and approved changes in the work plan submitted by the steering committee. The Petroleum Commissioner approved deadlines for submitting various work plans between July 15, 2010 and March 31, 2011.



- (ii) On May 19, 2010, Geoglobal Resources (India) Inc. was appointed operator for the two licenses, in which the Company holds an indirect working interest, subject to the execution of a joint operating agreement. The operator agreed to acquire a 5% working interest in the two licenses pro rata from the Lead Investors and IPC Cayman for USD \$1.2 million. As a result of such acquisition, the Company's indirect working interest decreased to 10.45% from 11%. The operator also will have an option to acquire an additional 2.5% working interest in one or both licenses pro rata from the Lead Investors and IPC Cayman. We have not accounted for our share of the purchase price receivable from the operator since distribution of this price would rest with IPC Cayman.
- (iii) The joint venture partners and the operator also entered into an option agreement dated as of May 19, 2010. Under this option agreement, the joint venture partners have the option to purchase up to a 12.5% ownership interest in an offshore drilling license known as the Samuel license granted to the operator and their partners. The Company's subsidiary, IPC Cayman is now entitled to acquire 2.72% of the Samuel license, of which the Company's share would be 2.09% and the minority shareholder of IPC Cayman will be entitled to the balance 0.63%.
- (iv) On May 20, 2010, the joint venture partners submitted an application to the Israeli Petroleum Commissioner to approve the transfer and registration of the rights in the Myra and Sara licenses. The approval was granted on June 16, 2010.

In this connection, we are required to provide proof of financial capability to cover our share of these exploration costs in the Myra and Sara licenses which we estimate to be approximately US\$12 million by December 1, 2010. We believe the agreement with Ofer satisfies our financial capability requirement.

#### **Short term investments**

The Company had short term investments at a carrying cost of approximately \$ 4 million as at June 30, 2010 – of which \$3.8 million or 95% was held in Canadian currency and the balance 5% was held in US currency. All of the investments were in 13 public companies. These investments were stated at their fair value of approximately \$ 1.4 million as at June 30, 2010 and the difference representing unrealised loss of approximately \$2.6 million was transferred to accumulated other comprehensive loss and included under shareholders equity.

The Company had short term investments at a carrying cost of approximately \$5.5 million as at June 30, 2009 – of which \$5.2 million or 95% was held in Canadian currency and the balance 5% was held in US currency. Approximately 95% of the investments were in 25 public companies while 5% was invested in two private companies. These investments were stated at their fair value of approximately \$1.3 million as at June 30, 2009 and the difference representing unrealised loss of approximately \$4.1 million was transferred to accumulated other comprehensive loss and included under shareholders equity.

The amounts at which the Company's publicly-traded investments could be disposed of currently may differ from fair values based on market quotes, as the value at which significant ownership positions are sold is often different than the quoted market price due to a variety of factors such as premiums paid for large blocks or discounts due to illiquidity.

The following are our key investments:

March 31,	June 30, 2010			March 31, 2010		
	# of shares	cost	fair value	in 000' # of shares	cost	fair value
Marketable Securities						
Brownstone Ventures Inc.		1,292	1869	530	1,292	1869
Roadrunner Oil & Gas Inc.		1,744	631	445	1,744	658
Skana Capital Corp		773	706	201	773	706
10 (March 31, 2010:10) other public companies - mainly resource sector			840	206		775
			\$4,046	\$1,382		\$4,008
Non-marketable securities						
Cookee Corp	1,000		200 -		1,000	200 -
One other private company ( 2008: two private companies, 2007: )			58 -			63 -
			\$258 \$-			\$263 \$-
			\$4,304	\$1,382		\$4,271
						\$1,359

Management believes that the reduction in fair value of the above investments due to application of mark to market accounting rules is temporary and is a direct effect of the adverse current market conditions in the resource sector in general. The fundamentals of the investee corporations are strong in terms of their financial and portfolio strength and will eventually reflect in higher market prices.

#### Financing cash flows

During the three months ended June 30, 2010, the Company raised a net of \$ 2 million in private placement which began in November 2009 and ended on April 30, 2010. This private placement required issuance of 12.7 million additional common shares of the company and 13.9 million warrants and a finders fee of 10% in cash and warrants.

The funds raised were spent in settling all short term loans of approximately \$ 1.1 million and the balance was used towards working capital.

There were no treasury operations during the three months ended June 30, 2009

#### Operating Results – Year Ended March 31, 2010, 2009 and 2008

Year ended March 31	2010	2009	2008
	in 000' CDN \$	in 000' CDN \$	in 000' CDN \$
Income	-	8	73
Expenses	(4,284)	(697)	(645)
	(4,284)	(689)	(572)
Non-controlling interests	357	-	-
Net loss for year	(3,927)	(689)	(572)
Deficit at end of year	(37,263)	(33,335)	(32,645)

## Overview

During the year ended March 31, 2010, our main activities were as follows:

- a. Completing acquisition of indirect working interest in an Offshore Israel Project involving two licensees.
- b. Completing a private placement to raise gross US\$ 500,000 that was announced previously in December 2008. This was completed in October 2009.
- c. Reviewing various short term investments in our investment portfolio and disposing off or writing off significant portion of those investments which indicated declining values with no future outlook for improvements.
- d. Began a new private placement in November 2009 to raise up to US\$ 7.9 million. This private placement was completed on April 30, 2010, which raised approximately gross US\$ 7.6 million. Up to March 31, 2010, we raised approximately gross US\$ 5 million.

The following were the key events in fiscal 2009:

1. Management continued to look for suitable business proposals and projects to participate into. We received several projects during the year of which about fifteen were reviewed and discussed in detail. Many of these related to emerging high technology projects, resource sector exploration and development projects. Unfortunately, we were unable to conclude successfully in any of these business proposals. They were either too pricey compared to the expected growth and returns or they carried considerable debts and other commitments which would affect their ability to achieve their stated targets. We also looked at possibilities of merging with existing businesses. Our efforts at getting a project or a business that can get us back into working mode and enhance our shareholders value still continue.
2. We also had to spend considerable time and efforts in continually monitoring our short term investments. These investments which represented our surplus funds earmarked for future projects suffered adversely in value due to deteriorating economic conditions during the past several months. We were however able to dispose of some of these holdings at reasonable profits whenever opportunities arose. Some of our key investments, although suffered value depreciation on a temporary basis, do reflect strong possibility of full recovery in the near future. We have discussed these investments later in this report.
3. We revised the terms of our outstanding options and warrants by extending their maturity dates and reducing their exercise prices to ensure that these instruments continue to provide easy access to further cash flows from our existing shareholders. Refer to notes 7 and 8 of the consolidated financial statements for fiscal 2009 which form part of this report for further details.
4. We also attempted to initiate a private placement to raise up to US\$ 500,000. However, this proved difficult due to our inability to secure a business project and extremely adverse market conditions. Still we were able to get a new investors to invest US\$ 50,000.
5. Two new accounting standards and an amendment to an existing accounting standard issued by the Canadian Institute of Chartered Accountants were adopted by the Company during the fiscal year 2009 on a prospective basis. These are more fully explained in note 2 to the consolidated financial statements for the fiscal year 2009 included in this report.

The following were key events in fiscal 2008:

1. Management received and evaluated twenty two business proposals during the fiscal 2008. Eight in Oil and Gas sector, four in health and pharmaceutical sector, five in Internet and high technology sector, four in alternative energy sector and one was in banking sector. Unfortunately, none of these projects met with our acceptance criteria. they were either not supported by technically experienced partners or were too expensive to be profitable for the Company or highly speculative in nature with relatively longer potential payback period.

- The Company carried out a formal evaluation of design and operation of its internal controls over financial reporting based on the framework and criteria established in internal control-Integrated Framework issued by the Committee of Sponsoring Organisations of the Treadway Commission.

The evaluation resulted in a formal development of an internal control manual which was updated as at March 31, 2008 and will be followed to ensure adequate controls on the financial reporting by the Company and also to ensure compliance with the relevant statutory requirements in Canada and the USA.

- During the fiscal year 2008, the Company developed a supplementary plan to the existing 2007 Consultant Stock Compensation Plan to add one million common shares of the Company to the existing Plan. The supplemental plan was registered with the Securities and Exchange Commission on December 12, 2007.
- The surplus funds meanwhile were continued to be invested in marketable securities. Approximately \$2 million were realised from the sales and \$3.4 million were invested during the fiscal year 2008.
- Two new accounting standards issued by the Canadian Institute of Chartered Accountants were adopted by the Company as at April 1, 2007 on a prospective basis. These are more fully explained in note 2 to the consolidated financial statements for the fiscal year 2008 included in this report.
- The Company corrected an error in valuation of warrants and share capital retroactively as more fully explained in note 9(a) (ii) to the consolidated financial statements for the fiscal year 2008 included in this report.

#### Income

Income comprised the following:

<b>Fiscal year ended March 31</b>	<b>2010</b>	<b>2009</b>	<b>2008</b>
Interest	-	7,901	73,300

There was no revenue during the year ended March 31, 2010.

Interest earned in fiscal 2009 and 2008 was mainly on cash balances held by the brokerage firms.

## Expenses

The overall analysis of the expenses is as follows:

Fiscal year ended March 31	2010	2009	2008
Operating expenses	\$ 380,537	\$ 288,875	\$ 319,022
Consulting fee & payroll	1,236,619	480,050	396,465
Exchange (gain)loss	(120,735)	(119,789)	141,841
Write off of short term investment	250,780	63,010	-
Loss(gain) on disposal of short term investments	852,806	(45,036)	(248,455)
Professional fees	992,989	27,844	34,601
Bank charges,interest and fees	691,062	2,362	1,625
	<u>\$ 4,284,058</u>	<u>\$ 697,316</u>	<u>\$ 645,099</u>

### Operating Expenses

Fiscal year ended March 31	2010	2009	2008
Travel, meals and entertainment	\$ 86,939	\$ 66,896	\$ 120,008
Shareholder information	158,509	144,757	133,502
Other	135,089	77,222	65,512
	<u>\$ 380,537</u>	<u>\$ 288,875</u>	<u>\$ 319,022</u>

### Travel, meals and entertainment

These expenses were substantially incurred by the key consultant, Mr. Terence Robinson and other consultants in visiting Vancouver, UK and USA in connection with the Israel Offshore Project and fund raising efforts and local club and entertainment costs in business meetings and also in maintaining Mr. Robinson's net work which has been successfully used in raising funds, in attracting qualified consultants with minimum cash outlay and in securing suitable projects for the Company.

### Shareholder information

Shareholder information costs comprise investor and media relations fee, costs of holding annual general meeting of the shareholders and various regulatory filing fees.

Major cost consists of media relation and investor relation services provided by Current Capital Corp. under contracts dated July 1, 2004, which are being renewed automatically unless canceled in writing by a 30-day notice for a total monthly fee of US\$10,000. Current Capital Corp. is a shareholder Corporation where the Chief Executive and Financial Officer of the Company provide accounting services.

Expenses for the fiscal year 2010 included approximately \$ 12,000 in various filing fees in connection with registration statements and increased press releases due to Israel project.

The differences in investor and media relation fee between the three fiscal years 2010 through 2008 was due to significant changes in the exchange rates between Canadian and US dollars.

Management believes that such services are essential to ensure our existing shareholder base and prospective investors/brokers and other interested parties are constantly kept in contact and their comments and concerns are brought to the attention of the management on a timely basis.

### Other operating costs

These costs include rent, telephone, Internet, transfer agents fees and other general and administration costs.

Increase in fiscal year 2010 compared to earlier years was due to operations of a new subsidiary, IPC Cayman which added approximately \$ 46,000 in costs and transfer agent fees, which went up from an average of \$ 4,500 in earlier years to \$ 10,800 due to increased treasury activities resulting from two private placements. Our Toronto office general costs also increased as a result of increased business activities.

### Consulting fees and payroll

	2010	2009	2008
Fees settled in common shares	105,107	193,139	314,248
Fee settled by issuance of options	419,482	84,717	-
Fee settled in cash	667,086	166,928	82,217
Payroll	44,944	35,266	-
	<b>\$ 1,236,619</b>	<b>\$ 480,050</b>	<b>\$ 396,465</b>

Stock based compensation is made up of the Company's common shares and options to acquire the Company's common shares being issued to various consultants and directors of the Company for services provided. The Company used this method of payment mainly to conserve its cash flow for business investments purposes. This method also allows the Company to avail the services of consultants with specialized skills and knowledge in the business activities of the Company without having to deplete its limited cash flow.

The following were the key details forming part of consulting fee and payroll costs during the fiscal year 2010:

- Fee settled in common shares included credit of \$ 81,957, which represented shares previously allotted to Mr. John Robinson, a consultant for his service being deferred and now expensed for the period. However, Mr. John Robinson returned all the shares – 350,000 common shares – on August 12, 2009 for cancelation and instead was paid cash fee of \$82,000 as approved by our board of directors. Four non related consultants were issued 708,333 shares under our 2009 consultant stock compensation plan for a value of \$217,372.
- During the fiscal 2010, the board of directors approved extension of all outstanding options to March 31, 2014 in view of the limited liquidity and market value of our shares. The fair value of these options was re-estimated to reflect the term modification, using black-Scholes option price model. This resulted in an additional cost of \$ 419,482.
- Fees settled in cash consisted of fee of \$250,000 paid to Mr. Kam Shah, CEO/CFO. Mr. Shah received fee at \$ 10,000 per month between April 2009 and August 2009. Effective September 2009, his monthly fee increased to \$ 15,000 as approved by the audit committee. He was also allowed a one time bonus of \$ 70,000 which was offset against fee advance given to him during the previous year. Fee for fiscal 2010 also included fee of \$ 10,000 per month paid to Mr. Terence Robinson. Two independent directors were paid \$5,000 each for their services as members of the audit committee. The balance of the fees were paid to consultants hired by the Company as well as its subsidiary, IPC.
- An administrative assistant was hired as an employee in May 2008 for the first time. Payroll reflects the salary and related expenses in connection with this position. In prior periods, administrative work was carried out by a contract person

The following were the major details forming part of the consulting fee and payroll during the fiscal year 2009:

1. Consulting fee in common shares comprise three consultants who were paid for their services in common shares - Mr. Kam Shah, the executive and financial officer, Mr. Terence Robinson, the key consultant and Mr. John Robinson. No new shares were issued during the fiscal year.
2. Mr. Terence Robinson returned 275,000 shares previously issued as compensation for cancellation and instead requested cash payment. This reduced stock compensation costs by \$64,395 and increased cash compensation by an agreed sum of \$60,000.
3. Option value included \$76,839 resulting from the changes in terms of the existing options. These changes involved reduction in the exercise value and extension of the expiry dates as more fully explained in note 7 (i) to the consolidated financial statements for the fiscal 2009.
4. The balance of the options were issued to the two independent directors as part of their fees in their capacity as audit committee members.
5. Majority of cash fee comprised \$90,000 fee to Mr. Terence Robinson, including \$60,000 on account of shares returned for cancellation as explained in 2. above. And \$50,000 to Kam Shah.
6. The administrative assistant was hired as an employee in May 2008 for the first time. The payroll reflected the salary and related expenses in connection with this position. In prior periods, administrative work used to be carried out by a contract person.

During fiscal year 2008, the company registered a supplementary Plan to the existing 2007 Consultant Stock Compensation Plan. An additional one million common shares were registered under this Plan with Securities and Exchange Commission. In addition, the Company had 350,000 common shares unissued from the existing Plan. The total of 1,350,000 common shares was issued to three consultants in lieu of their fees for services to be provided as follows:

#	Name	Period of service	# of shares to be issued	Date of issuance of stock (a)	Market price (US\$)	Fee in US\$	CDNS at	Brief description of services to be performed	Comments
							\$1,0181		
1	John Robinson (a)	Year ending June 30, 2009	350,000	28-Mar-08	\$0.23	\$80,500	\$81,957	searching and evaluating new project proposals, assisting Kam Shah in such revaluation and assisting Terence in managing our short term investment portfolios	Consultant - per Contract extension letter dated August 15, 2005
2	Terence Robinson(b )	Year ending December 31, 2008	550,000*	28-Mar-08	\$0.23	\$126,500	\$128,790	business development and managing our short term investment portfolios	Currently under a consulting contract dated April 1, 2003 valid up to March 31, 2009.
3	Kam Shah ( c)	Year ending December 31, 2008	450,000	28-Mar-08	\$0.23	\$103,500	\$105,373	act as CEO/CFO	Currently under a consulting contract dated April 1, 2005 valid up to March 31, 2010.
			1,350,000			\$310,500	\$316,120		

During fiscal 2009, Mr. Robinson returned 275,000 shares for cancellation and was instead paid cash fee of \$60,000 ( see comments in item 2 above)

- a. John has been providing consulting services for the last few years. These services mainly included review of oil and gas proposals that are received and short listing them for further review and analysis by CEO. In addition, John also does constant research on companies acquiring oil and gas interest and major oil and gas plays under consideration. The research has always proved useful in negotiating proper terms on any proposals and saved the company from over paying. During the past year and is now extending his research to proposals and projects in other sectors also. John also played an important role in managing our short term investments of around \$6 million. Watching this investment portfolio will be more critical due to highly fluctuating market conditions.
- Owing to the above, we have extended John's contract for another year to June 30, 2009 and negotiated settlement of his fee for this period by issuance of the recommended number of shares.
- b. Terence provides two main services to the company. Owing to his extensive network, he is constantly in touch with some of our key shareholders and potential investors to ensure that whenever the company needs additional funding, it can be easily raised through private placement. We had two such successful placements during the past five years. The second important service is business development through his network. The Company receives lucrative proposals for acquiring interest in oil and gas projects from contacts known to Terence. Once we finalize such a project, he also helps secure best pricing. For the past few months, terence was involved in deciding on the marketable securities in which the company's surplus funds got invested on a short term basis. Our funds grew by over 100% owing to his selection of the marketable securities and decisions to buy and sell at the right time. He will continue to provide these services during the year 2009 and has agreed to accept the proposed number of common shares in lieu of his fees for such services.
- c. Kam Shah's role and responsibilities have grown significantly due to more complex regulatory changes. Compliance with SOX 404 internal control certification and documentation, have been compiled and implemented entirely by him without any outside help. He is also heavily involved in reviewing several proposals from different sectors requiring lot more research and attention. he has agreed to accept \$10,000 per month in cash from January to May 2008. in addition to the shares as above.
- d. On March 28, 2008, the Company issued 25,000 options to each of the two members of the audit committee for their services during the fiscal 2009. These options were valid for five years and exercisable to convert into equal number of common shares of the Company at an exercise price of US\$0.35 per option. The options were valued at \$ 7,878.



### **Exchange (gain) Loss**

Exchange losses and gains related to translation losses and gains arising from converting foreign currency balances, mainly in US dollar, into Canadian dollar, which is the reporting unit of currency, on consolidation.

During the fiscal year 2010, we acquired a significant asset – an indirect working interest in the offshore Israel Project – as explained earlier. The purchase price was in US dollars. We also took over liability to pay for the seismic data as part of the Project which was approximately US\$ 2.2 million and also borrowed short term funds in US dollars of approximately \$ 1.3 million. Further, we now have a new subsidiary, IPC Cayman, which incurs its expenses in US dollar and is funded by us. Thus, at the year, almost all our current liabilities were in US dollars. US dollar weakened against Canadian dollar during the year from US\$ 1 = CDNS 1.22 at the beginning of the year to US\$1= CDNS 1.02 at the end of the year. The bulk of the translation gains arose from this exchange differences when we converted all liabilities in US dollar into Canadian dollar at the

year end rate. The majority of our assets and capital transactions were done at historical costs and were not converted at the year end rate and so there were no significant offsetting gains or losses.

During the fiscal year 2009, we had more monetary assets than liabilities in US dollars. Canadian dollar continually weakened in value against US dollar – from \$1.0279 per US dollar at March 31, 2008 to \$1.2602 per US dollar at March 31, 2009 – approximately 23% reduction in value. As a result, year end revaluation of assets held in US dollar resulted in a significant exchange gain of \$119,789.

As at March 31, 2008, the Company had net monetary assets of approximately \$1.1 million in US dollar and issued common shares for \$110,201 during the year. The US dollar depreciated by around 10% compared to Canadian dollar during this period resulting in a year end translation loss of \$141,841.

### **Write off of short term investments**

During the fiscal year 2010, the Company decided to write off two of its short term investments in non marketable securities. These investments were held for several years in the hope that the investee companies would eventually go public and its shares would then be disposed off. However, while these two entities continue to operate, they were found to be having serious cash flow problems and current market conditions would unlikely to allow them to raise equity through public. These investments were therefore written off in full.

During the fiscal 2009, the Company wrote off an investment of \$63,010(US\$50,000) in a private Canadian corporation. This corporation was engaged initially in exploration of oil and gas in Argentina and other South American countries and later exploited hydro-electric projects in Panama. Unfortunately, none of these projects came to fruition and the corporation was unable to attract more financing and as a result has now become inactive shell with no funds. The management review of these affairs concluded that our investment value has been permanently impaired and as a result, we decided to fully write off this investment.

There were no such write offs in the fiscal years 2008.

**Loss (Gains) on disposal of short term investments**

During the fiscal year 2010, management reviewed its short-term investment portfolio and identified several holdings whose market value remained depreciated for quite some time and showed no signs of any recovery in the near future. We therefore decided to dispose of these investments and focus on those whose values are likely to improve.

Fifteen holdings from the portfolio having carrying cost of approximately \$1.3 million were sold for total proceeds of \$410,454, resulting in a loss of \$852,806.

Market conditions during later part of the fiscal 2009 deteriorated significantly and many of our investments lost values as part of the overall losses in the stock market. However, we were still able to identify some opportunities and dispose of some of our holdings at a profit. We decided not to sell securities which lost significant market values but rather use our existing cash for operating needs and wait for these securities to regain their original values before disposing them. During the fiscal year 2009, the Company sold investments of approximately \$1.8 million while invested approximately \$2.4 million. Net return on investments disposed of during the year was approximately 2.5%

During the fiscal year 2008, the Company sold investments of approximately \$ 2 million, earning an average of 12% return.

**Professional fees**

Professional fees primarily consist of audit and legal fees.

During the fiscal 2010, our audit fee was \$ 60,000 and legal fees were \$932,989. The increase in audit fee from \$ 25,000 in earlier year to \$ 60,000 was mainly due to increased business activities ,complexity of transactions involving new acquisitions and two private placements and a new subsidiary which extended the scope of audit.

The fiscal year 2010 also saw significant increase in legal fees. Approximately 71% of the legal fees - \$ 661,894 were incurred by our subsidiary, IPC Cayman in various lawsuits associated with acquisition of the Israeli properties. The Company was also similarly involved in various lawsuits arising from vendors and others associated with the acquired Israeli properties. All these legal costs were involved in defending our titles to these properties and as a result, they were written off and not capitalized to the cost of the related properties. There were also legal costs associated with registration statement filed with the Securities and Exchange commission and two private placements to raise equity funds.

For fiscal year 2009, audit fee was \$25,000 and legal fees were \$2,844.

For fiscal year 2008, audit fee was \$25,000 and legal fees were \$9,601. The legal fee was mainly relating to registration of supplementary stock compensation plan. And other legal advice.

**Bank charges, interest and fees**

Note 16 to the consolidated financial statements for the fiscal year 2010 provide break down of bank charges, interest and fees. These costs included a fee of \$590,288 paid by our subsidiary, IPC Cayman to a non related entity in connection with fund raising negotiations which were not successful.

**(B) Liquidity and Capital Resources**

**Working Capital**

As at March 31, 2010, the Company had a net working capital of approximately \$371,000 compared to a working capital of \$1.4 million as at March 31, 2009.

Acquisition of the Israeli property, support of the IPC Cayman operating costs and one time but significant legal costs incurred in acquiring and defending the Israeli property acquisition severely affected the net working capital at March 31, 2010. The Company will continue to seek ways to raise the future cash requirements through equity and other sources including farm-outs.

Our financials for the fiscal 2010 include a going concern note which reflects the above situation. The Company raised an additional approximately \$ 2.2 million in equity financing subsequent to March 31, 2010 and settled its short term loans and some of its liabilities

**Operating cash flow**

During the fiscal year 2010, operating activities required a net cash outflow of approximately \$ 363,000 which was met from the available cash and cash generated from equity financing.

During the fiscal year 2009, operating activities generated a net cash outflow of \$362,874, which was primarily met from the available cash on hand.

During the fiscal 2008, operating activities required net cash outflow of \$482,662 which was off set by the net realised on disposal of short term investments of \$248,455 and balance from the available cash on hand.

The company expects its operating cash requirements to increase as the exploration work begins on the project and hopes to meet these requirements from further equity financing and other sources.

**Investing cash flows**

Major investing activities during the fiscal year 2010 included (a) acquisition of oil and gas properties and (b) significant disposal of our non performing short term investments. These two activities resulted in a net cash out flow of approximately \$ 4.3 million which was met from the funds raised through equity and debt financing.

**Acquisition of oil and gas properties**

The Company acquired 11% indirect working interest in two licenses in the Levantine Basin, approximately 40 kilometres off the west coast of Israel. Our interest was reduced to 10.45% as result of sale of 5% interest to the operator in May 2010.

Total of approximately \$ 6.5 million was spent in this acquisition. Note 8 to the fiscal 2010 financials provide breakdown of these costs. The cash outlay was approximately \$ 5 million.

Our indirect working interest in these licenses is held through our 76.79% equity interest in IPC Cayman, which owns a 13.609% interest in the licenses, through I.P.C. Oil and Gas (Israel) Ltd. Partnership, which is the registered holder of 13.609% interest in the above licenses in the Petroleum Registry in Israel.

Work plan involving interpretation of the 3D seismic data and drilling of a test well on each of the two licensed areas has been approved by the Israeli Ministry of National Infrastructure and relevant work is being done on time as per the approved plan.

In this connection, we are required to provide proof of financial capability to cover our share of these exploration costs which would approximately be US\$12 million by November 16, 2010 and the Company will now work with IPC Cayman's management to raise the required funds.

#### **Short term investments**

During the fiscal year 2010, the Company invested \$53,103 (2009: \$2.4 million) in short term marketable securities while sold marketable securities for net proceeds of \$ 410,454 (2009: \$1.8 million).

The Company had short term investments at a carrying cost of approximately \$ 4 million (2009: \$5.5 million) as at March 31, 2010 – of which \$3.8 million or 95% (2009: \$5.2 million or 95%) was held in Canadian currency and the balance 5% was held in US currency. All (2009: Approximately 95%) of the investments were in 13 public companies (2009:24 public companies) while investments in two private companies totalling to \$250,780 were written off during the fiscal year 2010.. These investments were stated at their fair value of approximately \$ 1.4 million (2009: \$1.1 million) as at March 31, 2010 and the difference representing unrealised loss of approximately \$2.6 million (2009: loss of approximately \$4.4 million) was transferred to accumulated other comprehensive loss and included under shareholders equity.

During the fiscal 2008, Company invested approximately \$3.4 million in short term marketable securities while realised approximately \$2 million from the disposal of such securities, which were partly used for the working capital as explained above and remaining reinvested. Net additional investments were funded from the available cash on hand.

As a result of the above, the Company had short term investments at a carrying cost of approximately \$4.9 million as of March 31, 2008 –approximately 94% was held in Canadian currency and the balance \$342,000 or 6% was held in US currency. Approximately 94% of investments were in 32 public companies while 6% was invested in three private companies.

The fair value of the above investments as at March 31, 2008, based primarily on the quoted prices of the shares on that date, came to \$3.6 million giving rise to an unrealised loss of approximately \$1.3 million. Company recognized this loss and reduced the value of its short term investment to reflect the fair value on the balance sheet as at March 31, 2008.

The amounts at which the Company's publicly-traded investments could be disposed of currently may differ from fair values based on market quotes, as the value at which significant ownership positions are sold is often different than the quoted market price due to a variety of factors such as premiums paid for large blocks or discounts due to illiquidity.

The following is a major composition of short term investments:

March 31,	2010			2009		
	in 000' # of shares	cost	fair value	# of shares	cost	fair value
Marketable Securities						
Brownstone Ventures Inc.	1,292	1,869	775	1,227	1,838	362
Roadrunner Oil & Gas Inc.	1,744	658	244	1,529	627	145
Skana Capital Corp	773	706	155	773	706	186
10 (2009: 23 ) other public companies - mainly resource sector		775	185		2082	399
		\$4,008	\$1,359		\$5,253	\$1,092
Non-marketable securities						
Cookee Corp	-	-	-	1,000	200	-
other private company ( 2009: one private company )		-	-		63	-
		\$-	\$-		\$263	\$-
		\$4,008	\$1,359		\$5,516	\$1,092
<b>March 31,</b>	<b>2010</b>	<b>2009</b>				
	in 000'					
	# of shares	cost	fair value	# of shares	cost	fair value
Marketable Securities						
Brownstone Ventures Inc.	1,292	1,869	775	1,227	1,838	362
Roadrunner Oil & Gas Inc.	1,744	658	244	1,529	627	145
Skana Capital Corp	773	706	155	773	706	186
10 (2009: 23 ) other public companies - mainly resource sector		775	185		2082	399
		\$4,008	\$1,359		\$5,253	\$1,092
Non-marketable securities						
Cookee Corp	-	-	-	1,000	200	-
other private company ( 2009: one private company )		-	-		63	-
		\$-	\$-		\$263	\$-
		\$4,008	\$1,359		\$5,516	\$1,092

Management believes that the reduction in fair value of the above investments due to application of mark to market accounting rules is temporary and is a direct effect of the adverse current market conditions in the resource sector in general. The fundamentals of the investee corporations are strong in terms of their financial and portfolio strength and will eventually reflect in higher market prices once market condition improves for the resource sector.

#### Financing cash flows

During the fiscal year 2010, the Company raised approximately \$6.7 million through equity and debt financing. These funds were primarily used for investing and operating cash requirements as explained above and a surplus of approximately \$ 2 million was added to the cash on hand.

#### Equity financing

Approximately \$ 5.5 million was raised through two private placements. The first one began in December 2008 and completed in October 2009 and raised net of US\$ 450,000. The second one began in December 2009 and until March 31, 2010 raised approximately \$ 5 million. This private placed closed on April 30, 2010 and an additional approximately \$ 2 million was raised. These private placements were subject to 10% finder's fee in cash and additional 10% fee in warrants payable to various persons including Current Capital Corp., a related party and Mr. Howard Cooper, the sole director and president of our subsidiary, IPC Cayman.

Note 11 to the fiscal 2010 financials provide further details of these private placements.

#### Debt funding

We borrowed short term loans totalling to approximately \$1.2 million as at March 31, 2010. These loans carried interest between 5% and 10% per annum. The loans were fully settled with accumulated interest subsequent to March 31, 2010 from the additional funds raised through private placement

Note 10 to the financials for fiscal 2010 provide further details of these loans.

During the fiscal 2009, the Company generated \$56,000 in equity fund through a private placement, net of finder's fee of \$6,228. On December 12, 2008, the directors of the Company approved a private placement to raise equity funds of up to US\$500,000. The private placement comprises issuance up to ten million units at US\$0.05 each, being the prevailing market price, each unit consists of one common share and one warrant exercisable at US\$0.10 within two years of its issuance. The private placement was considered necessary to improve the Company's liquidity and holding ability so that it may be able to gain higher values for its investments once the current market conditions improve.

Equity fund raised as above reflected subscription to one million units under the above private placement by one accredited investor.

During the fiscal 2008, the Company received \$110,000 net of the finder's fee from exercise of warrants by an existing shareholder. These funds were primarily used to meet the operating cash flow deficit.

#### **Research and Development, Patents and Licenses**

We have not spent any funds on research and development during the fiscal years 2010, 2009 and 2008.

#### **Trend Information**

There are no trends, commitments, events or uncertainties presently known to management that are reasonably expected to have a material effect on the Company's business, financial condition or results of operation other than the uncertainties and risks discussed under "Risk Factors."

#### **Off-Balance Sheet Arrangements**

At June 30, 2010 and March 31, 2010, 2009 and 2008, we did not have any off balance sheet arrangements, including any relationships with unconsolidated entities or financial partnership to enhance perceived liquidity.

#### **Contractual Obligations**

Under the terms with our other Israeli partners, IPC Cayman must provide by December 1, 2010 evidence of its financial capability to meet future financing requirements with respect to exploration and development of test wells to our Israeli partners. The Company's share is expected to be approximately US\$ 12 million. As explained elsewhere, in October 2010, IPC Cayman secured funding of up to US\$ 28 million which we believe satisfies the financial capability requirement in respect of IPC Cayman's (including Bontan's) interest in the licenses.

#### **Safe Harbor**

Not applicable.

### **DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES**

#### **Directors and Senior Management**

The following table sets forth information about our directors and executive officers.

<b>Name</b>	<b>Age</b>	<b>Position</b>
Kam Shah	59	Director and Chairman Chief Executive Officer and Chief Financial Officer
Dean Bradley	77	Independent Director, Chair of the Audit Committee
Brett D. Rees	58	Independent Director, Member of the Audit Committee

**Kam Shah** joined our company as a consultant to perform the functions of Chief Financial Officer and was appointed to the Board on January 3, 1999. Effective May 17, 2004, he became Chairman of the Board and Chief Executive Officer of the Company. He has worked in the general practice with PricewaterhouseCoopers LLP and Ernst & Young. He is a US Certified Public Accountant and a Canadian Chartered Accountant. He has over fifteen years of international experience in corporate financial analysis, mergers & acquisitions. Mr. Shah is responsible for the financial and statutory matters of the Mr. Shah is also a consultant providing accounting and tax services to Current Capital Corp., (CCC) a private Ontario corporation, having its head office in Toronto. CCC provides investors' and media relations services to Bontan Corporation.

**Dean Bradley** has served as a director since November 20, 2000. Mr. Bradley is currently the Chairman of our audit committee and a non-executive independent director based in Florida. He assists the Company from time to time in introducing new businesses and liaising with businesses in the USA in which the Company has equity interest. Mr. Bradley had been CEO of many corporations including real estate, mining, manufacturing, and import/export and financial services corporations and is currently the CEO of Quasar Aerospace Industries, Inc. and Combustion Engine Technologies, Inc.

**Brett Rees** has served as a director and a member of our audit committee since December 8, 2006. Mr. Rees is a Chartered life underwriter, financial consultant and financial planner and a licensed mutual funds manager. He has over twenty years of experience in various insurance products, estate planning, pension planning for individual and corporation and in group benefit assessments.

#### **Management Team**

In addition to Mr. Shah, our CEO and CFO, our management team consists of two key consultants, Terence Robinson and John Robinson. Information about our key consultants is provided below.

Terence Robinson served as our Chairman of the Board and Chief Executive Officer from October 1991 to May 2004. He advises the board in the matters of shareholders relations, fund raising campaigns, introduction and evaluation of investment opportunities and overall operating strategies for the Company. He has over 25 years of experience as merchant banker and venture capitalist and has successfully secured financing for a number of start-up and small cap companies and currently runs his own consulting firm in the name of TR Network Inc. Mr. Terence Robinson is a key consultant who basically acts in an advisory role with no specific authority to bind the Company except in case of short term investments where he is authorized to buy and sell marketable securities on behalf of the Company and also advises as to when to buy or sell. He is however not authorized to withdraw or deposit any cash from and into our accounts with the brokerage firms.

Mr. John Robinson is another consultant who provides advisory services to us, primarily in assisting in the research and evaluation of projects and in short term investment activities. In case of short term investments, he is authorized to buy and sell marketable securities on our behalf. He is however not authorized to withdraw or deposit any cash from and into our accounts with the brokerage firms. Mr. John Robinson is a brother of Mr. Terence Robinson and is the sole shareholder of Current Capital Corp, which provides investor and media relations services to us and is a shareholder.

Mr. Shah's current consulting agreement has been renewed on April 1, 2010 to another five years to March 31, 2015. From January 1, 2009 to December 31, 2009, Mr. Shah received a cash fee of \$10,000 per month plus taxes. However, on February 18, 2010, the board approved revision in his fee to \$ 15,000 per month effective September 2009. Between June 1, 2008 and December 31, 2008, Mr. Shah was allowed to draw \$10,000 per month in arrears until the market price of our common shares reached \$0.50 provided that such drawings were treated as fee advances to be repaid when the market price of our common shares stays at \$0.50 or above for a consecutive period of three months. A total sum of \$70,000 was withdrawn by Mr. Shah. The amount was finally expensed as a bonus in March 2010. Further, the contract provides for a lump sum compensation of US\$250,000 for early termination of the contract without cause. The contract also provides for entitlement to stock compensation and stock options under appropriate plans as may be decided by the board of directors from time to time.

Mr. Terence Robinson's consulting agreement was signed on April 1, 2003 for a six-year term ending on March 31, 2009. We renewed the consulting agreement for another five years effective April 1, 2009. Under the renewed agreement, Terence will receive a fixed monthly fee of \$10,000 plus taxes and will be entitled to stock compensation and stock options as may be determined by our board of directors.

On July 1, 2009 we entered into a new consulting agreement with John Robinson for a term ending on March 31, 2014. We will pay John a fixed monthly fee of \$8,500 plus taxes and he will be entitled to stock compensation and stock options as may be determined by our board of directors.

**Family Relationships**

There are no family relationships between the directors and executive officers. Mr. Terence Robinson is a brother of Mr. John Robinson.

**Other Relationships**

There are no arrangements or understandings between any major shareholder, customer, supplier or others, pursuant to which any of the above-named persons were selected as directors or members of senior management.

**Compensation**

The compensation payable to our directors and officers is summarized below:

***Compensation of Directors***

We do not compensate directors for acting solely as directors. We do not have any formal arrangement pursuant to which directors are remunerated by us for their services in their capacity as directors, except for granting from time to time options to purchase shares and the reimbursement of direct expenses.



### Management Compensation

The following table and accompanying notes set forth all compensation paid by the Company to its directors, senior management and key consultants for the fiscal years ended March 31, 2010, 2009 and 2008:

Name and principal position	Year	ANNUAL COMPENSATION			LONG-TERM COMPENSATION			all other compensation (\$)
		Fee (3)	Bonus	Other annual compensation	Total	Awards		
						Securities under options/SARs Granted & (4)	Shares or units subject to resale restrictions	
(\$)	(\$)	(\$)	(\$)	\$	(\$)	(\$)		
<b>Kam Shah</b>								
CEO/CFO	2010	155,000	70,000		225,000	26,639		5,452
CEO/CFO	2009	129,030			129,030	5,574		6,424
CEO/CFO	2008	127,899			127,899			4,744
<b>Terence Robinson</b>								
Consultant	2010	120,000			120,000			5,452
Consultant	2009	122,198			122,198	44,431		5,824
Consultant	2008	134,423			134,423			4,744
<b>Dean Bradley</b>								
Independent director	2010	5,000			5,000	2,462		
Independent director	2009	5,000			5,000	4,656		-
Independent director	2008	3,871			3,871			-
<b>Brett Rees</b>								
Independent director	2010	5,000			5,000			
Independent director	2009	5,000			5,000	4,337		
Independent director	2008	-						

The following table and accompanying notes set forth all compensation paid by the Company to its directors, senior management and key consultants for the fiscal years ended March 31, 2010, 2009 and 2008:

#### Notes:

1. "SAR" means stock appreciation rights. The Company never issued any SARs
2. "LTIP" means long term incentive plan.
3. Fees were settled in cash and shares issued under Consultants Stock Compensation Plans.
4. For the fiscal 2010 and 2009, options included additional costs due to changes in the terms of the previously issued options. The additional cost was estimated using Black-Scholes option price model as more fully explained in note 12 (ii) to the consolidated financial statements for fiscal 2010 included herein.
5. All other compensation consists of group insurance benefit payments made on behalf.

#### Indebtedness of Directors, Executive Officers and Senior Officers

Kam Shah, the chief executive and financial officer was allowed to draw \$10,000 per month in arrears between June 1, 2008 and December 31, 2008 – total sum of \$70,000. Originally, these withdrawals were repayable without interest when market price of our common shares stayed at US\$0.50 or above for a consecutive period of three months. Interest cost waived worked out to be approximately \$600 at 2% per annum. This is included under All Other Compensation in Executive Compensation table above. However, the board decided to expense this withdrawal as bonus to Mr. Shah in March 2010.

#### Defined Benefit or Actuarial Plan Disclosure

There is no pension plan or retirement benefit plan that has been instituted and none is proposed at this time.

### **Directors' and Officers' Liability Insurance**

We purchased a directors and officers' liability insurance policy to provide insurance against possible liabilities incurred by our directors and officers in their capacity as directors and officers of our company.

### **Board Practices**

Directors may be appointed at any time in accordance with our by-laws and then re-elected annually by our shareholders. At our last annual meeting of stockholders' held on December 18, 2009, Messrs. Shah, Bradley and Rees were elected as directors and will continue to hold his office until the next annual meeting. Officers are elected annually by the Board of Directors and serve at the discretion of the Board of Directors.

Our Board has adopted a mandate, in which it has explicitly assumed responsibility for the stewardship of Bontan. In carrying out its mandate the Board holds at least four meetings annually. The frequency of meetings, as well as the nature of the matters dealt with, will vary from year to year depending on the state of our business and the opportunities or risks, which we face from time to time. The Board held a total of 6 meetings during our financial year ended March 31, 2009. The Board has designated one standing committee: an Audit Committee.

The members of the Audit Committee consist of Dean Bradley and Brett Rees. We consider both Mr. Bradley and Mr. Rees to be independent directors. The Audit Committee is charged with overseeing our accounting and financial reporting policies, practices and internal controls. The committee reviews significant financial and accounting issues and the services performed by and the reports of our independent auditors and makes recommendations to our Board of Directors with respect to these and related matters.

Our Audit Committee charter became effective on August 2, 2005. This charter assists the Board in fulfilling its responsibilities for our accounting and financial reporting practices by:

- reviewing the quarterly and annual consolidated financial statements and management discussion and analyses;
- meeting at least annually with our external auditor;
- reviewing the adequacy of the system of internal controls in consultation with the chief executive and financial officer;
- reviewing any relevant accounting and financial matters including reviewing our public disclosure of information extracted or derived from our financial statements;
- establishing procedures for the receipt, retention and treatment of complaints received by us regarding accounting, internal controls or auditing matters and the confidential, anonymous submission by employees of concerns regarding questionable accounting or auditing matters;
- pre-approving all non-audit services and recommending the appointment of external auditors; and
- reviewing and approving our hiring policies regarding personnel of our present and former external auditor

We currently do not have a Compensation Committee. The directors determined that, in light of the size and resources, setting up such a committee would be too expensive and would not serve any useful purpose for us at this time. We have, however, set up an Independent Review Committee of the Board to review and approve all non-arms' length contracts. This Committee has the same composition as the Audit Committee, and is currently comprised of the two independent directors - Dean Bradley and Brett Rees. This committee approves fees and major expenses of Mr. Shah and Mr. Terence Robinson.

We currently do not have a separate corporate governance committee. The CEO in conjunction with the Audit Committee has developed and updated corporate governance practices and policies, code of ethics and corporate disclosure policy which form part of our internal control over financial reporting manual. The goal is to provide a mechanism that can assist in our operations, including but not limited to, the monitoring of the implementation of policies, strategies and programs and the development, continuing assessment and execution of our strategic plan.

## Employees

We presently have one employee who serves as assistant to the chief executive and financial officer. We also use the services of consultants from time to time.

## Share Ownership

The Company generally has two stock plans, a Consultants Stock Compensation Plan and a Stock Option Plan.

As of November 17, 2010, 5,775,000 options were outstanding. All options under 1999 Plan, 2003 plan and The Robinson Plan and 2005 Plan were issued.

All shares reserved under the 2001, 2003, 2005 and 2007 and 2007 supplemental Compensation Plans were issued before March 31, 2008. A new 2009 Consultant Stock Compensation Plan was registered with Securities and Exchange Commission on April 7, 2009 under the US Securities Act of 1933. 3,000,000 common shares of the Company were registered under this Plan. As of November 17, 2010, 843,333 shares were issued under the 2009 Plan.

The objective of these stock plans is to provide for and encourage ownership of our common shares by our directors, officers, consultants and employees and those of any subsidiary companies so that such persons may increase their stake in our company and benefit from increases in the value of the common shares. The Plans are designed to be competitive with the benefit programs of other companies in the natural resource industry. It is the view of management that the plans are a significant incentive for the directors, officers, consultants and employees to continue and to increase their efforts in promoting our operations to the mutual benefit of both our company and such individuals and also allows us to avail of the services of experienced persons with minimum cash outlay.

The following table sets forth the share ownership of our officers, directors and key consultants as of August 30, 2010. Beneficial ownership of shares is determined under rules of the SEC.

Name	Common Shares Beneficially Owned		Options and Warrants Exercisable for Common Shares		
	Number	Percentage	Number	Exercise price - in US\$	Expiry date(s)
Kam Shah	738,310	1.38%	350,000	\$0.15	31-MAR-14
Terence Robinson*	-	-	-	-	-
Dean Bradley	-	**	45,000	\$0.15	31-MAR-14
Brett Rees	-	**	25,000	\$0.15	31-Mar-14
John Robinson ***	2,000,000	15.00%	1,615,000	\$0.15	31-MAR-14
			3,599,103	.25	31-MAR-14
			150,000	0.35	24-Nov-14
			150,000	0.35	13-Jan-15
			3,000,000	0.10	31-Mar-14
			2,955,000	0.35	30-Apr-15

\* Excludes 3,750,024 common shares and options to purchase 2,790,000 shares at USD \$0.15 per share held by Stacey Robinson, the wife of Terence Robinson. Mr. Robinson disclaims beneficial ownership over those shares.

\*\* Less than 1%.

\*\*\* Includes 1,000,000 common shares and 7,995,000 underlying warrants held in the name of Current Capital Corp., which is fully owned by Mr. John Robinson.

The terms of all options were revised during the fiscal 2009. The revisions comprised increasing the expiry dates by one year and reducing the exercise price, which ranged between US\$0.35 and US\$1.00 to US\$0.15. This is further explained in note 7 to our consolidated financial statements for fiscal 2009 included herein. All options were 100% vested at November 17, 2010.

**MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS**

**Major Shareholders**

Our securities are recorded on the books of our transfer agent in registered form. The majority of the shares are, however, registered in the name of intermediaries such as brokerage houses and clearing-houses on behalf of their respective clients. We do not have knowledge of all the beneficial owners thereof. As of October 12 2010, intermediaries like CDS & Co, Toronto, Canada and Cede & Co of New York, USA held approximately 45% of our issued and outstanding common shares on behalf of several beneficial shareholders whose individual holdings details were not available.

At November 17, 2010, we had 78,664,076 common shares outstanding, which were held by 145 record holders excluding the beneficial shareholders held through the intermediaries, 77 of which, holding an aggregate of 21,864,155 shares (27.92%) of common stock, were in the United States.

The following table sets forth persons known by us to be beneficial owners of more than 5% of our common shares as of October 12, 2010. Beneficial ownership of shares is determined under rules of the SEC and generally includes any shares over which a person exercises sole or shared voting or investment power. Shares subject to options and warrants that are currently exercisable or exercisable within 60 days of the date of this prospectus are deemed to be outstanding and beneficially owned by the person holding the option and warrant. These shares, however, are not deemed outstanding for the purpose of computing the percentage ownership of any other person.

<b>Name of Beneficial Owner</b>	<b>No. of Shares</b>	<b>Percentage of Shares</b>
Sheldon Inwentash <sup>(1)</sup>	16,218,000	18.36%
Stacey Robinson <sup>(2)</sup>	10,290,000	12.13%
John Robinson <sup>(3)</sup>	13,469,103	14.98%
Castle Rock Resources II, LLC <sup>(4)</sup>	5,250,000	6.45%
Steve Gose <sup>(5)</sup>	5,000,000	6.19%
Skana Capital Corp <sup>(6)</sup>	5,000,000	6.19%
International Three Crown Petroleum LLC <sup>(7)</sup>	5,000,000	6.00%

(1) Includes (i) 4,000,000 shares issuable upon exercise of warrants held by Mr. Inwentash and (ii) 6,000,000 shares issuable upon exercise of warrants and 4,000,000 common shares held by Pinetree Resource Partnership. As CEO of Pinetree Capital Ltd. ("Pinetree Capital"), Mr. Inwentash may be deemed to have shared power to vote the shares held by Pinetree Resource Partnership. Based on Schedule 13D filed September 29, 2010 with the SEC.

Based on Pinetree Capital Investment Corp.'s ("PCIC") and Emerald Capital Corp.'s ("Emerald") collective ownership and control of Pinetree Resource Partnership and Pinetree Capital's ownership of PCIC and Emerald, PCIC, Emerald and Pinetree Capital may be deemed to have shared power to vote and dispose or direct the vote and disposition of the shares held by Pinetree Resource Partnership.

(2) Includes options to purchase 2,790,000 shares at USD \$0.15 per share and 3,750,000 shares underlying warrants that have an exercise price of USD \$0.10 per share.

(3) Includes (i) options to purchase 1,615,000 shares and 1,000,000 shares underlying warrants and (ii) 1,000,000 common shares and 7,995,000 shares underlying warrants held by Current Capital Corp., which is 100% owned by John Robinson.

(4) Includes 3,125,000 shares underlying warrants that have an exercise price of US\$0.35.

(5) & (6) Includes 2,500,000 shares underlying warrants that have an exercise price of US\$0.35.

(7) Includes 5,000,000 shares underlying warrants that have an exercise price of USD \$0.35 per share.

We are a publicly owned Canadian corporation, the shares of which are owned by Canadian residents, US residents, and residents of other countries. We are not owned or controlled directly or indirectly by another corporation or any foreign government. There are no arrangements, known to us, the operation of which may at a subsequent date result in a change of control of our company.

#### Related Party Transactions

The following is given as background information on some of our key related party transactions:

1. Current Capital Corp. (CCC) is a related party in following ways –
  - a. The Director/President of CCC, Mr. John Robinson, is a consultant with Bontan.
  - b. CCC provides media and investor relation services to Bontan under a consulting contract.
  - c. The Chief Executive Officer and Chief Financial Officer of Bontan is providing accounting services to CCC.
  - d. CCC and John Robinson hold shares in Bontan.

Bontan shares premises with CCC for which CCC charges on a quarterly basis for the rent, phone and utilities based on the actual costs and area occupied. These charges reflect actual costs and do not include any mark ups. Another charge from CCC relates to the investor relations and media relation services provided under a contract. The charge is a fixed sum of US\$10,000 per month plus taxes. CCC is also entitled to a finder's fee at the rate of 10% of the gross money raised for us through issuance of shares and warrants under private placements.

2. Mr. Kam Shah is a director and also provides services as chief executive and financial officer under a five-year contract. The compensation is determined by the board on an annual basis and is usually given in the form of cash, shares and options.
3. Mr. Terence Robinson served as our chief executive officer until May 2004 and was also a director until that date. Currently, Mr. Robinson is providing services as a key consultant under a five-year contract. His services include sourcing of new business opportunities on behalf of our company, using his extensive network of business contacts, and short term investment buy or sell decisions and advice. His remuneration is paid mostly in shares on an annual basis.
4. Mr. Howard Cooper and Three Crown Petroleum LLC, (TCP) a Company controlled by Mr. Cooper. Mr. Cooper/TCP is the sole director and manager of our subsidiary, IPC Cayman and is also the minority shareholder, holding 23.21% equity in IPC Cayman. Mr. Cooper receives fee of US\$ 20,000 per month for acting as manager of IPC Cayman and representing the Company on the Israeli Project.

Transactions with related parties are incurred in the normal course of business and are measured at the exchange amount. Related party transactions and balances have been listed below:

- (i) Included in shareholders information expense is \$132,213 (2009 – \$133,785; 2008 – \$124,231) to Current Capital Corp, (CCC) for media relation's services. CCC is a shareholder corporation and a director of the Company provides accounting services.
- (ii) CCC charged approximately \$20,993 for rent, telephone and other office expenses (2009: \$37,800 and 2008: \$27,300). \$32,058 was charged by the entity controlled by the sole director of IPC Cayman (2009 and 2008: \$ nil)
- (iii) Finders fees of \$736,755 (2009: \$6,228, 2008: \$12,245) was charged by CCC in connection with the private placement. The fee for 2010 included a cash fee of \$449,583 and 3,520,000 warrants valued at \$287,172 using the Black-Scholes option price model).
- (iv) Business expenses of \$23,622 (2009 - \$19,205; 2008 - \$15,771) were reimbursed to directors of the corporation and \$82,390 (2009 - \$68,009, 2008: \$118,774) to a key consultant and a former chief executive officer of the Company. Travel and related expenses of \$88,357 charged by the sole director of IPC Cayman have been included Oil & gas properties and related expenditure (2009 and 2008: \$ nil)

- (v) Shares issued to a director under the Consultant's stock compensation plan – Nil (2009 : Nil, 2008: 450,000 valued at \$105,373.). Shares issued to (returned by) a key consultant and a former chief executive officer of the Company under the Consultant stock compensation plan: Nil (2009: (275,000) valued at \$ (64,395), 2008: 550,000 valued at \$128,790).
- (vi) Options issued to directors under Stock option plans – nil (2009: nil, 2008: 50,000 valued at \$7,878).
- (vii) Cash fee paid to directors for services of \$235,000 (2009:\$60,000 and 2008: \$ 33,871). Cash fee paid to a key consultant and a former chief executive officer of the Company of \$120,000 (2009:\$90,000 and 2008: \$ nil). Fees paid to a consultant who controls CCC \$76,543 (2009: \$81,911 in shares, 2008: \$81,926 in shares).These fees are included in consulting expenses.
- (viii) Accounts payable includes \$95,813 (2009: \$15,482, 2008: \$9,384) due to CCC, \$5,852 (2009: \$1,875, 2008: \$757) due to a director and \$82,741 (2009: \$67,212, 2008: \$ 6,577) due to a key consultant and a former chief executive officer of the Company and due to a consultant who controls CCC \$62,475 (2009: \$1,024, 2008: \$1,022)
- (ix) Included in short term investments is an investment of \$nil (2009 and 2008: \$200,000) in a private corporation controlled by a brother of the key consultant. The investment was fully written off as at March 31, 2010 (Nil at March 31, 2009;\$200,000 as at March 31, 2008)
- (x) Included in short term investments is an investment of \$1,869,381 carrying cost and \$775,020 fair value (2009: 1,837,956 carrying cost and \$361,877 fair value, 2008: \$1,929,049 carrying cost and \$1,140,120 fair value) in a public corporation controlled by a key shareholder of the Company. This investment represents common shares acquired in open market or through private placements and represents less than 1% of the issued and outstanding common shares of the said Corporation.
- (xi) Included in other receivable is a fee advance of \$nil (2009: \$ 70,000 and 2008: \$nil) made to Chief Executive Officer. The fee amount advanced in fiscal 2009 was expensed in March 2010.
- (xii) Included in other receivable is an advance of \$nil made to a director (2009: \$5,814 and 2008: \$ nil),

**Interests of Experts and Counsel**

Not applicable.

## FINANCIAL INFORMATION

### Consolidated Statements and Other Financial Information

Information regarding our financial statements is found under "Financial Statements" below.

#### Legal Proceedings

None

#### Dividend Policy

Since our incorporation, we have not declared or paid, and have no present intention to declare or to pay in the foreseeable future, any cash dividends with respect to our common shares. Earnings will be retained to finance further growth and development of our business. However, if the Board of Directors declares dividends, all common shares will participate equally in the dividends, and, in the event of liquidation, in our net assets.

## THE OFFER AND LISTING

### Offer and Listing Details

The following tables set forth the reported high and low sale prices for our common shares as quoted on OTC Bulletin Board.

The following table outlines the annual high and low market prices for the five most recent fiscal years:

Fiscal year ended March 31	High (US\$)	Low (US\$)
2010	0.45	0.06
2009	0.30	0.03
2008	0.47	0.17
2007	0.75	0.22
2006	1.51	0.20

The following table outlines the high and low market prices for each fiscal financial quarter for the two most recent fiscal periods and any subsequent period:

Fiscal Quarter ended	High (US\$)	Low (US\$)
September 30, 2010	0.29	0.18
June 30, 2010	0.40	0.25
March 31, 2010	0.45	0.24
December 31, 2009	0.38	0.25
September 30, 2009	0.28	0.07
June 30, 2009	0.12	0.06
March 31, 2009	0.27	0.08
December 31, 2008	0.11	0.03
September 30, 2008	0.30	0.07
June 30, 2008	0.27	0.20

The following table outlines the high and low market prices for each of the most recent six months:

<b>Month</b>	<b>High</b>	<b>Low</b>
	<b>(US\$)</b>	<b>(US\$)</b>
October 2010	0.34	0.19
September 2010	0.23	0.18
August 2010	0.27	0.19
July 2010	0.29	0.22
June 2010	0.33	0.25
May 2010	0.36	0.29

#### **Plan of Distribution**

The selling shareholders and any of their pledgees, donees, transferees, assignees and successors-in-interest may, from time to time, sell any or all of the shares owned by them in the over-the-counter market or on any exchange, market or trading facility on which the shares may then be listed or quoted, or in private transactions. These sales may be at fixed prices, at market prices prevailing at the time of sale, at prices related to prevailing market prices or at negotiated prices. The selling shareholders may use any one or more of the following methods when selling shares:

- ordinary brokerage transactions and transactions in which the broker-dealer solicits investors;
- block trades in which the broker-dealer will attempt to sell the shares as agent but may position and resell a portion of the block as principal to facilitate the transaction;
- purchases by a broker-dealer as principal and resale by the broker-dealer for its account;
- an exchange distribution in accordance with the rules of the applicable exchange;
- privately negotiated transactions;
- to cover short sales made after the date that this registration statement is declared effective by the SEC;
- broker-dealers may agree with the selling shareholder to sell a specified number of such shares at a stipulated price per share;
- a combination of any such methods of sale; and
- any other method permitted pursuant to applicable law.

The selling shareholders may also sell shares under Rule 144 under the Securities Act, if available, rather than under this prospectus.

Broker-dealers engaged by the selling shareholders may arrange for other brokers-dealers to participate in sales. Broker-dealers may receive commissions or discounts from the selling shareholders (or, if any broker-dealer acts as agent for the purchaser of shares, from the purchaser) in amounts to be negotiated.

The selling shareholders may from time to time pledge or grant a security interest in some or all of the shares owned by them and, if they default in the performance of their secured obligations, the pledgees or secured parties may offer and sell the shares from time to time under this prospectus, or under an amendment or supplement to this prospectus amending the list of selling shareholders to include the pledgee, transferee or other successors in interest as a selling shareholder under this prospectus.



The selling shareholders also may transfer the shares in other circumstances, in which case the transferees, pledgees or other successors in interest will be the selling beneficial owners for purposes of this prospectus.

In connection with the sale of the common shares, the selling shareholders may enter into hedging transactions with broker-dealers or other financial institutions, which may in turn engage in short sales of the common shares in the course of hedging the positions they assume. The selling shareholders may also sell common shares short after the effective date of the registration statement of which this prospectus is a part and deliver common shares registered hereby to close out their short positions and to return borrowed shares in connection with such short sales, or loan or pledge the common shares to broker-dealers that in turn may sell these securities. The selling shareholders may also enter into option or other transactions with broker-dealers or other financial institutions or the creation of one or more derivative securities which require the delivery to such broker-dealer or other financial institution of shares offered by this prospectus, which shares such broker-dealer or other financial institution may resell pursuant to this prospectus (as supplemented or amended to reflect such transaction).

The selling shareholders and any broker-dealers or agents that are involved in selling the shares may be deemed to be "underwriters" within the meaning of the Securities Act in connection with those sales. In such event, any commissions received by the broker-dealers or agents and any profit on the resale of the shares purchased by them may be deemed to be underwriting commissions or discounts under the Securities Act. Discounts, concessions, commissions and similar selling expenses, if any, that can be attributed to the sale of the shares will be paid by the selling shareholders and/or the purchasers. Each selling shareholder has informed us that it does not have any written or oral agreements or understandings, directly or indirectly, with any person to distribute any such securities.

Each selling shareholder will be subject to the applicable provisions of the Exchange Act, and the associated rules and regulations under the Exchange Act, including Regulation M, which provisions may limit the timing of purchases and sales of the shares by the selling shareholders.

We will make copies of this prospectus available to the selling shareholders and have informed them of the need to deliver copies of this prospectus at or prior to the time of any sale of the shares.

We will bear all costs, fees and expenses incident to the registration of the shares. We have agreed to indemnify the selling shareholders against certain losses, liabilities and damages, including liabilities under the Securities Act.

#### **Markets**

Our common shares were traded on the OTC Bulletin Board under the symbol "DEAL" and on Canadian Dealing Network (CDN) under the symbol "FDQI" until January 20, 1999. Effective January 21, 1999, our shares were traded only on OTC Bulletin Board. The symbol was further changed to "NMBC" on August 13, 1999 and then to "DCHK" on November 3, 1999.

We changed our name to Bontan Corporation Inc. on April 21, 2003. Our common shares are currently quoted under the symbol "BNTNF" on the OTC Bulletin Board.

#### **Selling Shareholders**

The following table sets forth the names of the selling shareholders and the number and percentage of common shares beneficially owned by the selling shareholders as of August 30, 2010 and after the offering.

The number of shares in the "Shares Offered" column represents all of the shares that the selling shareholder may offer under this prospectus. We do not know when or in what amounts a selling shareholder may offer shares for sale. The selling shareholder may choose not to sell any of the shares offered by this prospectus. Because the selling shareholder may offer all, some or none of its shares, we cannot estimate the number of shares the selling shareholder will hold after the completion of the offering. However, for purposes of the table, we have assumed that after completion of the offering, all of the shares covered by this prospectus will be sold by the selling stockholders.

None of the selling shareholders is a broker-dealer or an affiliate of a broker-dealer.

Beneficial ownership and the percentages shown in the following table are calculated in accordance with the rules of the SEC. The percentages are based on 78,314,076 shares outstanding on October 12, 2010. Unless otherwise indicated in the footnotes to the table, to our knowledge, the shareholder or individual identified in the table possesses sole voting and investment power over its shares of common stock. Except as described in the footnote below, the selling shareholder has had no material relationship with us within the last three years.

Name of selling shareholder	Shares owned prior to offering		Shares being offered	Shares owned after offering	
	Number	Percentage		Number	Percentage
David Shep	1	1,000,000	1.26%	1,000,000	----
Elisa Vespa	2	500,000	0.64%	500,000	----
B.C. Management S A - Alex Craven	3	2,000,000	2.52%	2,000,000	----
Greelight Capital - Ralph Sickenger	4	500,000	0.64%	500,000	----
Stacey Robinson	5	10,290,000	12.13%	7,500,000	2,790,000
Current Capital Corp - John Robinson	6	4,022,500	4.95%	4,022,500	----
John Robinson	7	3,615,000	4.47%	2,000,000	1,615,000
Sunil Jhaveri	8	1,300,000	1.65%	1,300,000	----
Robert Farrill	9	1,200,000	1.52%	1,200,000	----
Riad Daoud	10	500,000	0.64%	500,000	----
Kenneth Crema	11	500,000	0.64%	500,000	----
International Three Crown Petroleum Corporation – Howard Cooper	12	5,000,000	6.00%	5,000,000	----
Allied Ventures Inc. – Gentril Corp Suks	13	2,000,000	2.49%	2,000,000	----
Castle Rock Resources II, LLC – Greg Vigil	14	1,000,000	1.26%	1,000,000	----
Lynn Belcher	15	2,000,000	2.52%	2,000,000	----
Blue & Gray Resources - John Hefner	16	1,000,000	1.27%	1,000,000	----
Steve Gose	17	5,000,000	6.19%	5,000,000	----
Bram Oil – Rob Clarke	18	1,000,000	1.27%	1,000,000	----
High Plains Royalty LLC - George Clay	19	2,000,000	2.52%	2,000,000	----
Kyle Stallings	20	2,500,000	3.14%	2,500,000	----
Joe Glennon	21	750,000	0.95%	750,000	----
Mike Glennon	22	250,000	0.32%	250,000	----
Duane Grosulak	23	250,000	0.32%	250,000	----
Dennis Sun & Peggy L Sun Living Trust - Dennis	24	200,000	0.26%	200,000	----
Falcon Trust DTD 12/15/00 - John Martin	25	2,500,000	3.14%	2,500,000	----

(1) The "Shares owned prior to offering" column includes 1,000,000 shares underlying warrants exercisable at US\$0.10 per share.

(2) The "Shares owned prior to offering" column includes 250,000 shares underlying warrants exercisable at US\$0.10 per share

(3) The "Shares owned prior to offering" column includes 1,000,000 shares underlying warrants exercisable at US\$0.10 per share.

- (4) The "Shares owned prior to offering" column includes 250,000 shares underlying warrants exercisable at US\$0.10 per share.
- (5) The "Shares owned prior to offering" column includes options to purchase 2,790,000 shares at US\$0.15 per share and 3,750,000 shares underlying warrants exercisable at US\$0.10 per share.
- (6) The "Shares owned prior to offering" column includes 1,022,500 shares underlying warrants exercisable at US\$0.25 per share, 2,000,000 shares underlying warrants exercisable at US\$0.10 per share. Current Capital Corp is 100% owned by John Robinson.
- (7) The "Shares owned prior to offering" column includes options to purchase 1,615,000 shares at US\$0.15 per share, and 1,000,000 shares underlying warrants exercisable at US\$0.10
- (8) The "Shares owned prior to offering" column includes 650,000 shares underlying warrants exercisable at US\$0.10 per share.
- (9) The "Shares owned prior to offering" column includes 600,000 shares underlying warrants exercisable at US\$0.10 per share.
- (10) The "Shares owned prior to offering" column includes 250,000 shares underlying warrants exercisable at US\$0.10 per share.
- (11) The "Shares owned prior to offering" column includes NIL shares underlying warrants exercisable at US\$0.35 per share.
- (12) The "Shares owned prior to offering" column includes 5,000,000 shares underlying warrants exercisable at US\$0.35 per share.
- (13) The "Shares owned prior to offering" column includes 2,000,000 shares underlying warrants exercisable at US\$0.35 per share.
- (14) The "Shares owned prior to offering" column includes 1,000,000 shares underlying warrants exercisable at US\$0.35 per share.
- (15) The "Shares owned prior to offering" column includes 1,000,000 shares underlying warrants exercisable at US\$0.35 per share.
- (16) The "Shares owned prior to offering" column includes 500,000 shares underlying warrants exercisable at US\$0.35 per share.
- (17) The "Shares owned prior to offering" column includes 2,500,000 shares underlying warrants exercisable at US\$0.35 per share.
- (18) The "Shares owned prior to offering" column includes 500,000 shares underlying warrants exercisable at US\$0.35 per share.
- (19) The "Shares owned prior to offering" column includes 1,000,000 shares underlying warrants exercisable at US\$0.35 per share.
- (20) The "Shares owned prior to offering" column includes 1,250,000 shares underlying warrants exercisable at US\$0.35 per share.
- (21) The "Shares owned prior to offering" column includes 375,000 shares underlying warrants exercisable at US\$0.35 per share.

(22) The "Shares owned prior to offering" column includes 125,000 shares underlying warrants exercisable at US\$0.35 per share.

(23) The "Shares owned prior to offering" column includes 125,000 shares underlying warrants exercisable at US\$0.35 per share.

(24) The "Shares owned prior to offering" column includes 100,000 shares underlying warrants exercisable at US\$0.35 per share.

(25) The "Shares owned prior to offering" column includes 1,250,000 shares underlying warrants exercisable at US\$0.35 per share.

#### Dilution

The common shares to be sold by the selling stockholders are already issued and outstanding. As a result, there is no dilution to our existing shareholders.

#### Expenses of the Issue

We will bear all expenses and fees incurred by us in connection with the registration of the common shares offered by this prospectus. Any commissions, discounts or fees payable to brokers in connection with any sale will be borne by the selling stockholders, the purchasers or both.

### ADDITIONAL INFORMATION

#### Share Capital

Our authorized capital consists of an unlimited number of common shares. As of November 17, 2010, we had 78,664,076 common shares outstanding.

On April 1, 2008, we had outstanding 30,095,743 common shares. Between April 1, 2008 and November 17, 2010, we issued a total of 48,568,333 common shares as follows:

Cancelled Shares:	(625,000)
Issued to PetroMed Corp.	8,617,686
Shares issued to PetroMed cancelled	(8,617,686)
Private Placement:	47,750,000
Warrants exercised	600,000
Consultants under Stock Compensation Plan:	843,333
Total	<u>48,568,333</u>

#### Memorandum and Articles of Association

Our articles of incorporation do not place any restrictions on the company's objects and purposes.

### ***Certain Powers of Directors***

The *Business Corporations Act* (Ontario) (the "OBCA") requires that every director who is a party to a material contract or transaction or a proposed material contract or transaction with a corporation, or who is a director or officer of, or has a material interest in, any person who is a party to a material contract or transaction or a proposed material contract or transaction with the corporation, shall disclose in writing to the corporation or request to have entered in the minutes of the meetings of directors the nature and extent of his or her interest, and shall refrain from voting in respect of the material contract or transaction or proposed material contract or transaction unless the contract or transaction is: (a) an arrangement by way of security for money lent to or obligations undertaken by the director for the benefit of the corporation or an affiliate; (b) one relating primarily to his or her remuneration as a director, officer, employee or agent of the corporation or an affiliate; (c) one for indemnity of or insurance for directors as contemplated under the OBCA; or (d) one with an affiliate. However, a director who is prohibited by the OBCA from voting on a material contract or proposed material contract may be counted in determining whether a quorum is present for the purpose of the resolution, if the director disclosed his or her interest in accordance with the OBCA and the contract or transaction was reasonable and fair to the corporation at the time it was approved.

Our by-laws provide that the directors shall from time to time determine by resolution the remuneration to be paid to the directors, which shall be in addition to the salary paid to any officer or employee who is also a director. The directors may also by resolution award special remuneration to any director in undertaking any special services on our behalf other than the normal work ordinarily required of a director of our company. The by-laws provide that confirmation of any such resolution by our shareholders is not required.

Our by-laws also provide that the directors may: (a) borrow money upon the credit of our company; (b) issue, reissue, sell or pledge bonds, debentures, notes or other evidences of indebtedness or guarantee, whether secured or unsecured; (c) to the extent permitted by the OBCA, give directly or indirectly financial assistance to any person by means of a loan, a guarantee on our behalf to secure performance of any present or future indebtedness, liability or other obligation of any person, or otherwise; and (d) mortgage, hypothecate, pledge or otherwise create a security interest in all or any currently owned or subsequently acquired real or personal, movable or immovable, tangible or intangible, property of our company to secure any such bonds, debentures, notes or other evidences of indebtedness or guarantee or any other present or future indebtedness, liability or other obligation of our company.

The directors may, by resolution, amend or repeal any by-laws that regulate our business or affairs. The OBCA requires the directors to submit any such amendment or repeal to our shareholders at the next meeting of shareholders, and the shareholders may confirm, reject or amend the amendment or repeal.

### ***Meetings of Shareholders***

The OBCA requires us to call an annual shareholders' meeting not later than 15 months after holding the last preceding annual meeting and permits us to call a special shareholders' meeting at any time. In addition, in accordance with the OBCA, the holders of not less than 5% of our shares carrying the right to vote at a meeting sought to be held may requisition our directors to call a special shareholders' meeting for the purposes stated in the requisition. We are required to mail a notice of meeting and management information circular to registered shareholders not less than 21 days and not more than 50 days prior to the date of any annual or special shareholders' meeting. These materials also are filed with Canadian securities regulatory authorities and the SEC. Our by-laws provide that a quorum of two shareholders in person or represented by proxy holding or representing by proxy not less than 10% of our issued shares carrying the right to vote at the meeting is required to transact business at a shareholders' meeting. Shareholders, and their duly appointed proxies and corporate representatives, as well as our auditors, are entitled to be admitted to our annual and special shareholders' meetings.

### **Authorized Capital**

Our authorized capital consists of an unlimited number of shares of one class designated as common shares. We may not create any class or series of shares or make any modification to the provisions attaching to our common shares without the affirmative vote of two-thirds of the votes cast by the holders of the common shares. Our common shares do not have pre-emptive rights to purchase *additional shares*.

### **Disclosure of Share Ownership**

The *Securities Act* (Ontario) provides that a person or company that beneficially owns, directly or indirectly, voting securities of an issuer or that exercises control or direction over voting securities of an issuer or a combination of both, carrying more than 10% of the voting rights attached to all the issuer's outstanding voting securities (an "insider") must, within 10 days of becoming an insider, file a report in the required form effective the date on which the person became an insider, disclosing any direct or indirect beneficial ownership of, or control or direction over, securities of the reporting issuer. The *Securities Act* (Ontario) also provides for the filing of a report by an insider of a reporting issuer who acquires or transfers securities of the issuer. This report must be filed within 10 days after the end of the month in which the acquisition or transfer takes place.

The *Securities Act* (Ontario) also provides that a person or company that acquires (whether or not by way of a take-over bid, issuer bid or offer to acquire) beneficial ownership of voting or equity securities or securities convertible into voting or equity securities of a reporting issuer that, together with previously held securities brings the total holdings of such holder to 10% or more of the outstanding securities of that class, must (a) issue and file forthwith a news release containing the prescribed information and (b) file a report within two business days containing the same information set out in the news release. The acquiring person or company must also issue a press release and file a report each time it acquires an additional 2% or more of the outstanding securities of the same class and every time there is a "material change" to the contents of the news release and report previously issued and filed.

### **Restrictions on Share Ownership by Non-Canadians**

There are no limitations under the laws of Canada or in our constitutive documents on the right of foreigners to hold or vote our securities, except that the *Investment Canada Act* may require review and approval by the Minister of Industry (Canada) of certain acquisitions of "control" of our company by a "non-Canadian". The threshold for acquisitions of control is generally defined as being one-third or more of the voting shares... "Non-Canadian" generally means an individual who is not a Canadian citizen, or a corporation, partnership, trust or joint venture that is ultimately controlled by non-Canadians.

### **Material Contracts**

#### **Partnership Subscription and Contribution Agreement**

The Partnership Subscription and Contribution Agreement is described under "Information on Bontan – Background and Status of Offshore Israel Project."

#### **Allocation of Rights and Settlement Agreement**

The Allocation of Rights and Settlement Agreement is described under "Information on Bontan –Background and Status of Offshore Israel Project."

#### **Agreement Regarding Ownership interests in Israel Petroleum Company, Limited**

Under the terms of the agreement dated April 14, 2010, ITC is deemed to have owned and currently owns a 23.21% equity interest in IPC Cayman represented by 2,321 ordinary shares of IPC Cayman and Bontan is deemed to have owned and currently owns a 76.79% equity interest in IPC Cayman represented by 7,679 ordinary shares of IPC Cayman. Allied Ventures Incorporated is deemed not to have owned or to ever have owned and not to currently own any equity interest in IPC Cayman.

### **Contribution and Assignment Agreement**

Under the terms of a Contribution and Assignment Agreement dated November 14, 2009 by and among, ITC, Bontan Oil & Gas Corporation, Bontan, IPC Cayman and Allied Ventures Incorporated:

- ITC contributed and assigned all of its right, title and interest in and to an Option Agreement for Purchase and Sale dated October 15, 2009 between ITC and PetroMed Corporation, pursuant to which ITC obtained, among other things, an exclusive option to purchase PetroMed's undivided 95.5% interest in Petroleum License 347 ("Myra") and Petroleum License 348 ("Sara") and Petroleum Preliminary Permit 199 ("Benjamin").
- IPC Cayman issued 7,500 ordinary shares to Bontan (representing a 75% equity interest in IPC Cayman), 2,250 ordinary shares to ITC and 250 ordinary shares to Allied Ventures.
- Upon the closing of the exercise of the option, which occurred on November 18, 2009, and as consideration to PetroMed for its sale of the Myra and Sara licenses and the Benjamin permit, Bontan delivered to PetroMed USD \$850,000 in cash, 8,617,686 common shares of Bontan and a 7- year warrant to purchase 22,853,058 common shares of Bontan with an exercise price of USD \$4.00 per share.
- Upon the closing of the exercise of the option, Bontan issued a warrant to purchase up to 5,000,000 common shares of Bontan to ITC and a warrant to purchase up to 2,000,000 common shares of Bontan to Allied Ventures. These warrants have a 5-year term and an exercise price of USD \$0.35 per share.
- Following the closing of the exercise of the option, IPC Cayman conveyed to H. Howard Cooper a gross 1% over-riding royalty of all oil and gas produced, saved and sold from the area covered by the Myra and Sara licenses and the Benjamin permit, free and clear of any costs incurred in connection with the exploration, production and delivery of the oil and gas.

Under the Contribution Agreement, we have agreed to use our best efforts to raise up to USD \$18 million in equity or debt financings and to contribute the net proceeds from these financings to IPC Cayman to cover the costs of seismic and other technical work and other expenses expected to be incurred related to the project, for general working capital purposes and to reimburse ITC for certain expenses in connection with the project. To raise cash to satisfy our USD \$850,000 payment obligation to PetroMed, we sold a USD \$850,000 promissory note secured by our pledge of 1,125 shares of IPC Cayman together with a 5-year warrant to purchase 1,000,000 common shares at an exercise price of USD \$0.35 per share. The note bears an interest rate of 10% per year and is due and payable on November 12, 2010.

We have agreed to file and seek effectiveness of one or more registration statements to be filed with the U.S. Securities and Exchange Commission covering the resale of the various securities issued to PetroMed, ITC, Allied Ventures and the investors in the financings. Under the terms of the warrants issued to ITC and Allied Ventures, if we fail to file the registration statement within 60 days following the date of issuance, or if the registration statement is not declared effective within nine months following the date of issuance, then, in each case, the number of shares underlying the warrants will increase by 2%. For each subsequent 30 day period during which the registration statement is not filed or declared effective, the number of shares underlying the warrants will increase by 1%. The maximum adjustment to the shares is 10%.

In addition, on November 18, 2009, ITC entered into a consulting services agreement with Hagai Amir under which Mr. Amir will provide certain services as requested by ITC. ITC has agreed to pay Mr. Amir USD \$20,000 per month for a 6-month period beginning in December 2009 and USD \$60,000 upon approval of the transfer of the two licenses and permit by the Israeli Petroleum Commissioner. Also, we agreed to issue to Mr. Amir a 5-year warrant to purchase 500,000 common shares at an exercise price of USD \$4.00 per share. These agreements were canceled as a result of new agreements as discussed above.

We believe our key financial commitments under the Contribution Agreement have been met. Approximately US\$ 10.5 million was raised and used to pay off costs relation to seismic and other technical work under the Allocation of Rights and Settlement Agreement and a further financing of up to US\$ 28 million was secured under the Ofer agreement to cover IPC Cayman's (including Bontan's) share of the initial exploration and drilling costs of the initial two exploratory wells. However, the sole director of IPC Cayman has communicated to us that we have not satisfied out financial commitments under the Contribution Agreement and we are negotiating to resolve the director's claims.

#### **Stockholders Agreement**

*The terms of the Stockholders Agreement have significantly been affected by the Allocation of Rights and Settlement Agreement and Agreement Regarding Ownership Interest in Israel Petroleum Company Limited, as discussed above. We are trying to negotiate with ITC to replace the current agreement with a new agreement to reflect all the changes.*

Concurrently with the execution of the Contribution Agreement, Bontan Oil & Gas Corporation, ITC, Allied Ventures and Bontan entered into a Stockholders Agreement. Under the Stockholders Agreement, ITC, as the sole director of IPC Cayman, is responsible for the management of the business and affairs of IPC Cayman. The director will be liable to IPC Cayman and its stockholders only for willful misconduct or gross negligence in the management of the business and affairs of IPC Cayman. IPC Cayman will indemnify the director and its affiliates, and any agents, officers and employees of the director and its affiliates, from any loss or liability incurred as a result of any act or omission, or error of judgment, related to the director's management of IPC Cayman unless the loss or liability results from the director's willful misconduct or gross negligence.

ITC may not be removed as director by the stockholders of IPC Cayman other than (i) for willful misconduct that materially and adversely affects the project or (ii) in the event that a controlling interest in ITC is transferred to a person who is not a Qualified Buyer (as defined) and the management team of ITC is not substantially the same as the management team of ITC before the transfer. Removal of ITC as director for any such reason requires the affirmative vote of stockholders owning a majority of the ordinary shares of IPC Cayman, and appointment of a new director to replace ITC as director requires the affirmative vote of stockholders owning at least 80% of the ordinary shares of IPC Cayman. A Qualified Buyer is defined to mean any person that has experience in the oil and gas industry substantially equivalent to, or greater than, that of ITC.

If ITC transfers a majority of its ordinary shares of IPC Cayman to a Qualified Buyer, then the Qualified Buyer will have the sole authority to appoint and remove the director of IPC Cayman. However, in this case, stockholders owning a majority of the ordinary shares of IPC Cayman may remove the director only for willful misconduct that materially and adversely affects the project, and appointment of a new director will require the affirmative vote of stockholders owning at least 80% of the ordinary shares of IPC Cayman.



Under the Stockholders Agreement, stockholders owning a majority of the ordinary shares of IPC Cayman have the right to approve the following actions:

- Expansion of the scope of IPC Cayman's business beyond the acquisition, development and potential farmout or sale of the Myra and Sara licenses and the Benjamin permit and the exploitation and commercialization of those licenses and permit;
- Sale or merger of IPC Cayman or sale or other disposition of all or substantially all of the IPC Cayman's assets (other than a sale or farmout to an industry partner in connection with a commitment to conduct exploratory or development operations on the licenses and permit);
- Admit additional owners to IPC Cayman;
- Liquidate IPC Cayman;
- Enter into any contract or agreement between IPC Cayman and ITC, Mr. Cooper, Allied Ventures or any affiliate of those persons;
- Modify any compensation arrangement between IPC Cayman and ITC, Mr. Cooper, Allied Ventures or any affiliate of those persons;
- Redeem any shares or other equity interest in IPC Cayman; and
- Amend the organizational and internal operating documents of IPC Cayman.

Under the Stockholders Agreement, IPC Cayman will pay to ITC a monthly management fee of \$20,000 for its services as director of IPC Cayman and is obligated to reimburse reasonable out-of pocket expenses that the director incurs on behalf of IPC Cayman. ITC is also entitled to receive certain commissions and fees related to the financing of the project and any farmout, option, sale, assignment or other transfer of all or a portion of the project.

The Stockholders Agreement provides for information rights and restrictions on transfer of the ordinary shares, including a right of first refusal.

#### **Exchange Controls**

There are currently no laws, decrees, regulations or other legislation in Canada that restricts the export or import of capital or that affects the remittance of dividends, interest or other payments to non-resident holders of our securities other than withholding tax requirements. There is no limitation imposed by Canadian law or by our Articles of Incorporation or our other organizational documents on the right of a non-resident of Canada to hold or vote our common shares, other than as provided in the North American Free Trade Agreement Implementation Act (Canada) and in the Investment Canada Act, as amended by the World Trade Organization Agreement Implementation Act.

The Investment Canada Act requires notification and, in certain cases, advance review and approval by the Government of Canada of the acquisition by a "non-Canadian" of "control of a Canadian business", all as defined in the Investment Canada Act. Generally, the threshold for review will be higher in monetary terms, and in certain cases an exemption will apply, for an investor ultimately controlled by persons who are nationals of a WTO Member or have the right of permanent residence in relation thereto.

#### **Taxation**

##### ***Canadian Income Tax Consequences***

We consider that the following summary fairly describes the principal Canadian federal income tax consequences applicable to a holder of our common shares who at all material times deals at arm's length with our company, who holds all common shares as capital property, who is resident in the United States, who is not a resident of Canada and who does not use or hold, and is not deemed to use or hold, his common shares of our company in connection with carrying on a business in Canada (a "non-resident holder"). It is assumed that the common shares will at all material times be listed on a stock exchange that is prescribed for purposes of the *Income Tax Act* (Canada) (the "ITA") and regulations thereunder. Investors should be aware that the Canadian federal income tax consequences applicable to holders of our common shares will change if, for any reason, we cease to be listed on a prescribed stock exchange. Accordingly, holders and prospective holders of our common shares should consult with their own tax advisors with respect to the income tax consequences of them purchasing, owning and disposing of our common shares should we cease to be listed on a prescribed stock exchange.

This summary is based upon the current provisions of the ITA, the regulations there under, the Canada-United States Tax Convention as amended by the Protocols thereto (the "Treaty") as at the date of the registration statement and the currently publicly announced administrative and assessing policies of the Canada Revenue Agency (the "CRA"). This summary does not take into account Canadian provincial income tax consequences. This description is not exhaustive of all possible Canadian federal income tax consequences and does not take into account or anticipate any changes in law, whether by legislative, governmental or judicial action. This summary does, however, take into account all specific proposals to amend the ITA and regulations there under, publicly announced by the Government of Canada to the date hereof.

*This summary does not address potential tax effects relevant to our company or those tax considerations that depend upon circumstances specific to each investor. Accordingly, holders and prospective holders of our common shares should consult with their own tax advisors with respect to the income tax consequences to them of purchasing, owning and disposing of common shares in our company.*

## Dividends

The ITA provides that dividends and other distributions deemed to be dividends paid or deemed to be paid by a Canadian resident corporation (such as our company) to a non-resident of Canada shall be subject to a non-resident withholding tax equal to 25% of the gross amount of the dividend or deemed dividend. Provisions in the ITA relating to dividend and deemed dividend payments to and gains realized by non-residents of Canada, who are residents of the United States, are subject to the Treaty. The Treaty may reduce the withholding tax rate on dividends as discussed below.

Article X of the Treaty as amended by the US-Canada Protocol ratified on November 9, 1995 provides a 5% withholding tax on gross dividends or deemed dividends paid to a United States corporation which beneficially owns at least 10% of the voting stock of the company paying the dividend. In cases where dividends or deemed dividends are paid to a United States resident (other than a corporation) or a United States corporation which beneficially owns less than 10% of the voting stock of a company, a withholding tax of 15% is imposed on the gross amount of the dividend or deemed dividend paid. We would be required to withhold any such tax from the dividend and remit the tax directly to CRA for the account of the investor.

The reduction in withholding tax from 25%, pursuant to the Treaty, will not be available:

- (a) if the shares in respect of which the dividends are paid formed part of the business property or were otherwise effectively connected with a permanent establishment or fixed base that the holder has or had in Canada within the 12 months preceding the disposition, or
- (b) the holder is a U.S. LLC which is not subject to tax in the U.S.

The Treaty generally exempts from Canadian income tax dividends paid to a religious, scientific, literary, educational or charitable organization or to an organization exclusively administering a pension, retirement or employee benefit fund or plan, if the organization is resident in the U.S. and is exempt from income tax under the laws of the U.S.

## **Capital Gains**

A non-resident holder is not subject to tax under the ITA in respect of a capital gain realized upon the disposition of one of our shares unless the share represents “taxable Canadian property” to the holder thereof. Our common shares will be considered taxable Canadian property to a non-resident holder only if-

- (a) the non-resident holder;
- (b) persons with whom the non-resident holder did not deal at arm’s length - or
- (c) the non-resident holder and persons with whom he did not deal at arm’s length,

owned not less than 25% of the issued shares of any class or series of our company at any time during the five year period preceding the disposition. In the case of a non-resident holder to whom shares of our company represent taxable Canadian property and who is resident in the United States, no Canadian taxes will generally be payable on a capital gain realized on such shares by reason of the Treaty unless:

- (a) the value of such shares is derived principally from real property (including resource property) situated in Canada,
- (b) the holder was resident in Canada for 120 months during any period of 20 consecutive years preceding, and at any time during the 10 years immediately preceding, the disposition and the shares were owned by him when he ceased to be a resident of Canada,
- (c) they formed part of the business property or were otherwise effectively connected with a permanent establishment or fixed base that the holder has or had in Canada within the 12 months preceding the disposition, or
- (d) the holder is a U.S. LLC which is not subject to tax in the U.S.

If subject to Canadian tax on such a disposition, the taxpayer’s capital gain (or capital loss) from a disposition is the amount by which the taxpayer’s proceeds of disposition exceed (or are exceeded by) the aggregate of the taxpayer’s adjusted cost base of the shares and reasonable expenses of disposition. For Canadian income tax purposes, the “taxable capital gain” is equal to one-half of the capital gain.

### ***U.S. Federal Income Tax Consequences***

The following is a discussion of the material United States Federal income tax consequences, under current law, applicable to a U.S. Holder (as defined below) of our common shares who holds such shares as capital assets. This discussion does not address all potentially relevant Federal income tax matters and it does not address consequences peculiar to persons subject to special provisions of Federal income tax law, such as those described below as excluded from the definition of a U.S. Holder. In addition, this discussion does not cover any state, local, or foreign tax consequences. (See “Canadian Federal Income Tax Consequences” above.)

The following discussion is based on the Internal Revenue Code of 1986, as amended (the “Code”), Treasury Regulations, published Internal Revenue Service (“IRS”) rulings, published administrative positions of the IRS and court decisions that are currently applicable, any or all of which could be materially and adversely changed, possibly on a retroactive basis, at any time. In addition, this discussion does not consider the potential effects, both adverse and beneficial, of any recently proposed legislation which, if enacted, could be applied, possibly on a retroactive basis, at any time.

*The discussion below does not address potential tax effects relevant to our company or those tax considerations that depend upon circumstances specific to each investor. In addition, this discussion does not address the tax consequences that may be relevant to particular investors subject to special treatment under certain U.S. Federal income tax laws, such as, dealers in securities, tax-exempt entities, banks, insurance companies and non-U.S. Holders. Purchasers of the common stock should therefore satisfy themselves as to the overall tax consequences of their ownership of the common stock, including the State, local and foreign tax consequences thereof (which are not reviewed herein), and should consult their own tax advisors with respect to their particular circumstances.*

#### **U.S. Holders**

As used herein, a "U.S. Holder" includes a beneficial holder of common shares of our company who is a citizen or resident of the United States, a corporation or partnership created or organized in or under the laws of the United States or of any political subdivision thereof, any trust if a US court is able to exercise primary supervision over the administration of the trust and one or more US persons have the authority to control all substantial decisions of the trust, any entity created or organized in the United States which is taxable as a corporation for U.S. tax purposes and

any other person or entity whose ownership of common shares of our company is effectively connected with the conduct of a trade or business in the United States. A U.S. Holder does not include persons subject to special provisions of Federal income tax law, such as tax-exempt organizations, qualified retirement plans, financial institutions, insurance companies, real estate investment trusts, regulated investment companies, broker-dealers, non-resident alien individuals or foreign corporations whose ownership of our common shares is not effectively connected with the conduct of a trade or business in the United States and shareholders who acquired their shares through the exercise of employee stock options or otherwise as compensation.

#### **Dividend Distribution on Shares of our Company**

U.S. Holders receiving dividend distributions (including constructive dividends) with respect to the common shares of our company are required to include in gross income for United States Federal income tax purposes the gross amount of such distributions to the extent that we have current or accumulated earnings and profits, without reduction for any Canadian income tax withheld from such distributions. Such Canadian tax withheld may be deducted or may be credited against actual tax payable, subject to certain limitations and other complex rules, against the U.S. Holder's United States Federal taxable income. See "Foreign Tax Credit" below. To the extent that distributions exceed our current or accumulated earnings and profits, they will be treated first as a return of capital to the extent of the shareholder's basis in the common shares of our company and thereafter as gain from the sale or exchange of the common shares of our company. Preferential tax rates for net long term capital gains may be applicable to a U.S. Holder which is an individual, estate or trust.

In general, dividends paid on our common shares will not be eligible for the dividends received deduction provided to corporations receiving dividends from certain United States corporations.

#### **Foreign Tax Credit**

A U.S. Holder who pays (or who has had withheld from distributions) Canadian income tax with respect to the ownership of our common shares may be entitled, at the election of the U.S. Holder, to either a deduction or a tax credit for such foreign tax paid or withheld. This election is made on a year-by-year basis and generally applies to all foreign income taxes paid by (or withheld from) the U.S. Holder during that year. There are significant and complex limitations which apply to the credit, among which is the general limitation that the credit cannot exceed the proportionate share of the U.S. Holder's United States income tax liability that the U.S. Holder's foreign source income bears to his or its world-wide taxable income. In determining the application of this limitation, the various items of income and deduction must be classified into foreign and domestic sources. Complex rules govern income such as "passive income", "high withholding tax interest", "financial services income", "shipping income" and certain other classifications of income. A U.S. Holder who is treated as a domestic U.S. corporation owning 10% or more of our voting stock is also entitled to a deemed paid foreign tax credit in certain circumstances for the underlying foreign tax of our company related to dividends received or Subpart F income received from us. (See the discussion below of Controlled Foreign Corporations). The availability of the foreign tax credit and the application of the limitations on the foreign tax credit are fact specific and holders and prospective holders of our common shares should consult their own tax advisors regarding their individual circumstances.

### **Disposition of Common Shares**

If a "U.S. Holder" is holding shares as a capital asset, a gain or loss realized on a sale of our common shares will generally be a capital gain or loss, and will be long-term if the shareholder has a holding period of more than one year. However, gains realized upon sale of our common shares may, under certain circumstances, be treated as ordinary income, if we were determined to be a "collapsible corporation" within the meaning of Code Section 341 based on the facts in existence on the date of the sale (See below for definition of "collapsible corporation"). The amount of gain or loss recognized by a selling U.S. Holder will be measured by the difference between (i) the amount realized on the sale and (ii) his tax basis in our common shares. Capital losses are deductible only to the extent of capital gains. However, in the case of taxpayers other than corporations (U.S.) \$3,000 (\$1,500 for married individuals filing separately) of capital losses are deductible against ordinary income annually. In the case of individuals and other non-corporate taxpayers, capital losses that are not currently deductible may be carried forward to other years. In the case of corporations, capital losses that are not currently deductible are carried back to each of the three years preceding the loss year and forward to each of the five years succeeding the loss year.

A "collapsible corporation" is a corporation that is formed or availed principally to manufacture, construct, produce, or purchase prescribed types or property that the corporation holds for less than three years and that generally would produce ordinary income on its disposition, with a view to the stockholders selling or exchanging their stock and thus realizing gain before the corporation realizes two thirds of the taxable income to be derived from prescribed property. Prescribed property includes: stock in trade and inventory; property held primarily for sale to customers in the ordinary course of business; unrealized receivables or fees, consisting of rights to payment for noncapital assets delivered or to be delivered, or services rendered or to be rendered to the extent not previously included in income, but excluding receivables from selling property that is not prescribed; and property gain on the sale of which is subject to the capital gain/ordinary loss rule. Generally, a shareholder who owns directly or indirectly 5 percent or less of the outstanding stock of the corporation may treat gain on the sale of his shares as capital gain.

### **Other Considerations for U.S. Holders**

In the following circumstances, the above sections of this discussion may not describe the United States Federal income tax consequences resulting from the holding and disposition of common shares of the Registrant. Our management is of the opinion that there is little, if not, any likelihood that we will be deemed a "Foreign Personal Holding Company", a "Foreign Investment Company" or a "Controlled Foreign Corporation" (each as defined below) under current and anticipated conditions.

### **Foreign Personal Holding Company**

If at any time during a taxable year more than 50% of the total combined voting power or the total value of our outstanding shares is owned, actually or constructively, by five or fewer individuals who are citizens or residents of the United States and 60% or more of our gross income for such year was derived from certain passive sources (e.g., from dividends received from its subsidiaries), we would be treated as a "foreign personal holding company." In that event, U.S. Holders that hold common shares in our capital would be required to include in income for such year their allocable portion of our passive income which would have been treated as a dividend had that passive income actually been distributed.

### Foreign Investment Company.

If 50% or more of the combined voting power or total value of our outstanding shares are held, actually or constructively, by citizens or residents of the United States, United States domestic partnerships or corporations, or estates or trusts other than foreign estates or trusts (as defined by the Code Section 7701(a)(31)), and we are found to be engaged primarily in the business of investing, reinvesting, or trading in securities, commodities, or any interest therein, it is possible that we might be treated as a "foreign investment company" as defined in Section 1246 of the Code, causing all or part of any gain realized by a U.S. Holder selling or exchanging our common shares to be treated as ordinary income rather than capital gains.

### Passive Foreign Investment Company.

A U.S. Holder who holds stock in a foreign corporation during any year in which such corporation qualifies as a passive foreign investment company ("PFIC") is subject to U.S. federal income taxation of that foreign corporation under one of two alternative tax methods at the election of each such U.S. Holder.

Section 1297 of the Code defines a PFIC as a corporation that is not formed in the United States and, for any taxable year, either (i) 75% or more of its gross income is "passive income," which includes interest, dividends and certain rents and royalties or (ii) the average percentage, by value (or, if the company is a controlled foreign corporation or makes an election, adjusted tax basis), of its assets that produce or are held for the production of "passive income" is 50% or more. For taxable years of U.S. persons beginning after December 31, 1997, and for tax years of foreign corporations ending with or within such tax years, the Taxpayer Relief Act of 1997 provides that publicly traded corporations must apply this test on a fair market value basis only. We believe that we currently do not qualify as a PFIC because our passive income producing assets are less than 50% of our total assets.

As a PFIC, each U.S. Holder must determine under which of the alternative tax methods it wishes to be taxed. Under one method, a U.S. Holder who elects in a timely manner to treat the Registrant as a Qualified Electing Fund ("QEF"), as defined in the Code, (an "Electing U.S. Holder") will be subject, under Section 1293 of the Code, to current federal income tax for any taxable year in which we qualify as a PFIC on his pro-rata share of our (i) "net capital gain" (the excess of net long-term capital gain over net short-term capital loss), which will be taxed as long-term capital gain to the Electing U.S. Holder and (ii) "ordinary earnings" (the excess of earnings and profits over net capital gain), which will be taxed as ordinary income to the Electing U.S. Holder, in each case, for the U.S. Holder's taxable year in which (or with which) our taxable year ends, regardless of whether such amounts are actually distributed. Such an election, once made shall apply to all subsequent years unless revoked with the consent of the IRS.

A QEF election also allows the Electing U.S. Holder to (i) generally treat any gain realized on the disposition of his common shares (or deemed to be realized on the pledge of his common shares) as capital gain; (ii) treat his share of our net capital gain, if any, as long-term capital gain instead of ordinary income, and (iii) either avoid interest charges resulting from PFIC status altogether (see discussion of interest charge below), or make an annual election, subject to certain limitations, to defer payment of current taxes on his share of our annual realized net capital gain and ordinary earnings subject, however, to an interest charge. If the Electing U.S. Holder is an individual, such an interest charge would be not deductible.

The procedure a U.S. Holder must comply with in making a timely QEF election will depend on whether the year of the election is the first year in the U.S. Holder's holding period in which we are a PFIC. If the U.S. Holder makes a QEF election in such first year, (sometimes referred to as a "Pedigreed QEF Election"), then the U.S. Holder may make the QEF election by simply filing the appropriate documents at the time the U.S. Holder files its tax return for such first year. If, however, we qualified as a PFIC in a prior year, then the U.S. Holder may make an "Unpedigreed QEF Election" by recognizing as an "excess distribution" (i) under the rules of Section 1291 (discussed below), any gain that he would otherwise recognize if the U.S. Holder sold his stock on the qualification date (Deemed Sale Election) or (ii) if we are a controlled foreign corporation ("CFC"), the Holder's pro rata share of the corporation's earnings and profits (Deemed Dividend Election) (But see "Elimination of Overlap Between Subpart F Rules and PFIC Provisions"). The effect of either the deemed sale election or the deemed dividend election is to pay all prior deferred tax, to pay interest on the tax deferral and to be treated thereafter as a Pedigreed QEF as discussed in the prior paragraph. With respect to a situation in which a Pedigreed QEF election is made, if we no longer qualify as a PFIC in a subsequent year, normal Code rules and not the PFIC rules will apply.

If a U.S. Holder has not made a QEF Election at any time (a “Non-electing U.S. Holder”), then special taxation rules under Section 1291 of the Code will apply to (i) gains realized on the disposition (or deemed to be realized by reason of a pledge) of his common shares and (ii) certain “excess distributions”, as specially defined, by our company. An “excess distribution” is any current-year distribution in respect of PFIC stock that represents a ratable portion of the total distributions in respect of the stock during the year that exceed 125 percent of the average amount of distributions in respect of the stock during the three preceding years.

A Non-electing U.S. Holder generally would be required to pro-rate all gains realized on the disposition of his common shares and all excess distributions over the entire holding period for the common shares. All gains or excess distributions allocated to prior years of the U.S. Holder (other than years prior to our first taxable year during such U.S. Holder’s holding period and beginning after January, 1987 for which it was a PFIC) would be taxed at the highest tax rate for each such prior year applicable to ordinary income. The Non-electing U.S. Holder also would be liable for interest on the deferred tax liability for each such prior year calculated as if such liability had been due with respect to each such prior year. A Non-electing U.S. Holder that is an individual is not allowed a deduction for interest on the deferred tax liability. The portions of gains and distributions that are not characterized as “excess distributions” are subject to tax in the current year under the normal tax rules of the Internal Revenue Code.

If we are a PFIC for any taxable year during which a Non-electing U.S. Holder holds common shares, then we will continue to be treated as a PFIC with respect to such common Shares, even if it is no longer by definition a PFIC. A Non-electing U.S. Holder may terminate this deemed PFIC status by electing to recognize gain (which will be taxed under the rules discussed above for Non-Electing U.S. Holders) as if such common shares had been sold on the last day of the last taxable year for which it was a PFIC.

Under Section 1291(f) of the Code, the Department of the Treasury has issued proposed regulations that would treat as taxable certain transfers of PFIC stock by Non-electing U.S. Holders that are generally not otherwise taxed, such as gifts, exchanges pursuant to corporate reorganizations, and transfers at death. If a U.S. Holder makes a QEF Election that is not a Pedigreed Election (i.e., it is made after the first year during which we are a PFIC and the U.S. Holder holds our shares) (a “Unpedigreed Election”), the QEF rules apply prospectively but do not apply to years prior to the year in which the QEF first becomes effective. U.S. Holders should consult their tax advisors regarding the specific consequences of making a Non-Pedigreed QEF Election.

Certain special, generally adverse, rules will apply with respect to the common shares while we are a PFIC whether or not it is treated as a QEF. For example under Section 1297(b)(6) of the Code (as in effect prior to the Taxpayer Relief Act of 1997), a U.S. Holder who uses PFIC stock as security for a loan (including a margin loan) will, except as may be provided in regulations, be treated as having made a taxable disposition of such stock.

The foregoing discussion is based on currently effective provisions of the Code, existing and proposed regulations thereunder, and current administrative rulings and court decisions, all of which are subject to change. Any such change could affect the validity of this discussion. In addition, the implementation of certain aspects of the PFIC rules requires the issuance of regulations which in many instances have not been promulgated and which may have retroactive effect. There can be no assurance that any of these proposals will be enacted or promulgated, and if so, the form they will take or the effect that they may have on this discussion. Accordingly, and due to the complexity of the PFIC rules, U.S. Holders of the Registrant are strongly urged to consult their own tax advisors concerning the impact of these rules on their investment in our company. For a discussion of the impact of the Taxpayer Relief Act of 1997 on a U.S. Holder of a PFIC, see “Mark-to-Market Election For PFIC Stock Under the Taxpayer Relief Act of 1997” and “Elimination of Overlap Between Subpart F Rules and PFIC Provisions” below.

### **Mark-to-Market Election for PFIC Stock under the Taxpayer Relief Act of 1997**

The Taxpayer Relief Act of 1997 provides that a U.S. Holder of a PFIC may make a mark-to-market election with respect to the stock of the PFIC if such stock is marketable as defined below. This provision is designed to provide a current inclusion provision for persons that are Non-Electing Holders. Under the election, any excess of the fair market value of the PFIC stock at the close of the tax year over the Holder's adjusted basis in the stock is included in the Holder's income. The Holder may deduct any excess of the adjusted basis of the PFIC stock over its fair market value at the close of the tax year. However, deductions are limited to the net mark-to-market gains on the stock that the Holder included in income in prior tax years, or so called "unreversed inclusions." For purposes of the election, PFIC stock is marketable if it is regularly traded on (1) a national securities exchange that is registered with the SEC, (2) the national market system established under Section II A of the Securities Exchange Act of 1934, or (3) an exchange or market that the IRS determines has rules sufficient to ensure that the market price represents legitimate and sound fair market value.

A Holder's adjusted basis of PFIC stock is increased by the income recognized under the mark-to-market election and decreased by the deductions allowed under the election. If a U.S. Holder owns PFIC stock indirectly through a foreign entity, the basis adjustments apply to the basis of the PFIC stock in the hands of the foreign entity for the purpose of applying the PFIC rules to the tax treatment of the U.S. owner. Similar basis adjustments are made to the basis of the property through which the U.S. persons hold the PFIC stock.

Income recognized under the mark-to-market election and gain on the sale of PFIC stock with respect to which an election is made is treated as ordinary income. Deductions allowed under the election and loss on the sale of PFIC with respect to which an election is made, to the extent that the amount of loss does not exceed the net mark-to-market gains previously included, are treated as ordinary losses. The U.S. or foreign source of any income or losses is determined as if the amount were a gain or loss from the sale of stock in the PFIC.

If PFIC stock is owned by a CFC (discussed below), the CFC is treated as a U.S. person that may make the mark-to-market election. Amounts includible in the CFC's income under the election are treated as foreign personal holding company income, and deductions are allocable to foreign personal holding company income.

The above provisions apply to tax years of U.S. persons beginning after December 31, 1997, and to tax years of foreign corporations ending with or within such tax years of U.S. persons.

The rules of Code Section 1291 applicable to nonqualified funds as discussed above generally do not apply to a U.S. Holder for tax years for which a mark-to-market election is in effect. If Code Section 1291 is applied and a mark-to-market election was in effect for any prior tax year, the U.S. Holder's holding period for the PFIC stock is treated as beginning immediately after the last tax year of the election. However, if a taxpayer makes a mark-to-market election for PFIC stock that is a nonqualified fund after the beginning of a taxpayer's holding period for such stock, a co-ordination rule applies to ensure that the taxpayer does not avoid the interest charge with respect to amounts attributable to periods before the election.

### **Controlled Foreign Corporation Status**

If more than 50% of the voting power of all classes of stock or the total value of the stock of our company is owned, directly or indirectly, by U.S. Holders, each of whom own after applying rules of attribution 10% or more of the total combined voting power of all classes of stock of our company, we would be treated as a "controlled foreign corporation" or "CFC" under Subpart F of the Code. This classification would bring into effect many complex results including the required inclusion by such 10% U.S. Holders in income of their pro rata shares of "Subpart F income" (as defined by the Code) of our company and our earnings invested in "U.S. property" (as defined by Section 956 of the Code). In addition, under Section 1248 of the Code if we are considered a CFC at any time during the five year period ending with the sale or exchange of its stock, gain from the sale or exchange of common shares of our company by such a 10% U.S. Holder of our common stock at any time during the five year period ending with the sale or exchange is treated as ordinary dividend income to the extent of our earnings and profits attributable to the stock sold or exchanged. Because of the complexity of Subpart F, and because we may never be a CFC, a more detailed review of these rules is beyond of the scope of this discussion.



#### **Elimination of Overlap between Subpart F Rules and PFIC Provisions**

Under the Taxpayer Relief Act of 1997, a PFIC that is also a CFC will not be treated as a PFIC with respect to certain 10% U.S. Holders. For the exception to apply, (i) the corporation must be a CFC within the meaning of section 957(a) of the Code and (ii) the U.S. Holder must be subject to the current inclusion rules of Subpart F with respect to such corporation (i.e., the U.S. Holder is a "United States Shareholder," see "Controlled Foreign Corporation," above). The exception only applies to that portion of a U.S. Holder's holding period beginning after December 31, 1997. For that portion of a United States Holder before January 1, 1998, the ordinary PFIC and QEF rules continue to apply.

As a result of this new provision, if we were ever to become a CFC, U.S. Holders who are currently taxed on their pro rata shares of Subpart F income of a PFIC which is also a CFC will not be subject to the PFIC provisions with respect to the same stock if they have previously made a Pedigreed QEF Election. The PFIC provisions will however continue to apply to U.S. Holders for any periods in which Subpart F does not apply (for example he is no longer a 10% Holder or we are no longer a CFC) and to U.S. Holders that did not make a Pedigreed QEF Election unless the U.S. Holder elects to recognize gain on the PFIC shares held in our company as if those shares had been sold.

**ALL PROSPECTIVE INVESTORS ARE ADVISED TO CONSULT THEIR OWN TAX ADVISORS WITH RESPECT TO THE SPECIFIC TAX CONSEQUENCES OF PURCHASING THE COMMON SHARES OF OUR COMPANY.**

#### **Dividend and Paying Agents**

Not applicable.

#### **Statement by Experts**

The consolidated financial statements as of March 31, 2010 and March 31, 2009 and for the years ended March 31, 2010, March 31, 2009 and March 31, 2008 included in this prospectus have been so included in reliance on the report of Schwartz Levitsky Feldman LLP, an independent registered public accounting firm, given on the authority of said firm as experts in accounting and auditing.

#### **Documents on Display**

The documents concerning the Company referred to in this prospectus may be inspected at the Company's office at 47 Avenue Road, Suite 200, Toronto, Ontario, Canada, M5R 2G3. The Company may be reached at (416) 929-1806. Documents filed with the Securities and Exchange Commission may also be read and copied at the SEC's public reference room at 100F Street, N. E., Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the public reference rooms.

#### **Subsidiary Information**

The documents concerning our subsidiary referred to in this prospectus may be inspected at our office at 47 Avenue Road, Suite 200, Toronto, Ontario, Canada, M5R 2G3.

## QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are exposed in varying degrees to a number of risks arising from financial instruments. Management's close involvement in the operations allows for the identification of risks and variances from expectations. We do not participate in the use of financial instruments to mitigate these risks and has no designated hedging transactions. Our Board approves and monitors the risk management processes. The Board's main objectives for managing risks are to ensure liquidity, the fulfillment of obligations, and limited exposure to credit and market risks while ensuring greater returns on the surplus funds on hand. There were no changes to the objectives or the process from the prior year.

The types of risk exposure and the way in which such exposures are managed are as follows:

(a) Concentration risk:

Concentration risks exist in cash and cash equivalents because significant balances are maintained with one financial institution and a brokerage firm. The risk is mitigated because the financial institutions are international banks and the brokerage firm is well known Canadian brokerage firm with good market reputation and all its assets are backed up by a major Canadian bank. The Company's key asset, the indirect working interest in two off shore drilling licenses is located in Israel.

(b) Market price risk:

Market risk primarily arises from the Company's short term investments in marketable securities which accounted for approximately 15% of total assets of the Company as at March 31, 2010 (69% as at March 31, 2009). Further, the Company's holding in one Canadian marketable security accounted for approximately 57% (2009: 33%) of the total short term investment in marketable securities or 9% (2009: 23%) of total assets as at March 31, 2010.

The Management tries to mitigate this risk by monitoring daily all its investments with experienced consultants and ensuring that investments are made in companies which are financially stable with viable businesses.

(c) Liquidity risk:

The Company monitors its liquidity position regularly to assess whether it has the funds necessary to fulfill planned exploration commitments on its petroleum and natural gas properties or that viable options are available to fund such commitments from new equity issuances or alternative sources such as farm-out agreements. However, as an exploration company at an early stage of development and without significant internally generated cash flow, there are inherent liquidity risks, including the possibility that additional financing may not be available to the Company, or that actual exploration expenditures may exceed those planned. The current uncertainty in global markets could have an impact on the Company's future ability to access capital on terms that are acceptable to the Company. The Company has so far been able to raise the required financing to meet its obligations on time.

The Company maintains limited cash for its operational needs while most of its surplus cash is invested in short term marketable securities which are available on short notice to fund the Company's operating costs and other financial demands.

(d) Currency risk

The operating results and financial position of the Company are reported in Canadian dollars. Approximately 14% of total monetary assets at June 30, 2010 (23% as at March 31, 2010 and 17% as at June 30, 2009), and approximately 88% of its liabilities as at that date (87% as at March 31, 2010 and nil as at June 30, 2009 ) were held in US dollars. The results of the Company's operations are therefore subject to currency transaction and translation risk.

The fluctuation of the US dollar in relation to the Canadian dollar will consequently impact the loss of the Company and may also affect the value of the Company's assets and the amount of shareholders' equity.

Comparative foreign exchange rates are as follows:

	<u>June 30, 2010</u>	<u>March 31, 2010</u>	<u>June 30, 2009</u>
One US Dollar to CDN Dollar	1.0606	1.0156	1.1630

The Company has not entered into any agreements or purchased any foreign currency hedging arrangements to hedge possible currency risks at this time.

The balances in US Dollar as at June 30, 2010 were as follows: (all figures in 000'CDN\$ equivalent)

	2010
Cash, receivables & short term investments	\$1,408
Accounts payable and accrual	(1,658)
Net liabilities	<u>\$(250)</u>

Based on the above net exposure, a 5% depreciation of the Canadian dollar against US dollar will increase the net liabilities by \$12,500 while a 5% appreciation of the Canadian dollar against US dollar will decrease the net liabilities by \$12,500.

Other risks:

Our business is also subject to certain risks, which may negatively affect it. Certain of the risks are described below in addition to elsewhere in this prospectus:

(a) Exploration and Development

The business of exploring for, developing and producing oil and gas involves a high degree of risk. Oil and gas reserves may never be found or, if discovered, may not be result in production at reasonable costs or profitability. The business of exploring, developing and producing is also capital intensive and, to the extent that cash flows from operating activities and external sources become limited or unavailable, our ability and of our operating partners to meet our respective financial obligations which are necessary to maintain our interests in the underlying properties could be impaired, resulting in the loss of those interests.

(b) Dependence Upon Operating Manager

Our oil and gas activities are conducted through IPC Cayman in respect of which we are not the operator. We are dependent upon our operating manager for technical support. If our operating manager is unable to fulfill his own contractual obligations, our interests could be jeopardized, resulting in project delays, additional costs and loss of the interests.

(c) Environmental

Our oil and gas operations are subject to environmental regulations in the jurisdictions in which we operate. Environmental legislation is evolving in a manner which will likely require stricter standards and enforcement, increased costs, increased fines and penalties for non-compliance, more stringent environmental assessments of proposed projects and a heightened degree of responsibility for companies and their officers, directors and employees. There is no assurance that future changes in environmental regulation, if any, will not adversely affect our operations. Environmental hazards may exist on the properties in which we hold interests which are presently unknown to us and which have been caused by previous or existing owners or operators of the properties or by illegal mining activities.

(d) Governmental

Our current project requires registration and approvals and permits from the Israel Ministry of Infrastructure. To the extent such approvals are required and not obtained; we may be delayed or prohibited from proceeding with planned exploration or development of properties. Amendments to current laws, regulations and permits governing operations and activities of oil and gas companies, or more stringent implementation thereof, could have a material adverse impact on us and cause increases in capital expenditures or require abandonment or delays in development of new properties. Although the Israel government have been stable recently, there is no assurance that political and economic conditions will remain stable. Political and economic instability may impede our ability to continue our exploration activities in the manner currently contemplated.

(e) Foreign Operations

We are exposed to risks of political instability and changes in government policies, laws and regulations in Israel. Any changes in regulations or shifts in political conditions are beyond our control and may adversely affect our business. Our operations may be affected in varying degrees by government regulations, including those with respect to restrictions on production, price controls, export controls, income taxes, expropriation of property, employment, land use, water use, environmental legislation and mine safety. There is no assurance that permits can be obtained, or that delays will not occur in obtaining all necessary permits or renewals of such permits for existing properties or additional permits required in connection with future exploration and development programs. In the event of a dispute arising out of our foreign operations, we may be subject to the exclusive jurisdiction of foreign courts or may not be successful in subjecting foreign persons to the jurisdiction of courts in Canada. We may also be hindered or prevented from enforcing our rights with respect to a government entity or instrumentality because of the doctrine of sovereign immunity.

#### DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES

The following table sets forth certain information about the warrants we issued in connection with the acquisition of our equity interest in IPC Cayman in November 2009. All of the shares underlying these warrants may be sold under this prospectus.

Warrants	Number of Shares	Exercise Price (USD)	Expiration Date
International Three Crown Petroleum LLC <sup>(1)(2)</sup>	5,000,000	0.35	November 14, 2014
Allied Ventures Inc. <sup>(1)(2)</sup>	2,000,000	0.35	November 14, 2014
Castle Rock Resources II, LLC <sup>(3)</sup>	1,000,000	0.35	November 12, 2014

1. These warrants were issued under the Contribution and Assignment Agreement dated November 14, 2009.
2. These warrants contain a cashless exercise feature and broad-based weighted average anti-dilution protection.
3. These warrants were issued as part of a USD \$850,000 promissory note.

**DISCLOSURE OF COMMISSION POSITION ON INDEMNIFICATION FOR SECURITIES ACT LIABILITIES**

Insofar as indemnification for liabilities arising under the Securities Act may be permitted to our directors, officers and controlling persons pursuant to the charter provision, by-law, contract, arrangements, statute or otherwise, we acknowledge that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Securities Act and is, therefore, unenforceable.

**ENFORCEABILITY OF CIVIL LIABILITIES**

We are organized under the laws of the province of Ontario, Canada and our executive offices are located outside of the United States in Toronto, Ontario. A majority of our directors and officers, as well as the expert named in this prospectus, reside outside the United States. In addition, a substantial portion of their assets and currently all of our assets are located outside of the United States. As a result, you may have difficulty serving legal process within the United States upon us or any of these persons. You may also have difficulty enforcing, both in and outside of the United States, judgments you may obtain in U.S. courts against us or these persons in any action, including actions based upon the civil liability provisions of U.S. Federal or state securities laws. Furthermore, there is substantial doubt as to the enforceability in Canada against us or against any of our directors, officers and the expert named in this prospectus who are not residents of the United States, in original actions or in actions for enforcement of judgments of U.S. courts, of liabilities based solely upon the civil liability provisions of the U.S. federal securities laws.

# **Bontan Corporation Inc.**

## **Consolidated Financial Statements**

*For the Years Ended March 31, 2010, 2009 and 2008*

**(Canadian Dollars)**

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders of  
Bontan Corporation Inc.

*We have audited the consolidated balance sheets of Bontan Corporation Inc. as at March 31, 2010 and 2009 and the consolidated statements of operations, shareholders' equity, comprehensive loss and accumulated other comprehensive loss and cash flows for each of the years in the three year period ended March 31, 2010. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.*

*We conducted our audits in accordance with Canadian generally accepted auditing standards and with the standards of the Public Company Accounting Oversight Board (United States). 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 March 31, 2010 and 2009 and the results of its operations and its cash flows for the years ended March 31, 2010, 2009 and 2008, in accordance with Canadian generally accepted accounting principles which differ in certain respects from generally accepted accounting principles in the United States (refer to note 24).*

**“SCHWARTZ LEVITSKY FELDMAN LLP”**

Toronto, Ontario, Canada Chartered Accountants

July 23, 2010 Licensed Public Accountants



*Comments by Auditors for U.S. Readers*  
**on Canada - U.S. Reporting Difference**

In the United States, reporting standards for auditors require the addition of an explanatory paragraph (following the opinion paragraph) when the consolidated financial statements are affected by conditions and events that cast substantial doubt on the Corporation's ability to continue as a going concern, such as those described in the summary of significant accounting policies. Our report to the shareholders dated July 29, 2010 is expressed in accordance with Canadian reporting standards, which do not permit a reference to such events and conditions in the auditors' report when these are adequately disclosed in the consolidated financial statements.

**"SCHWARTZ LEVITSKY FELDMAN LLP"**

Toronto, Ontario, Canada Chartered Accountants

July 23, 2010 Licensed Public Accountants

# Bontan Corporation Inc.

Consolidated Balance Sheets  
(Canadian Dollars)

As at March 31	Note	2010	2009
<b>Assets</b>			
<b>Current</b>			
Cash		\$2,350,526	\$352,958
Short term investments	5,19(ix) & (x) & 21 (b)	1,359,431	1,091,563
Prepaid consulting services	6	50,792	20,484
Other receivables	19(xi) &(xii)	129,869	118,508
		<b>3,890,618</b>	<b>1,583,513</b>
Office equipment and furniture	7	\$8,802	\$9,434
Oil & gas properties and related expenditure	8,19(iv)	\$6,520,367 \$-	
		<b>\$10,419,787</b>	<b>\$1,592,947</b>
<b>Liabilities and shareholders' equity</b>			
<b>Current liabilities</b>			
Accounts payable	19(viii)	\$1,410,327	\$96,544
Accruals	9	1,043,583	55,474
Short term loans	10	1,065,578 -	
		<b>3,519,488</b>	<b>152,018</b>
<b>Shareholders' Equity</b>			
Capital stock	11	\$35,298,257	\$32,854,075
Warrants	13	7,343,886	2,192,927
Contributed surplus		4,573,748	4,154,266
Accumulated other comprehensive loss		(2,696,213)	(4,425,018)
Deficit		(37,262,565)	(33,335,321)
		<b>(39,958,778)</b>	<b>(37,760,339)</b>
<b>Total shareholders' equity</b>		<b>7,257,113</b>	<b>1,440,929</b>
Non-controlling interests		(356,814) -	
<b>Total equity</b>		<b>6,900,299</b>	<b>1,440,929</b>
		<b>\$10,419,787</b>	<b>\$1,592,947</b>

Going concern (note 2)  
Commitments and Contingent Liabilities (Note 18)  
Related Party Transactions (Note 19)  
Subsequent events (note 25)

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

Approved by the Board "Kam Shah" Director "Dean Bradley" Director  
(signed) (signed)

**Bontan Corporation Inc.**

Consolidated Statements of Operations  
For the years ended March 31,  
(Canadian Dollars)

	Note	2010	2009	2008
<b>Income</b>				
Interest		-	7,901	73,300
		-	7,901	73,300
<b>Expenses</b>				
Consulting fees	15,18(b),(c) & (f), 19 (v) & (Vii)	1,191,675	444,784	396,465
Professional fees		992,989	27,844	34,601
Loss(gain) on disposal of short term investments		852,806	(45,036)	(248,455)
Bank charges, interest and fees		691,062	2,362	1,625
Write off of short term investment	5(b)	250,780	63,010 -	
Office and general		73,740	42,641	40,349
Shareholders information	18(a),19(i)	158,509	144,757	133,502
Travel, meals and promotions		86,939	66,896	120,008
Payroll		44,944	35,266 -	
Communication	19(ii)	27,782	11,498	11,905
Rent	19(ii)	22,765	18,143	8,915
Transfer agents fees		10,802	4,940	4,343
Exchange (gain) Loss		\$(120,735)	\$(119,789)	\$141,841
		4,284,058	697,316	645,099
		(4,284,058)	(689,415)	(571,799)
<b>Non-controlling interests</b>		356,814 -	-	
<b>Net loss for year</b>		<b>\$(3,927,244)</b>	<b>\$(689,415)</b>	<b>\$(571,799)</b>
<b>Basic and diluted loss per share information</b>				
Net loss per share	14	<b>\$(0.09)</b>	<b>\$(0.02)</b>	<b>\$(0.02)</b>

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

# Bontan Corporation Inc.

Consolidated Statements of Cash Flows

(Canadian Dollars)

For the years ended March 31,	Note	2010	2009	2008
<b>Cash flows from operating activities</b>				
Net loss for year		(3,927,244)	(689,415)	(571,799)
Write off of a short term investment		250,780	63,010	-
Non-controlling interest		(356,814)	-	-
Amortization of office equipment and furniture		2,303	2,027	817
Loss(Gain) on disposal of short term investments		852,806	(45,036)	(248,455)
Consulting fees settled for common shares	15	524,589	277,856	314,248
<b>Net change in working capital components</b>				
Other receivables		(11,361)	(64,310)	11,955
Accounts payable		1,313,783	66,205	11,287
Accruals		988,109	26,789	(715)
		(363,049)	(362,874)	(482,662)
<b>Cash flow from investing activities</b>				
Purchase of short term Investments		(53,103)	(2,412,123)	(3,366,685)
Net proceeds from sale of short term investments		410,454	1,818,097	1,990,303
Purchase of office equipment and furniture		(1,671)	(5,256)	(7,023)
Acquisition of oil & gas properties		(4,692,189)	-	-
		(4,336,509)	(599,282)	(1,383,405)
<b>Cash flow from financing activities</b>				
Short term loans		1,239,531	-	-
Common shares issued net of issuance costs		5,457,595	56,052	110,201
		6,697,126	56,052	110,201
<b>Increase(Decrease) in cash during year</b>		<b>1,997,568</b>	<b>(906,104)</b>	<b>(1,755,866)</b>
<b>Cash at beginning of year</b>		<b>352,958</b>	<b>1,259,062</b>	<b>3,014,928</b>
<b>Cash at end of year</b>		<b>2,350,526</b>	<b>352,958</b>	<b>1,259,062</b>
<b>Supplemental disclosures</b>				
<b>Non-cash operating activities</b>				
Consulting fees settled for common shares and options and expensed during the year	15	(524,589)	(277,856)	(314,248)
Consulting fees prepaid in shares	6	(50,792)	(20,484)	(285,896)
		(575,381)	(298,340)	(600,144)
<b>Non-cash investing activities</b>				
Value of warrants issued as part of Acquisition costs		-2,002,131 -	-	-
<b>Non-cash financing activities</b>				
Shares cancelled		-81,957	-64,395 -	-

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

# Bontan Corporation Inc.

## Consolidated Statement of Shareholders' Equity

(Canadian Dollars)

For the Years Ended March 31, 2010, 2009 and 2008

Issued under private placement	1,000,000	62,280	-				62,280
Finder fee		(6,228)					(6,228)
Value of warrants issued under private placement transferred to contributed surplus		(39,070)	39,070				
Shares cancelled	(275,000)	(64,395)					(64,395)
Options revaluation upon changes in the terms				76,839			76,839
Net loss					(689,415)		(689,415)
Unrealised loss on short term investments, net of tax considered available for sale						(3,118,250)	(3,118,250)
<b>Balance, March 31, 2009</b>	<b>30,820,743</b>	<b>\$32,854,075</b>	<b>\$2,192,927</b>	<b>\$4,154,266</b>	<b>\$(33,335,321)</b>	<b>\$(4,425,018)</b>	<b>\$1,440,929</b>

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

# Bontan Corporation Inc.

Consolidated Statement of Shareholders' Equity - Continued

(Canadian Dollars)

For the Years Ended March 31, 2010, 2009 and 2008

	Number of Shares	Capital Stock	Warrants	Contributed surplus	Accumulated Deficit	Accumulated other comprehensive loss	Shareholders' Equity
<b>Balance March 31, 2009</b>	<b>30,820,743</b>	<b>\$32,854,075</b>	<b>\$2,192,927</b>	<b>\$4,154,266</b>	<b>\$(33,335,321)</b>	<b>\$(4,425,018)</b>	<b>\$1,440,929</b>
Issued under private placement	34,050,000	5,726,794	-				5,726,794
Finder fee		(572,679)					(572,679)
Value of warrants issued under private placement		(2,859,141)	2,859,141				
Value of warrants issued as finders fee		(289,687)	289,687				
Subscriptions received		303,480					303,480
Shares cancelled	(350,000)	(81,957)					(81,957)
Issued under 2009 Consultant Stock Option Plan	708,333	217,372					217,372
Value of warrants issued to induce short term loans			278,325				278,325
Value of warrants issued as part of acquisition of oil & gas properties			1,723,806				1,723,806
Options revaluation upon changes in the terms				419,482			419,482
Net loss					(3,927,244)		(3,927,244)
Unrealised gain on short term investments, net of tax considered available for sale						1,728,805	1,728,805
<b>Balance, March 31, 2010</b>	<b>65,229,076</b>	<b>\$35,298,257</b>	<b>\$7,343,886</b>	<b>\$4,573,748</b>	<b>\$(37,262,565)</b>	<b>\$(2,696,213)</b>	<b>\$7,257,113</b>

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

# Bontan Corporation Inc.

Consolidated Statement of Comprehensive Loss and Accumulated Other Comprehensive Loss

(Canadian Dollars)

For the years ended March 31,	Note	2010	2009	2008
<b>Other comprehensive gain ( loss)</b>				
Net loss for year		<b>\$(3,927,244)</b>	\$(689,415)	\$(571,799)
Unrealized gain (loss) for year on short term investments,net of tax	5	<b>1,728,805</b>	(3,118,250)	(2,266,470)
<b>Comprehensive loss</b>		<b>(2,198,439)</b>	(3,807,665)	(2,838,269)
<b>Accumulated other comprehensive income(loss)</b>				
Beginning of year		<b>(4,425,018)</b>	(1,306,768) -	959,702
Adjustment on adoption of new Accounting Policy	-	-	-	959,702
		<b>(4,425,018)</b>	(1,306,768)	959,702
Other comprehensive gain (loss) for year		<b>1,728,805</b>	(3,118,250)	(2,266,470)
<b>Accumulated other comprehensive loss, end of year</b>		<b>\$(2,696,213)</b>	\$(4,425,018)	\$(1,306,768)

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

# Bontan Corporation Inc.

## Notes to Consolidated Financial Statements

(Canadian Dollars)

March 31, 2010 and 2009

### 1. NATURE OF OPERATIONS

Bontan Corporation Inc. ("the Company") is a diversified natural resource company that invests in major oil and gas exploration and development projects in countries around the globe through its subsidiary by acquiring a joint venture interest, indirect participation interest and working interest in those projects. The company focuses on projects where the other project partners have proven experience in oil and gas exploration, development and distribution.

During the fiscal year 2010, the Company acquired, through its subsidiary, an indirect 11% working interest in two off-shore drilling licenses in the Levantine Basin, approximately forty kilometres off the West coast of Israel.

The Company does not currently own any oil and gas properties with proven reserves.

### 2. BASIS OF PRESENTATION

These consolidated financial statements have been prepared in accordance with accounting principles generally accepted in Canada, which do not materially differ from accounting principles generally accepted in the United States (U.S. GAAP) as described in Note 24 "Differences from United States Generally Accepted Accounting Principles".

#### Going concern

Management has prepared these consolidated financial statements in accordance with Canadian Generally Accepted Accounting Principles ("GAAP") applicable to a going concern, which contemplates that assets will be realized and liabilities discharged in the normal course of business as they come due. To this point, all operational activities and the overhead costs have been funded from the available cash and short term investments and by equity issuances

The Company has a working capital of approximately \$ 371,000 and accumulated deficit of approximately \$ 37 million. The Company has commitment to meet its share of exploration and development costs of the two licenses in which it has acquired indirect working interest during the current fiscal year, which would need additional funding in the range of approximately US\$ 12 million within the next twelve months. The Company will have to secure new cash resources to meet these obligations on its current project. Management is currently evaluating and pursuing funding alternatives, including additional farm-out agreements and new equity issuances. While the management has so far been successful in raising the required equity financing, there is no assurance that these initiatives will continue to be successful. Uncertainty in global capital markets could have a negative impact on the Company's ability to access capital in the future.

The Company's ability to continue as a going concern is dependent upon its ability to access sufficient capital to complete exploration and development activities, identify commercial oil and gas reserves and to ultimately have profitable operations. These financial statements do not reflect the adjustments to the carrying values of assets and liabilities and the reported expenses and balance sheet classifications that would be necessary if the Company was unable to realize its assets and settle its liabilities as a going concern in the normal course of operations. Such adjustments could be material.



# Bontan Corporation Inc.

## Notes to Consolidated Financial Statements

(Canadian Dollars)

March 31, 2010 and 2009

### 3. PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of the Company and of the following subsidiaries:

- a. Israel Oil & Gas Corporation, a wholly owned subsidiary, which changed its name on January 18, 2010 from Bontan Oil & Gas Corporation.
- b. Israel Petroleum Company, Limited, a Cayman Island limited company incorporated on November 12, 2009, in which Israel Oil & Gas Corporation owns a 76.79% equity interest ("IPC Cayman")

All inter-company balances and transactions have been eliminated on consolidation.

### 4. SIGNIFICANT ACCOUNTING POLICIES

The following paragraphs describe the significant accounting policies.

#### Oil and Gas Properties and Related Expenditures

The Company follows the full cost method of accounting for its oil & gas operations.

The costs of acquiring interests in oil & gas properties are carried at cost until they are brought into production, at which time they are depleted on a unit-of-production method based on estimated recoverable proven oil & gas reserves. When a property is subsequently abandoned or sold, its cost is written off against income in the year of abandonment. Oil & gas properties which the Company and its partners have no intention to develop, and which management believes have little or no value, are written down to their estimated fair value.

The costs of drilling and equipping wells, both exploratory and development, and other exploration costs, including geological and geophysical costs, are capitalized as incurred. Costs include any cash consideration and the fair market value of any shares and/or options issued for the acquisition of oil & gas interests. Oil & gas interests acquired under option or participation agreements, whereby payments are made at the sole discretion of the Company, are recorded in the accounts at the time of payment.

In applying the full cost method, the Company applies a ceiling test to capitalized costs to ensure that such costs do not exceed estimated future net revenues from production of proven reserves at year end market prices less future production, administrative, financing, site restoration, and income tax costs plus the lower of cost or estimated net realizable value of unproved properties.

All of the Company's oil & gas activities are conducted jointly with others. The Company's accounts reflect only the Company's proportionate interest in these activities.

#### Change in Accounting Policy

In the past, the Company used to follow successful efforts method of accounting for oil and gas exploration and development activities under which direct acquisition costs of development properties, geological and geophysical costs associated with these properties and costs of development and exploratory wells that result in additions to proven reserves were capitalized. The Company decided to change its policy to full cost method, which is the policy adopted by its operating subsidiary, IPC Cayman. The retrospective application of this change has no effect on the consolidated financial statements of the Company for the prior fiscal years.

# Bontan Corporation Inc.

## Notes to Consolidated Financial Statements

(Canadian Dollars)

March 31, 2010 and 2009

### 4. SIGNIFICANT ACCOUNTING POLICIES - (Continued)

#### Revenue Recognition

Revenues from the production of oil and natural gas properties in which the Company has an interest with joint venture partners are recognized, on the basis of the Company's working interest in those properties (the entitlement method), on receipt of a statement of account from the operators of the properties.

#### Short-term Investments and Other Financial Instruments

Short-term investments are investments that are either highly liquid or are to be disposed of within a one year period. All short term investments are considered available for sale type of investments. All financial instruments are measured at fair value on initial recognition of the instrument. Measurement in subsequent periods depends on whether the financial instrument has been classified as "held-for-trading", "available-for-sale", "held-to-maturity", "loans and receivables", or "other financial liabilities" as defined by the applicable accounting standards.

Cash is designated as "held-for-trading" and is measured at carrying value, which approximates fair value.

Short term investments which consist mostly of marketable securities are designated as "available-for-sale" and measured at fair value with unrealized gains and losses recorded in other comprehensive income until the security is sold or if an unrealized loss is considered other than temporary, the unrealized loss is expensed. Unrealized gains and losses represent the net difference between the total average costs of short term assets on hand and their fair value based on quoted market prices for the marketable securities.

Other receivable are designated as "loans and receivable" and are carried at amortized cost. Accounts payable and accrued liabilities are designated as "other financial liabilities" and are carried at amortized cost.

#### Foreign Currency Translation

The functional currency of the Company is the Canadian dollar. Monetary assets and liabilities are translated at exchange rates in effect at the balance sheet date. Non-monetary assets are translated at exchange rates in effect when they were acquired. Revenue and expenses are translated at the approximate average rate of exchange for the year, except that amortization is translated at the rates used to translate related assets.

The Company's subsidiaries use the US Dollar as a functional currency. However, these subsidiaries are not self-sustaining but are integrated to Bontan Corporation Inc since they rely on the Company to fund their operations. Hence translation gains and losses of these subsidiaries are charged to the consolidated statement of operations.

#### Office Equipment and Furniture

Office equipment and furniture are amortised over their estimated useful lives as follows:

Office furniture	20% - declining balance basis
Computers	33% - declining balance basis
Software	20% - declining balance basis

New purchases during the fiscal year are amortized at half the applicable rate.

# Bontan Corporation Inc.

## Notes to Consolidated Financial Statements

(Canadian Dollars)

March 31, 2010 and 2009

### 4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### Comprehensive Income

Comprehensive income and accumulated other comprehensive income include net unrealized gains and losses on short term investments net of applicable taxes, held as available for sale. Accumulated other comprehensive income is included on the consolidated balance sheet as a separate component of shareholders' equity.

#### Credit Risk and the Fair Value of Financial Assets and Financial Liabilities

Effective April 1, 2009, the Company adopted the recommendations of the Emerging Issues Committee Abstract EIC -173, "Credit Risk and the Fair Value of Financial Assets and Financial Liabilities" which states that an entity's own credit and the credit risk of the counterparty should be taken into account in determining the fair value of financial assets and financial liabilities. These recommendations were particularly applied in evaluating the fair values of the Company's short term investments.

#### Asset Retirement Obligation

The Company recognizes and measures the liabilities for obligations associated with the retirement of petroleum and natural gas properties when those obligations result from the acquisition, construction, development or normal operation of the asset. The obligation is measured at fair value and the related costs recorded as part of the carrying value of the related asset. In subsequent periods, the liability is adjusted for the change in present value and any changes in the amount or timing of the underlying future cash flows required to settle the obligation. The asset retirement costs included in petroleum and natural gas costs are depleted or amortized into income in accordance with the Company's policies pertaining to those assets. Actual costs to retire petroleum and natural gas properties are deducted from the accrued liability as these costs are incurred. There were no asset retirement costs recorded during the fiscal year.

#### Income Taxes

The Company follows the liability method of accounting for income taxes. Under this method, future income tax assets and liabilities are determined based on temporary differences between financial reporting and tax bases of assets and liabilities, as well as for the benefit of losses available to be carried forward to future years for tax purposes. Future income tax assets and liabilities are measured using substantively enacted tax rates and laws that will be in effect when the differences are expected to reverse. Future income tax assets are recognized in the financial statements if realization is considered more likely than not. A valuation allowance against future tax assets is provided to the extent that the realization of these future tax assets is not more likely than not.

#### Stock-Based Compensation Plan

The Company follows a fair value based method of accounting for all Stock-based Compensation and Other Stock-based Payments to employees and non-employees. The fair value of all share purchase options is expensed over their vesting period with a corresponding increase to contributed surplus. Upon exercise of share purchase options, the consideration paid by the option holder, together with the amount previously recognized in contributed surplus, is recorded as an increase to share capital. The Company uses the Black-Scholes option valuation model to calculate the fair value of share purchase options at the date of grant.

The quoted market price of the Company's shares on the date of issuance under any stock compensation plan is considered as fair value of the shares issued.

# Bontan Corporation Inc.

## Notes to Consolidated Financial Statements

(Canadian Dollars)

March 31, 2010 and 2009

### 4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### Warrants

When the Company issues Units under a private placement comprising common shares and warrants, the Company follows the relative fair value method of accounting for warrants attached to and issued with common shares of the Company. Under this method, the fair value of warrants issued is estimated using a Black-Scholes option price model. The fair value is then related to the total of the net proceeds received on issuance of the Common shares and the fair value of the warrants issued therewith. The resultant relative fair value is allocated to warrants from the net proceeds and the balance of the net proceeds is allocated to the Common shares issued.

#### Accounting Changes

The Company follows CICA Section 1506, "Accounting changes" which require that (i) voluntary changes in accounting policies can be made if, and only if, the changes result in more reliable and relevant information (ii) changes in accounting policies are accompanied by disclosure of prior period amounts and justification for the changes, and (iii) for changes in estimates, the nature and amount of the change should be disclosed.

#### Loss per Share

Basic loss per share is calculated by dividing net loss (the numerator) by the weighted average number of common shares outstanding (the denominator) during the period. Diluted loss per share reflects the dilution that would occur if outstanding stock options and share purchase warrants were exercised or converted into common shares using the treasury stock method and are calculated by dividing net loss applicable to common shares by the sum of the weighted average number of common shares outstanding and all additional common shares that would have been outstanding if potentially dilutive common shares had been issued.

The inclusion of the Company's stock options and share purchase warrants in the computation of diluted loss per share would have an anti-dilutive effect on loss per share and are therefore excluded from the computation. Consequently, there is no difference between basic loss per share and diluted loss per share.

#### Business combinations

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 US GAAP and 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. . The Company has adopted this standard for the fiscal year 2010 as permitted.

# Bontan Corporation Inc.

## Notes to Consolidated Financial Statements

(Canadian Dollars)

March 31, 2010 and 2009

### 4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### Non-controlling interests

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. The Company has adopted this standard for the fiscal year 2010 as permitted. These pronouncements further align Canadian GAAP with US GAAP and IFRS. Sections 1601 and 1602 change the accounting and reporting for ownership interest in subsidiaries held by parties other than the parent. Non-controlling interests are presented in the consolidated statement of financial position within the entity but separate from the Company's equity. The amount of consolidated net loss attributable to the Company and to the non-controlling interest is identified and presented on the face of the consolidated statement of operations.

The Company has consolidated the financial statements of IPC Cayman where it holds a 76.79% equity interest. The remaining 23.21% equity interest in IPC Cayman is held by International Three Crown Petroleum LLC ("ITC"), which is majority owned by Mr. Howard Cooper and who acts as a sole director and manager of IPC Cayman.

Non-controlling interests comprise ITC's share of the net loss of IPC Cayman.

#### Use of Estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Actual results could differ from those estimates. Some of the key areas where estimates and assumptions are normally used include valuation of stocks, warrants and options, ascertaining useful lives of office equipment and furniture, impairment of short term investments and the recording of accruals.

#### Recent Accounting Pronouncements

##### *International Financial Reporting Standards ("IFRS")*

In January 2006, the CICA's Accounting Standards Board ("AcSB") formally adopted the strategy of replacing Canadian GAAP with IFRS for Canadian enterprises with public accountability. The current conversion timetable calls for financial reporting under IFRS for accounting periods commencing on or after January 1, 2011. On February 13, 2008 the AcSB confirmed that the use of IFRS will be required in 2011 for publicly accountable profit-oriented enterprises. For these entities, IFRS will be required for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011.

The Company's transition date of April 1, 2011 will require the restatement for comparative purposes of amounts reported by the Company for the year ending March 31, 2011.

The initial phase of implementation included conceptual application of the new rules, analysis of the Company's accounting data and assessment of key areas that may be impacted. In this phase, short term investments and oil & gas properties and related expenditure were identified as key areas. The Company's initial assessment indicates that the Company's accounting policies in the key areas are consistent with those of IFRS. The next phase will include the analysis of accounting policy alternatives available under IFRS as well as the determination of changes, if any required to existing information systems and business processes.

# Bontan Corporation Inc.

## Notes to Consolidated Financial Statements

(Canadian Dollars)

March 31, 2010 and 2009

### 5. SHORT TERM INVESTMENTS

	March 31, 2010		March 31, 2009	
	Carrying average costs	fair market value	Carrying average costs	fair market value
Marketable securities	4,007,574	1,359,431	5,253,570	1,091,563
Non-marketable securities	-	-	263,011	-
	<b>\$4,007,574</b>	<b>\$1,359,431</b>	<b>\$5,516,581</b>	<b>\$1,091,563</b>

Movements in unrealised (loss)gain		
At beginning of year	(4,425,018)	(1,306,768)
Gain(Loss) during year	1,728,805	(3,118,250)
At end of year	<b>\$(2,696,213)</b>	<b>\$(4,425,018)</b>

#### a. Marketable securities

Marketable securities are designated as "available-for-sale".

Marketable securities are stated at fair value based on quoted market prices on the balance sheet as at March 31, 2010. An unrealized gain of \$ 1,728,805 for the year and accumulated unrealised loss of \$4,425,018 at the beginning of year was included in the consolidated statement of comprehensive loss and accumulated other comprehensive loss.

As at March 31, 2010, the Company held warrants in certain marketable securities which are exercisable at its option to convert into an equal number of common shares of the said securities. The total exercise price of these warrants was \$119,217 (as at March 31, 2009:\$138,189) and the market value of the underlying securities was \$19,506 (as at March 31, 2009: \$34,509). These warrants and the underlying unrealised gains and losses have not been accounted for in the financial statements since the Company has not yet determined if it would exercise these warrants when they become exercisable. The warrants expire between November 2, 2010 and April 26, 2012. Warrants whose exercise cost was \$250,000 and market value was \$40,000 as at March 31, 2010 expired unexercised on June 5, 2010.

# Bontan Corporation Inc.

Notes to Consolidated Financial Statements  
(Canadian Dollars)  
March 31, 2010 and 2009

## 5. SHORT TERM INVESTMENTS - Continued

### b. Non-marketable securities

The Company held shares in two private corporations as at March 31, 2010, which are designated as "Available for sale". The carrying cost of these investments was \$250,780. Based on management's review of the affairs of the above investee companies and discussions with their management, it was concluded that there was full impairment in the carrying costs of these investments as at March 31, 2010, and as a result, these investments were written off.

## 6. PREPAID CONSULTING SERVICES

Prepaid consulting services relates to the fair value of shares and options issued under the Company's Consultants' Stock Compensation and Stock Option Plans to consultants for services that will be performed during the period subsequent to the balance sheet date. Changes during the year were as follows:

	Balance at April 1, 2009	Deferred during the year	Canceled during the year (b)	Expensed during the year	Balance at March 31, 2010
Options (a)	\$-	\$419,482	\$-	\$(419,482)	\$-
Stocks	20,484	217,372	(81,957)	(105,107)	50,792
	<u>\$20,484</u>	<u>\$636,854</u>	<u>\$(81,957)</u>	<u>\$(524,589)</u>	<u>\$50,792</u>
	Balance at April 1, 2008	Deferred during the year	Canceled during the year	Expensed during the year	Balance at March 31, 2009
Options	\$7,878	\$76,839	\$-	\$(84,717)	\$-
Stocks	278,018	-	(64,395)	(193,139)	20,484
	<u>\$285,896</u>	<u>\$76,839</u>	<u>\$(64,395)</u>	<u>\$(277,856)</u>	<u>\$20,484</u>

(a) During the year, terms of all outstanding options were revised as explained in Note 12 (b)(ii). These options were therefore re-valued and an additional cost of \$419,482 was expensed.

(b) One of the consultants, Mr. John Robinson, who was issued 350,000 common shares as compensation in prior years valued at \$81,957, returned the shares for cancellation (note 11(b)) in exchange for a cash fee of \$82,000 as agreed by the directors in December 2008.

## 7. OFFICE EQUIPMENT AND FURNITURE

As at March 31,	Cost	Accumulated amortisation	Net book value	Net book value	
				2010	2009
Office furniture		4,725	2,003	2,722	3,402
Computer		3,432	1,619	1,813	1,302
Software		5,793	1,526	4,267	4,730
		<u>\$13,950</u>	<u>\$5,148</u>	<u>\$8,802</u>	<u>\$9,434</u>

Amortization of office equipment and furniture amounted to \$ 2,303 (2009: \$2,027)

# Bontan Corporation Inc.

Notes to Consolidated Financial Statements

(Canadian Dollars)

March 31, 2010 and 2009

## 8. OIL & GAS PROPERTIES AND RELATED EXPENDITURE

### New acquisitions

In November 2009, the Company's subsidiary, IPC Cayman acquired a 95.5% working interest in two drilling licenses, Petroleum License 347 ("Myra") and Petroleum License 348 ("Sarah"), ("the licenses") covering approximately 198,000 (net 141,827) acres in the Levantine Basin, approximately 40 kilometres off the west coast of Israel.

However, in March 2010, the original agreement between IPC Cayman and the vendor was replaced by a new agreement between IPC Cayman and three other joint venture partners. This agreement resolved all the legal disputes that followed the November acquisition. The new joint venture partners contributed additional funds to purchase seismic data required for exploratory work on the licenses and caused a reallocation of working interests.

As a result, IPC Cayman held a 14.325% working interest in the licenses at March 31, 2010. The Company's share of this working interest was 11% owing to its 76.79% equity ownership of IPC Cayman.

The following costs incurred in connection with this acquisition have been capitalized as at March 31, 2010:

<u>Cost of acquisition</u>	
Cash paid to vendor	\$899,725
Finder's fee to Howard Cooper, sole director of IPC Cayman	532,013
Cost of preliminary seismic data	2,144,596
Interest paid by cash and warrants on funds borrowed for acquisition (13(iv))	147,282
Value of warrants issued to entity controlled by Howard Cooper and other non related entity (note 13(iii))	1,723,806
	<u>\$5,447,422</u>
<u>Related expenditure</u>	
Consulting fees	\$552,515
Legal fees	408,470
Other direct costs	111,960
	<u>1,072,945</u>
	<u>\$6,520,367</u>

The management carried out an impairment tests, involving (a) an independent geologist's evaluation of the prospective resources on the two prospects in accordance with NI 51-101, Sec 5-9, and (b) review of definite work plan prepared by the steering committee of the joint venture partners and its acceptance by the Israeli Ministry of National Infrastructure, and concluded that there was no permanent impairment.



# Bontan Corporation Inc.

Notes to Consolidated Financial Statements

(Canadian Dollars)

March 31, 2010 and 2009

## 9. ACCRUALS

As at March 31,	2010	2009
Audit fee and other accruals	62,606	55,474
Finders fee due to Current Capital Corp., a related party	127,712 -	
Financing fee	406,240 -	
Interest on short term loans	40,784 -	
Subscription refundable	406,241 -	
	<b>\$1,043,583</b>	<b>\$55,474</b>

## 10. SHORT TERM LOANS

As at March 31,		2010	2009
Current Capital Corp., a related party	a	208,672 -	
Due to a Company controlled by the sole director of IPC Cayman	b	122,371 -	
Other	c	734,535 -	
		<b>\$1,065,578</b>	

- a. There are two loans totalling to US \$ 250,000. The loans carry interest at the rate of 10% per annum and are repayable in full within one year, between November 2010 and January 2011 with accumulated interest. Interest of US\$ 6,986 accrued up to March 31, 2010 is included in accruals.

The Company issued 300,000 warrants, valued at \$ 72,364 as an inducement. The features of these warrants are explained in note 13(a)(iv). The value of these warrants was treated as additional interest cost and \$27,136 of this cost, representing costs up to March 31, 2010 together with interest was included in the acquisition costs of oil & gas properties and related expenditure and the balance of \$45,228 was adjusted against the carrying cost of the loans.

The loans together with interest accrued were fully settled on May 6, 2010.

- b. Funds advanced are repayable on demand and carry interest at 5% per annum.

- c. The amount of US\$850,000 was borrowed on November 12, 2009. The loan carries interest at 10% per annum. The loan together with the accumulated interest is repayable on or before November 12, 2010. Interest of US\$32,370 accrued up to March 31, 2010 is included in the accrual. The Promissory Note covering this loan is secured by the pledge of 1,125 shares of Israel Petroleum Company, Limited.

The Company issued 1,000,000 warrants, valued at \$205,961 as an inducement. The features of these warrants are explained in note 13(a)(iv). The value of these warrants was treated as additional interest cost and \$77,236 of this cost, representing costs up to March 31, 2010 together with interest was included in the acquisition costs of oil & gas properties and related expenditure and the balance of \$128,725 was adjusted against the carrying cost of the loans.

The loan together with interest accrued was fully settled in April, 2010.

# Bontan Corporation Inc.

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## 11. CAPITAL STOCK

(a) Authorized

Unlimited number of common shares

(b) Issued

As at March 31,	2010		2009	
	Common Shares	Amount	Common Shares	Amount
Beginning of period	30,820,743	\$32,854,075	30,095,743	\$32,901,488
Canceled (note 6(b))	(350,000)	(81,957)	(275,000)	(64,395)
Issued under 2009 Consultant Stock Compensation Plan (i)	708,333	217,372		
Issued under private placements (ii.1 and .2)	34,050,000	5,726,794	1,000,000	62,280
Finder's fee (ii.1 and .2)	-	(572,679)		(6,228)
Value assigned to warrants issued under private placements (note 13(a) (i)(ii))	-	(2,859,141)		(39,070)
Value assigned to warrants issued as finders fee under private placements		(289,687)		
Subscriptions received (ii.2)		303,480		
	<b>65,229,076</b>	<b>\$35,298,257</b>	<b>30,820,743</b>	<b>\$32,854,075</b>

(i) On April 7, 2009, the Company registered a 2009 Consultant Stock Compensation Plan with the Securities and Exchange Commission in a registration statement under the US Securities Act of 1933. Three million common shares of the Company were registered under the Plan. During the year ended March 31, 2010, 708,333 common shares were issued to four consultants out of this plan in settlement of their fees. These shares were valued at the market price of the common shares prevailing on the date of issue.

(ii).1 On December 12, 2008, the Board of Directors of the Company approved a private placement to raise equity funds up to US\$500,000. The private placement consisted of Units up to maximum of ten million, to be issued at US\$ 0.05 per Unit. Each Unit would comprise one common share of the Company and one full warrant convertible into one common share of the Company at an exercise price of US\$0.10 each within two years of the issuance of the warrants.

The Board also approved a finder's fee of 10% of the proceeds raised from the issuance of Units and warrants attached thereto and 10% of the warrants issued in warrants under the same terms, payable to Current Capital Corp., a related party.

The subscription closed on October 15, 2009. A total of eleven qualified subscribers subscribed for ten million Units for gross proceeds of US\$ 500,000. (Note 13(a)(i)). Of these, one million Units were issued in fiscal 2009.

# Bontan Corporation Inc.

Notes to Consolidated Financial Statements

(Canadian Dollars)

March 31, 2010 and 2009

## 11. CAPITAL STOCK - (b) Issued – continued.....

(ii).2 On November 20, 2009, the Board of Directors of the Company approved a private placement to raise equity funds up to US\$5,500,000, raised subsequent to US\$7.9 million. The private placement consists of Units up to a maximum of 27.5 million, raised subsequently to 39.5 million, to be issued at US\$ 0.20 per Unit. Each Unit would comprise one common share of the Company and one full warrant convertible into one common share of the Company at an exercise price of US\$0.35 each within five years of the issuance of the warrants, subject to an early recall if the market price of the Company's common shares exceeds US\$1 for a period of 20 consecutive trading days.

The Board also approved a finder's fee of 10% of the proceeds raised from the issuance of Units and warrants attached thereto and 10% of the warrants issued in warrants under the same terms, payable to Current Capital Corp., a related party, net of any fees payable to anyone else.

During the year ended March 31, 2010, the Company received thirty seven subscriptions who subscribed a total of 26,550,000 million Units for gross proceeds of approximately US\$5.3 million, of which thirty five subscriptions for 25,050,000 Units were accepted and underlying shares and warrants were issued on or before March 31, 2010. The balance of the two subscriptions for US\$300,000 (CDN\$ 303,480) were accepted but the underlying securities were not issued until after March 31, 2010 pending receipt of the required documentations.

The subscription was closed on April 30, 2010. The Company issued additional 12.7 million Units since April 1, 2010 till the closing date of April 15, 2010 and raised approximately US\$2.5 million.

## 12. STOCK OPTION PLANS

(a) The following is a summary of all Stock Option Plans as at March 31, 2010 and 2009:

Plan	Date of registration *	# of Options					
		Registered	Issued	Expired	Exercised	Outstanding	
1999 Stock option Plan	April 30, 2003		3,000,000	3,000,000	-70,000	-1,200,000	1,730,000
2003 Stock Option Plan	July 22, 2004		2,500,000	2,500,000	-155,000	-	1,945,000
The Robinson Plan	December 5, 2005		1,100,000	1,100,000 -	-	-	1,100,000
2005 Stock Option Plan	December 5, 2005		1,000,000	50,000 -	-	-	50,000
			7,600,000	6,650,000	-225,000	-1,600,000	4,825,000

\* Registered with the Securities and Exchange Commission of the United States of America (SEC) as required under the Securities Act of 1933.

All options were fully vested on the dates of their grant.

(b) Movements in stock options during year are as follows:

(i) There were no movements during the years ended March 31, 2010 and 2009.

# Bontan Corporation Inc.

## Notes to Consolidated Financial Statements

(Canadian Dollars)

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### 12. STOCK OPTION PLANS – (continued)

(ii) On January 29, 2010, the Board of Directors of the Company approved extension of the expiry dates of all outstanding options to March 31, 2014. Fair value of these options was re-estimated on that date to reflect the modification made in the terms. The re-estimation was done using a Black-Scholes option price model with the following assumptions:

Risk free interest rate 1%  
Expected dividend nil  
Expected volatility (based on previous 217 weeks average market price) 185.52%  
Expected life 1522 days  
Exercise price US\$0.15  
Market price at January 29, 2010 US\$0.34

The additional value based on the above model was estimated to be \$419,482, which was expensed (see note 6(a)).

Option price models used for calculating fair value of options require input of highly subjective assumptions including the expected price volatility. Changes in the subjective input assumptions can materially affect the fair value estimate, and therefore the models do not necessarily provide a reliable measure of the fair value of the Company's options.

(c) Details of weighted average remaining life of the options granted and outstanding are as follows:

March 31,	2010	2009		
Number of options outstanding and exercisable			4,825,000	4,825,000
Exercise price in US\$	0.15	0.15		
Weighted average remaining contractual life			4 years	1.78 years

The options can be exercised at any time after vesting within the exercise period in accordance with the applicable option agreement. The exercise price was more than the market price on the date of the grants for 1,995,000 options and less than the market price for the balance of 2,830,000 options.

# Bontan Corporation Inc.

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## 13. WARRANTS

(a) Movement in warrants during the year are as follows:

March 31,	Note	# of warrants	2009		2010		2009	
			Weighted average exercise price	Fair value	# of warrants	Weighted average exercise price		Fair value
Issued and outstanding, beginning of period			13,846,420	0.24	2,192,927	12,846,420	0.44	2,153,857
Issued under 2008-9 Private Placement	i		9,000,000	0.10	339,560	1,000,000	0.10	39,070
Issued as finders fee under 2008-9 private placement	i		1,000,000	0.10	37,729			
Issued under 2009-10 Private Placement	ii		25,050,000	0.35	2,519,581			
Issued as finders fee under 2009-10 private placement	ii		2,505,000	0.35	251,958			
Issued in connection with acquisition of licences	iii		7,000,000	0.35	1,723,806			
Issued as inducement for loans	iv		1,300,000	0.35	278,325			
Issued and outstanding, end of year			59,701,420	0.28	7,343,886	13,846,420	0.24	2,192,927

(i) The company issued nine million warrants under a 2008-9 private placement relating to Units subscribed and finder's fee during the year ended March 31, 2010 as explained in Note 11(b)(ii). These warrants are convertible into equal number of common shares at an exercise price of US\$0.10 per warrant and expire within two years of their issue.

The fair value of these warrants has been estimated using a Black-Scholes option price model with the following assumptions:

Risk free interest rate	1%
Expected dividend	nil
Expected volatility	184.59%
Expected life	730 days
Market price	US\$0.35

The fair value of the warrants as per the Black-Scholes option price model amounted to \$3,169,023. Using the relative fair value method, an amount of \$339,560 for warrants issued to private placees and \$37,729 for warrants issued as finder's fee (total 87%) has been accounted for as reduction in value of common shares and increase in the value of warrants.

# Bontan Corporation Inc.

Notes to Consolidated Financial Statements

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## 13. WARRANTS – (continued)

- (ii) The company issued 25,050,000 warrants under a 2009-10 private placement relating to Units subscribed plus 2,505,000 as a finder's fee during the year ended March 31, 2010 as explained in Note 11(b)(iii). These warrants are convertible into equal number of common shares at an exercise price of US\$0.35 per warrant and expire within five years of their issue.

The fair value of these warrants has been estimated using a Black-Scholes option price model with the following assumptions:

Risk free interest rate	1%
Expected dividend	nil
Expected volatility	140.04%
Expected life	1,826 days
Market price	US\$0.33

The fair value of the warrants as per the Black-Scholes option price model amounted to \$7,288,984. Using the relative fair value method, an amount of \$2,519,581 for warrants issued to private placees and \$251,958 for warrants issued as finder's fee (total 59%) has been accounted for as reduction in the value of common shares and increase in the value of warrants.

- (iii) The Company issued 7 million warrants to two entities under a Contribution and Assignment Agreement dated November 14, 2009. 5 Million of these warrants were issued to International Three Crown Petroleum LLC, which holds the remaining 23.21% equity in IPC Cayman. The warrants are convertible into equal number of common shares of the Company at an initial exercise price of US\$0.35 within five years of their issuance. The holders of these warrants are entitled to a cashless exercise under which number of common shares to be issued will be based on number of common shares for which warrants are exercised times the difference between the market price of common share and the exercise price divided by the market price. Shares resulting from this formula will be issued against the exercised warrants without any cash consideration.

The fair value of these warrants has been estimated using a Black-Scholes option price model with the following assumptions:

Risk free interest rate	1%
Expected dividend	nil
Expected volatility	142.96%
Expected life	1,826 days
Market price	US\$0.28

The fair value of the warrants as per the Black-Scholes option price model amounted to \$1,723,806 which has been included in the cost of acquisition of oil & gas properties (note 8).

# Bontan Corporation Inc.

Notes to Consolidated Financial Statements

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March 31, 2010 and 2009

## 13. WARRANTS (a) – (continued)

(iv) The Company issued 1,300,000 warrants as an inducement to two lenders to lend money to the Company under promissory notes. One of the lenders is Current Capital Corp, a related party, which received 300,000 warrants. These warrants are convertible into equal number of common shares at an exercise price of US\$0.35 within five years.

The fair value of these warrants has been estimated using a Black-Scholes option price model with the following assumptions:

Risk free interest rate	1%
Expected dividend	nil
Expected volatility	142.96%
Expected life	1,826 days
Market price	US\$0.35

The fair value of the warrants as per the Black-Scholes option price model amounted to US\$406,026. Using the relative fair value method, an amount of \$278,325 (US\$274,050) for warrants issued has been accounted for as additional effective interest cost with corresponding debit of \$104,372 included in oil & gas properties and related expenditure. (note 8) and balance of \$173,953 adjusted against short term loans.(note 10)

Option price models used for calculating fair value of warrants require input of highly subjective assumptions including the expected price volatility. Changes in the subjective input assumptions can materially affect the fair value estimate, and therefore the models do not necessarily provide a reliable measure of the fair value of the Company's warrants.

(b) Details of weighted average remaining life of the warrants granted and outstanding are as follows:

2010			2009		
Warrants outstanding & exercisable			Warrants outstanding & exercisable		
Exercise price in US\$	Number	Weighted average remaining contractual life (years)	Exercise price in US\$	Number	Weighted average remaining contractual life (years)
0.35	35,855,000	4.75			
0.25	12,846,420	4.00	0.25	12,846,420	0.29
0.10	11,000,000	3.91	0.10	1,000,000	1.88
0.24	59,701,420	4.47	0.46	13,846,420	0.40

On June 4, 2009, the Board of Directors of the Company approved a further extension of the expiry date of 11,124,460 warrants issued as part of 2006 private placement and still outstanding by one year from their existing expiry dates. The fair value of these warrants was not recalculated due to this change.

On September 28, 2009, the Board of Directors of the Company approved a further extension of the expiry date of 1,721,960 warrants issued as part of 2003 private placement and still outstanding by nine months from their existing expiry dates. The fair value of these warrants was not recalculated due to this change.

# Bontan Corporation Inc.

## Notes to Consolidated Financial Statements

(Canadian Dollars)

March 31, 2010 and 2009

### 13. WARRANTS (b) – (continued)

On January 29, 2010, The Board of Directors of the Company approved a further extension of the expiry date of all issued and outstanding warrants – 23,846,420 –expiring between June 2010 and September 2011 to March 31, 2014. The fair value of these warrants was not recalculated due to this change.

### 14. LOSS PER SHARE

Loss per share is calculated on the weighted average number of common shares outstanding during the year, which were 42,963,027 shares for the year ended March 31, 2009 (2009 – 30,170,743, 2008 – 28,840,653).

The Company had approximately 59.7 million warrants and 4.8 million options, which were not exercised as at March 31, 2010. Inclusion of these warrants and options in the computation of diluted loss per share would have an anti-dilutive effect on loss per share and are therefore excluded from the computation. Consequently, there is no difference between basic loss per share and diluted loss per share.

### 15. CONSULTING FEES

For the year ended March 31	2010	2009	2008
Fees settled in stocks and options (Note 6)	524,589	277,856	314,248
Fees settled for cash	667,086	166,928	82,217
	<b>\$1,191,675</b>	<b>\$444,784</b>	<b>\$396,465</b>

### 16. BANK CHARGES, INTEREST AND FEES

For the year ended March 31,	2010	2009	2008
Bank charges	2,595	2,362	1,625
Interest on short term loans (i)	7,136 -	-	-
Financing fees (ii)	681,331 -	-	-
	<b>\$691,062</b>	<b>\$2,362</b>	<b>\$1,625</b>

(i) Interest of \$7,136 was charged by the entity controlled by the sole director of IPC Cayman.

(ii) Financing fees includes \$46,337 paid to the sole director of IPC Cayman and \$44,706 to Current Capital Corp., a related party for arranging short term loan and \$590,288 paid by IPC Cayman in connection with financing negotiations.



# Bontan Corporation Inc.

Notes to Consolidated Financial Statements  
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## 17. INCOME TAXES

Income tax expense differs from the amount that would be computed by applying the Federal and Provincial statutory income tax rates to income (loss) before income taxes. The reasons for the differences are as follows:

	2010	2009	2008
Income tax recovery based on combined corporate income tax rate of 25% (2009: 29% and 2008: 33.50%)	<b>\$(644,387)</b>	\$(199,930)	\$(191,553)
Increase(decrease) in taxes resulting from:			
Investments in Subsidiary (BDC) written off on dissolution	-	-	(50,280)
Non-deductible stock based compensation	<b>131,147</b>	80,578	105,273
Non-deductible meals & entertainment expenses	<b>7,303</b>	7,806	11,199
Not-taxable portion of loss (gain) on sale of short term investments	<b>106,601</b>	(6,530)	(41,616)
Finders fee -1/5th portion allowable for tax	<b>(28,640)</b>		
Write off of a short term investment	<b>31,348</b>	9,136	
Income tax recovery	<b>(396,628)</b>	(108,940)	(166,977)
Benefit of tax losses not recognised	<b>396,628</b>	108,940	166,977
Provision for income taxes	\$-	\$-	\$-

The components of the future income tax asset and the country of origin at March 31, 2010 and 2009 are as follows (applying the combined Canadian federal and provincial statutory income tax rate of 25% (2009: 29%) and the US income tax rate of 34% for both the years):

	Canada		US	
	2010	2009	2010	2009
	in '000 \$			
Future income tax assets:				
Non-capital losses carried forward	<b>\$2,226</b>	\$2,199	<b>\$1,498</b>	\$1,498
Capital losses carried forward	<b>621</b>	560	-	-
Unrealised losses on short term investments	<b>216</b>	642		
Future tax assets	<b>3,063</b>	3,401	<b>1,498</b>	1,498
Valuation allowance	<b>(3,063)</b>	(3,401)	<b>(1,498)</b>	(1,498)
Future income taxes	\$-	\$-	\$-	\$-

The Company has approximately \$9 million (2009: \$7.6 million) in Canadian non-capital losses, \$2.5 million (2009: \$1.9 million) in capital losses and US\$ 4.4 million (2009: US\$4.4 million) in US non-capital losses available to claim against future taxable income. The benefits arising from these losses has not been included in the consolidated financial statements as management has determined that it is not more likely than not that the losses will be utilized.

The Company's subsidiary holds a 76.79% equity interest in IPC Cayman which is taxable in the US as a partnership. There was no distribution during the year and the partnership has losses for the year. The future income tax asset arising if any from such losses is not recognized in the consolidated financial statements.

# Bontan Corporation Inc.

## Notes to Consolidated Financial Statements

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### 17. INCOME TAXES - continued

The non-capital losses expire as follows:

	Canadian in CDN\$ In 000'\$		US in US\$ In 000'\$	
2014		\$1,337		
2015		1,319	2025	\$1,050
2026		3,373	2026	3,300
2027		271	2027	25
2028		675		
2029		342		
2030		1587		
		<b>\$8,904</b>		<b>\$4,375</b>

### 18. COMMITMENTS AND CONTINGENT LIABILITIES

- (a) The Company entered into media relations and investor relations contracts with Current Capital Corp., a shareholder corporation, effective July 1, 2004 initially for a period of one year and renewed automatically unless cancelled in writing by a 30-day notice, for a total monthly fee of US\$10,000.
- (b) The Company entered into a consulting contract with Mr. Kam Shah, the Chief Executive Officer and Chief Financial Officer on April 1, 2005 for a five-year term. This term was extended to another five years to March 31, 2015 by the audit committee on April 1, 2010. Mr. Shah's monthly fee is \$15,000 plus taxes. Further, the contract provides for a lump sum compensation of US\$250,000 for early termination of the contract without cause. The contract also provides for entitlement to stock compensation and stock options under appropriate plans as may be decided by the board of directors from time to time.
- (c) The Company entered into a consulting contract with Mr. Terence Robinson, a key consultant and a former Chief Executive Officer, on April 1, 2003 for a six-year term up to March 31, 2009. On August 4, 2009, this contract was renewed for another five years effective April 1, 2009. The renewed contract provides for a fixed monthly fee of \$10,000 plus taxes. The Consultant will also be entitled to stock compensation and stock options under appropriate plans as may be decided by the board of directors from time to time.
- (d) The Company has a consulting contract with Mr. John Robinson. Mr. John Robinson is the sole owner of Current Capital Corp., a firm with which the Company has an on-going contract for media and investor relations, and a brother of Mr. Terence Robinson who is a key consultant to the Company and a former Chief Executive Officer of the Company. Mr. Robinson provides services that include assisting the management in evaluating new projects and monitoring short term investment opportunities that the Company may participate in from time to time. A new Consulting Contract was signed with Mr. John Robinson on July 1, 2009 for period to March 31, 2014. The Contract provides for a fixed monthly fee of \$8,500 plus taxes. The Consultant will also be entitled to stock compensation and stock options under appropriate plans as may be decided by the board of directors from time to time.
- (e) The Company has agreed to the payment of a finder's fee to Current Capital Corp., a related party, at the rate of 10% of the proceeds from the exercise of any of the outstanding warrants. The likely fee if all the remaining warrants are exercised will be approximately \$ 1.3 million.

# Bontan Corporation Inc.

## Notes to Consolidated Financial Statements

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### 18. COMMITMENTS AND CONTINGENT LIABILITIES - continued

- (f) The Company's subsidiary, IPC Cayman has a consulting agreement with its manager and sole director, International Three Crown Petroleum to pay a management fee of US\$20,000 per month.
- (g) Under the terms of the Agreement governing the allocation of ownership to the two off shore drilling licenses in Israel, the Company's subsidiary, IPC Cayman is required to provide a proof of its financial capability to contribute, when required, its share of the development costs. IPC Cayman's share of these costs is estimated not to exceed US\$ 12 million.
- (h) Under an agreement with IPC Cayman, the Company is required to issue up to 500,000 warrants over a period to be defined under a Warrant Plan for issuance to employees and consultants of IPC Cayman other than its sole director for services to be rendered. No warrants have yet been issued.

### 19. RELATED PARTY TRANSACTIONS

Transactions with related parties are incurred in the normal course of business, and are measured at the exchange amount which is the amount of consideration established and agreed to between the related parties. Related party transactions and balances have been listed below, unless they have been disclosed elsewhere in the consolidated financial statements.

- (i) Included in shareholders information expense is \$132,213 (2009: \$133,785; 2008: \$124,231) paid to Current Capital Corp, ("CCC") for media relations services. CCC is a shareholder corporation and its sole director provides consulting services to the Company.
- (ii) CCC charged approximately \$20,993 for rent, telephone and other office expenses (2009: \$37,800 and 2008: \$27,300). \$32,058 was charged by the entity controlled by the sole director of IPC Cayman (2009 and 2008: \$ nil)
- (iii) Finders fees of \$736,755 (2009: \$6,228, 2008: \$12,245) was charged by CCC in connection with the private placement. The fee for 2010 included a cash fee of \$449,583 and 3,480,000 warrants valued at \$289,687 using the Black-Scholes option price model.
- (iv) Business expenses of \$23,622 (2009 - \$19,205; 2008 - \$15,771) were reimbursed to directors of the corporation and \$82,390 (2009 - \$68,009, 2008: \$118,774) to a key consultant and a former chief executive officer of the Company. Travel and related expenses of \$88,357 charged by the sole director of IPC Cayman have been included Oil & gas properties and related expenditure (2009 and 2008: \$ nil)
- (v) Shares issued to a director under the Consultant's Stock Compensation Plan - \$Nil (2009 : \$Nil, 2008: 450,000 valued at \$105,373.). Shares issued to (returned by) a key consultant and a former chief executive officer of the Company under the Consultant Stock Compensation Plan: \$Nil (2009: (275,000) valued at \$ (64,395), 2008: 550,000 valued at \$128,790).
- (vi) Options issued to directors under Stock option plans - \$ nil (2009: nil, 2008: 50,000 valued at \$7,878).
- (vii) Cash fees paid to directors for services of \$235,000 (2009:\$60,000 and 2008: \$ 33,871). Cash fee paid to a key consultant and a former chief executive officer of the Company of \$120,000 (2009:\$90,000 and 2008: \$ nil). Fees paid to a consultant who controls CCC \$76,543 (2009: \$81,911 in shares, 2008: \$81,926 in shares). These fees are included in consulting expenses.

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## 19. RELATED PARTY TRANSACTIONS – continued

- (viii) Accounts payable includes \$95,813 (2009: \$15,482, 2008: \$9,384) due to CCC, \$5,852 (2009: \$1,875, 2008: \$757) due to a director of the Company and \$82,741 (2009: \$67,212, 2008: \$ 6,577) due to a key consultant and a former chief executive officer of the Company and due to a consultant who controls CCC \$62,475 (2009: \$1,024, 2008: \$1,022)
- (ix) Included in short term investments is an investment of \$nil (2009 and 2008: \$200,000) in a private corporation controlled by a brother of the key consultant. The investment was fully written off as at March 31, 2010 (\$Nil as at March 31, 2009, \$200,000 as at March 31, 2008)
- (x) Included in short term investments is an investment of \$1,869,381 carrying cost and \$775,020 fair value (2009: \$1,837,956 carrying cost and \$361,877 fair value, 2008: \$1,929,049 carrying cost and \$1,140,120 fair value) in a public corporation controlled by a key shareholder of the Company. This investment represents common shares acquired in the open market or through private placements and represents less than 1% of the issued and outstanding common shares of the said corporation.
- (xi) Included in other receivables is a fee advance of \$nil (2009: \$ 70,000 and 2008: \$nil) made to Chief Executive Officer. The fee amount advanced in fiscal 2009 was expensed in March 2010.
- (xii) Included in other receivable is an advance of \$nil (2009: \$5,814 and 2008: \$ nil), made to a director

## 20. PENDING DISPUTES

- (I) The sole director of the Company's subsidiary, IPC Cayman communicated to the Company that it is required to complete best efforts financing of \$18 million and to contribute all proceeds to IPC Cayman. He has also presented the Company with an invoice for \$ 2,291001 claiming it it represented estimated proceeds from the private placement financing completed by the Company on April 30, 2010.

The management disputes these claims by the sole director of the IPC Cayman and is currently engaged in negotiations with the sole director to resolve these matters. The final outcome of such negotiation and any litigation that may arise if such negotiations fail is not determinable.

In any event, the management believes that such claims have no bearing on the consolidated financial statements of the Company.

- (II) IPC Cayman received communication in May 2010 from a lawyer of a non-related investor alleging that IPC Cayman made an agreement with his client in January 2010 which involved sale of a part of the working interest in the two drilling licenses. IPC Cayman denies the fact and considers such an agreement null and void. No legal action has been taken to date. The Company and IPC Cayman are confident that they will successfully defend any such action if taken in future.

# Bontan Corporation Inc.

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## 21. SEGMENTED INFORMATION

As at March 31, 2010, 2009 and 2008, the Company had only one major business segment-

**Energy sector:** This segment includes the Company's acquisition of interests in joint ventures and projects relating to exploration and commercial drilling of oil and gas and related products.

The accounting policies of the segments are same as those described in Note 4. The Company evaluates each segment's performance based on its contribution to consolidated net earnings. There are no inter-segmental charges or transactions.

The Company had no business activity in the above segment in fiscal years 2009 and 2008. During fiscal year 2010, the Company acquired through its subsidiary, an indirect 11% working interest in two off-shore drilling licenses in the Levantine Basin, approximately forty kilometres off the West coast of Israel.

### Geographic Information

The Company operates from one location in Canada and its subsidiary, IPC Cayman has an office in the US. (2009: one location in Canada). Its assets were located as follows

Location	2010	2009
Canada	\$ 3,615,914	\$ 1,592,947
US	217,497	
Israel	6,586,376	
<u>\$10,419,787</u>	\$ 1,592,947	

## 22. FINANCIAL INSTRUMENTS AND CONCENTRATION OF RISKS

The Company is exposed in varying degrees to a number of risks arising from financial instruments. Management's close involvement in the operations allows for the identification of risks and variances from expectations. The Company does not participate in the use of financial instruments to mitigate these risks and has no designated hedging transactions. The Board approves and monitors the risk management processes. The Board's main objectives for managing risks are to ensure liquidity, the fulfilment of obligations and limited exposure to credit and market risks while ensuring greater returns on the surplus funds on hand. There were no changes to the objectives or the process from the prior year. Cash, short term investments, accounts payable and accruals are classified as level one financial instruments.

The types of risk exposure and the way in which such exposures are managed are as follows:

(a) Concentration risk:

Concentration risks exist in cash and cash equivalents because significant balances are maintained with one financial institution and a brokerage firm. The risk is mitigated because the financial institutions are international banks and the brokerage firm is well known Canadian brokerage firm with good market reputation and all its assets are backed up by a major Canadian bank. The Company's key asset, the indirect working interest in two off shore drilling licenses is located in Israel.

# Bontan Corporation Inc.

## Notes to Consolidated Financial Statements

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### 22. FINANCIAL INSTRUMENTS AND CONCENTRATION OF RISKS - continued

#### (b) Market price risk:

Market risk primarily arises from the Company's short term investments in marketable securities which accounted for approximately 15% of total assets of the Company as at March 31, 2010 (69% as at March 31, 2009). Further, the Company's holding in one Canadian marketable security accounted for approximately 57% (2009: 33%) of the total short term investment in marketable securities or 9% (2009: 23%) of total assets as at March 31, 2010.

The Management tries to mitigate this risk by monitoring daily all its investments with experienced consultants and ensuring that investments are made in companies which are financially stable with viable businesses.

#### (c) Liquidity risk:

The Company monitors its liquidity position regularly to assess whether it has the funds necessary to fulfill planned exploration commitments on its petroleum and natural gas properties or that viable options are available to fund such commitments from new equity issuances or alternative sources such as farm-out agreements. However, as an exploration company at an early stage of development and without significant internally generated cash flow, there are inherent liquidity risks, including the possibility that additional financing may not be available to the Company, or that actual exploration expenditures may exceed those planned. The current uncertainty in global markets could have an impact on the Company's future ability to access capital on terms that are acceptable to the Company. The Company has so far been able to raise the required financing to meet its obligations on time.

The Company maintains limited cash for its operational needs while most of its surplus cash is invested in short term marketable securities which are available on short notice to fund the Company's operating costs and other financial demands.

#### (d) Currency risk

The operating results and financial position of the Company are reported in Canadian dollars. Approximately 23% of total monetary assets at March 31, 2010 (23% as at March 31, 2009), and approximately 87% of its liabilities as at that date (\$ nil as at March 31, 2009) were held in US dollars. The results of the Company's operations are therefore subject to currency transaction and translation risk.

The fluctuation of the US dollar in relation to the Canadian dollar will consequently impact the loss of the Company and may also affect the value of the Company's assets and the amount of shareholders' equity.

Comparative foreign exchange rates are as follows:

As at March 31,	2010	2009
One US Dollar to CDN Dollar	1.0156	1.2602

The Company has not entered into any agreements or purchased any foreign currency hedging arrangements to hedge possible currency risks at this time.

# Bontan Corporation Inc.

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### 22. FINANCIAL INSTRUMENTS AND CONCENTRATION OF RISKS - continued

The balances in US Dollar as at March 31, 2010 were as follows: (all figures in CDN\$ equivalent)

2010

Cash & short term investments		\$2,352,452
Other receivables	66,009	
Accounts payable and accrual		(2,007,764)
Short term loans	(1,065,578)	
Net liabilities		\$ (654,881)

Based on the above net exposure, a 5% depreciation of the Canadian dollar against US dollar will increase net liabilities by \$32,744 while a 5% appreciation of the Canadian dollar against US dollar will reduce liability by \$32,744.

### 23. CAPITAL DISCLOSURES

The Company considers the items included in Shareholders' Equity as capital. The Company had short term loans of approximately \$ 1.2 million and payables of approximately \$ 2.5 million as at March 31, 2010 and current assets, mostly in cash and short term investments of approximately \$3.9 million. The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to pursue new business opportunities and to maintain a flexible capital structure which optimizes the costs of capital at an acceptable risk.

The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Company may attempt to issue new shares, issue new debt, acquire or dispose of assets or adjust the amount of cash and short term investments.

As at March 31, 2010, the shareholders' equity was approximately \$ 6.9 million (March 31, 2009: \$ 1.4 million). Approximately 55% or \$3.8 million was held in cash and short term investments (March 31, 2009: \$1.1 million or 79%). The Company completed its 2008-9 private placement in October 2009 and raised an approximate additional \$ 420,000. Another private placement began in November 2009 and until March 31, 2010, approximately \$4.7 million were collected net of expenses, and spent on the project on hand. This private placement was closed on April 30, 2010 and approximately additional \$2.3 million was raised.

The Company is not subject to any externally imposed capital requirements and does not presently utilize any quantitative measures to monitor its capital.

The Company expects its current capital resources will be sufficient to carry its business plans and operations through its current operating period. However, the Company has commitments to raise approximately US\$ 10 to \$12 million within the next twelve months to meet its obligations under the indirect working interest held in two off shore Israeli licenses.

# Bontan Corporation Inc.

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### 24. DIFFERENCES BETWEEN CANADIAN AND UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRINCIPLES

These financial statements have been prepared in accordance with generally accepted accounting principles in Canada ("Canadian GAAP"). Material variations in the accounting principles, practices and methods used in preparing these consolidated financial statements from principles, practices and methods used in the United States ("US GAAP") and in SEC Regulation S-X are described and quantified below.

There were no significant differences between Canadian GAAP and US GAAP which had any impact on the consolidated balance sheet and consolidated statement of cash flows.

The following are brief comments on the treatment of certain key items

#### (i) Short-term Marketable securities

In Fiscal year 2008, CICA introduced a new handbook section 3855 to recognize and measure financial instruments including marketable securities. This revision brings the Canadian GAAP in line with the Statement of Financial Accounting Standard ("SFAS") No. 115, "Accounting for Certain Investments in Debt and Equity Securities", which requires that equity securities that have readily determinable fair values be classified as either available-for-sale or trading securities, and that they be reported at fair market values. For available-for-sale securities, unrealized gains or losses are to be reported as other comprehensive income, a separate component of shareholders' equity, until realized. All short term investments are classified as "available-for-sale".

#### (ii) Exchange gains and losses on translation of foreign currency items and balances

Under Canadian GAAP, as revised under the handbook section 1651, foreign currency translation gains and losses are generally included in the determination of net income unless they relate to self-sustaining foreign subsidiary, in which case, such translation gains and losses are included in the other comprehensive income computation. Our foreign subsidiary, IPC Cayman is currently dependent on financing from the Company and is therefore not considered self-sustaining.

The above treatment under Canadian GAAP is in line with the treatment required Under FAS 52 (13) and FAS 130 of the US GAAP.

#### Adoption of New Accounting Policies

#### (i) Financial Accounting Standards Board's Codification of US GAAP

On July 1, 2009, the FASB's Codification of US GAAP (the "Codification") was issued to create a consolidated reference source for all authoritative non-governmental US GAAP. The Codification was not intended to change US GAAP, but rather reorganize existing guidance by accounting topic to allow easier identification of applicable standards. References in the Company's consolidated financial statements to US GAAP have been updated to reflect the Codification.



# Bontan Corporation Inc.

## Notes to Consolidated Financial Statements

(Canadian Dollars)

March 31, 2010 and 2009

### 24. DIFFERENCES BETWEEN CANADIAN AND UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRINCIPLES - Adoption of New Accounting Policies - continued

#### (ii) Business combinations

In December 2007, the FASB issued ASC 805 — Business Combinations (“ASC 805”) (formerly referred to as FAS 141R) which is effective for fiscal years beginning after December 15, 2008. ASC 805, which will replace FAS 141, is applicable to business combinations consummated after the effective date of December 15, 2008. This Standard modifies the accounting of certain aspects of business combinations. The adoption of ASC 805 did not have a material impact on the Company’s consolidated financial statements.

#### iii. Non-controlling interests

In December 2007, the FASB also issued ASC 810 - Non-controlling Interests in Consolidated Financial Statements (“ASC 810”). ASC 810 will change the accounting and reporting for minority interests, which will be re-characterized as non-controlling interests and classified as a component of equity. ASC 810 requires retroactive adoption of the presentation and disclosure requirements for existing minority interests. SFAS No. 160 is effective for fiscal years beginning on or after December 15, 2008 and interim periods within those fiscal years. The adoption of ASC 810 did not have a material impact on the Company’s consolidated financial statements.

#### iv. Derivative Instruments and Hedging Activities

In March 2008, the FASB issued ASC 815 “Disclosures about Derivative Instruments and Hedging Activities” (“ASC 815”). This Statement requires enhanced disclosures about an entity’s derivative and hedging activities and thereby improves the transparency of financial reporting. This Statement is effective for fiscal years and interim periods beginning after November 15, 2008, with early application encouraged. This Statement encourages, but does not require, comparative disclosures for earlier periods at initial adoption. The adoption of ASC 815 did not have a material impact on the Company’s consolidated financial statements.

#### v. Subsequent events

In May 2009, the FASB issued ASC 855, “Subsequent Events” (“ASC 855”). This Statement established general standards of accounting for and disclosures of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. In particular, this Statement details the period after the balance sheet date during which management of a reporting entity should evaluate events or transactions that may occur for potential recognition or disclosure in the financial statements; the circumstances under which an entity should recognize events or transactions occurring after the balance sheet date in its financial statements; and the disclosures that an entity should make about events or transactions that occur after the balance sheet date. The adoption of ASC 855 did not have a material impact on the Company’s consolidated financial statements.

# Bontan Corporation Inc.

Notes to Consolidated Financial Statements

(Canadian Dollars)

March 31, 2010 and 2009

## 24. DIFFERENCES BETWEEN CANADIAN AND UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRINCIPLES - continued

### vi. The Fair Value Measurement of Liabilities

In August 2009, the FASB issued ASU 2009-05 "Measuring Liabilities at Fair Value" ("ASU 2009-05"), which provides amendments to Subtopic 820-10 "Fair Value Measurements and Disclosures — Overall" and is effective prospectively for interim periods beginning after October 1, 2009 for the Company. ASU 2009-05 provides clarification that in circumstances in which a quoted price in an active market for the identical liability is not available, a reporting entity is required to measure fair value using one of the valuation techniques that uses (a) the quoted price of the identical liability when traded as asset; (b) quoted prices for similar liabilities when traded as assets; or another valuation technique that is consistent with the principles of Topic 820 "Fair Value Measurements and Disclosures". Therefore, the fair value of the liability shall reflect non-performance risk, including but not limited to a reporting entity's own credit risk. ASU 2009-05 also clarifies that when estimating the fair value of a liability, a reporting entity is not required to include a separate input or adjustment to other inputs relating to the existence of a restriction that prevents the transfer of liability. The adoption of ASU 2009-05 did not have a material impact on the Company's consolidated financial statements.

### vii. Equity method investees

Effective January 1, 2009 the Company adopted the FASB's guidance on equity method investment accounting considerations which is included in ASC 323 — Investments — Equity Method and Joint Ventures and applicable for fiscal years beginning on or after December 15, 2008. The guidance indicates when investments accounted for using the equity method are impaired and the appropriate initial measurement and accounting for subsequent changes in ownership percentages. The adoption of this guidance did not result in a material impact to the Company's consolidated financial statements.

# Bontan Corporation Inc.

Notes to Consolidated Financial Statements  
(Canadian Dollars)

March 31, 2010 and 2009

## 24. DIFFERENCES BETWEEN CANADIAN AND UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRINCIPLES - continued

### Future U.S. accounting policy changes

#### (i) Accounting of Transfers of Financial Assets an amendment of FASB No. 140

In June 2009, FASB issued Statement No. 166, Accounting of Transfers of Financial Assets an amendment of FASB No. 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities. This statement is now known as ASC 860. This Statement improves the relevance, representational faithfulness, and comparability of the information that a reporting entity provides in its financial statements about a transfer of financial assets; the effects of a transfer on its financial position, financial performance, and cash flows; and a transferor's continuing involvement, if any, in transferred financial assets. The Board undertook this project to address (1) practices that have developed since the issuance of FASB Statement No. 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities, that are not consistent with the original intent and key requirements of that Statement and (2) concerns of financial statement users that many of the financial assets (and related obligations) that have been derecognized should continue to be reported in the financial statements of transferors. This Statement must be applied as of the beginning of each reporting entity's first annual reporting period that begins after November 15, 2009, for interim periods within that first annual reporting period and for interim and annual reporting periods thereafter. Earlier application is prohibited. The Company does not believe that the new standard will have any material impact to the Company's consolidated financial statements.

#### (ii) Variable interest entities an Amendment to FASB Interpretation No.46(R)

In June 2009, FASB issued Statement No. 167, Amendment to FASB Interpretation No.46(R). This Statement improves financial reporting by enterprises involved with variable interest entities. The Board undertook this project to address (1) the effects on certain provisions of FASB Interpretation No. 46 (revised December 2003), Consolidation of Variable Interest Entities, as a result of the elimination of the qualifying special-purpose entity concept in FASB Statement No. 166, Accounting for Transfers of Financial Assets, and (2) constituent concerns about the application of certain key provisions of Interpretation 46(R), including those in which the accounting and disclosures under the Interpretation do not always provide timely and useful information about an enterprise's involvement in a variable interest entity. This Statement shall be effective as of the beginning of each reporting entity's first annual reporting period that begins after November 15, 2009, for interim periods within that first annual reporting period, and for interim and annual reporting periods thereafter. Earlier application is prohibited. The Company does not believe that the new standard will have any material impact to the Company's consolidated financial statements.

# Bontan Corporation Inc.

## Notes to Consolidated Financial Statements

(Canadian Dollars)

March 31, 2010 and 2009

### 25 SUBSEQUENT EVENTS

Subsequent events have been evaluated through July 23, 2010 when the consolidated financial statements were available to be issued.

Key events are as follows unless they have been disclosed elsewhere in the consolidated financial statements:

- (i) In a letter dated May 16, 2010, Petroleum Commissioner confirmed that the two licenses, in which the Company has indirect 11% working interest, are fully valid and approved changes in the work plan submitted by the steering committee. The Petroleum Commissioner approved deadlines for submitting various work plans between July 15, 2010 and March 31, 2011.
- (ii) On May 19, 2010, Geoglobal Resources (India) Inc. was appointed operator for the two licenses, in which the Company has indirect 11% working interest, subject to the execution of a joint operating agreement. The operator will acquire a 5% working interest in the two licenses pro rata from the Lead Investors and IPC Cayman for USD \$1.2 million. As a result of such acquisition, the Company's indirect working interest has decreased to 10.45%. The operator also will have an option to acquire an additional 2.5% working interest in one or both licenses pro rata from the Lead Investors and IPC Cayman.
- (iii) The joint venture partners and the operator also entered into an option agreement dated as of May 19, 2010. Under this option agreement, the joint venture partners have the option to purchase up to a 12.5% ownership interest in an offshore drilling license known as the Samuel license granted to the operator and their partners. The Company's subsidiary, IPC Cayman is now entitled to acquire 2.72% of the Samuel license, of which the Company's share would be 2.09% and the minority shareholder of IPC Cayman will be entitled to the balance 0.63%.
- (iii) On May 20, 2010, the joint venture partners submitted an application to the Israeli Petroleum Commissioner to approve the transfer and registration of the rights in the Mira and Sarah licenses. The approval was granted on June 16, 2010.

### 26 PRIOR YEAR'S FIGURES

Certain prior year's amounts have been reclassified to conform to current presentation.

## **Bontan Corporation Inc.**

### **Consolidated Financial Statements**

*For the Three Months Ended June 30, 2010 and 2009*

**(Canadian Dollars)**

**(UNAUDITED – see Notice to Reader dated August 20, 2010)**

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# BONTAN CORPORATION INC.

## NOTICE TO READER OF THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

**The accompanying consolidated financial statements for Bontan Corporation Inc. for the three months ended June 30, 2010 have been prepared by management in accordance with Canadian generally accepted accounting principles, consistently applied. These consolidated financial statements have not been reviewed by the auditors of the Company.**

These financial statements are presented on the accrual basis of accounting. Accordingly, a precise determination of many assets and liabilities is dependent upon future events. Therefore, estimates and approximations have been made using careful judgement. Recognizing that the management is responsible for both the integrity and objectivity of the financial statements, management is satisfied that these financial statements have been fairly presented.

August 20, 2010

# Bontan Corporation Inc.

Consolidated Balance Sheets

(Canadian Dollars)

(Unaudited – see Notice to Reader dated August 20, 2010)

	Note	June 30, 2010	March 31, 2010 (Audited)
<b>Assets</b>			
<b>Current</b>			
Cash		\$ 943,233	\$ 2,350,526
Short term investments	3,13(vii) & (viii)	1,382,185	1,359,431
Prepaid consulting services	5	68,029	50,792
Other receivables		571,085	129,869
		<b>\$ 2,964,532</b>	<b>\$ 3,890,618</b>
Office equipment and furniture	4	\$ 10,120	\$ 8,802
Oil & gas properties and related expenditure	6,13(iv)	\$ 7,352,599	\$ 6,520,367
		<b>\$ 10,327,251</b>	<b>\$ 10,419,787</b>
<b>Liabilities and shareholders' equity</b>			
<b>Current liabilities</b>			
Accounts payable	13(vi)	\$ 1,787,925	\$ 1,410,327
Audit and consulting fees accrued		91,161	1,043,583
Short term loans		-	1,065,578
<b>Total current liabilities</b>		<b>\$ 1,879,086</b>	<b>\$ 3,519,488</b>
<b>Shareholders' Equity</b>			
Capital stock	7	\$ 36,021,347	\$ 35,298,257
Warrants	9	8,690,756	7,343,886
Contributed surplus		4,573,748	4,573,748
Accumulated other comprehensive loss		(2,674,476)	(2,696,213)
Deficit		(37,748,226)	(37,262,565)
		<b>(40,422,702)</b>	<b>(39,958,778)</b>
<b>Total shareholders' equity</b>		<b>\$ 8,863,149</b>	<b>\$ 7,257,113</b>
Non-controlling interests		\$ (414,984)	\$ (356,814)
<b>Total equity</b>		<b>\$ 8,448,165</b>	<b>\$ 6,900,299</b>
		<b>\$ 10,327,251</b>	<b>\$ 10,419,787</b>

Going concern (note 2)

Commitments and Contingent Liabilities (Note 12)

Related Party Transactions (Note 13)

Approved by the Board           "Kam Shah"           Director           "Dean Bradley"           Director  
(signed) (signed)

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



# Bontan Corporation Inc.

## Consolidated Statements of Operations

(Canadian Dollars)

(Unaudited – see Notice to Reader dated August 20, 2010)

For the three months ended June 30,	Note	2010	2009
<b>Income</b>			
		-	-
<b>Expenses</b>			
Professional fees	13(iv)	239,987	10,281
Consulting fees	11,13(v)	208,689	86,348
Shareholders information	13(i)	43,273	37,238
Travel, meals and promotions	13(iv)	32,669	20,788
Office and general	13(ii)	28,649	9,263
Payroll		12,412	11,517
Rent	13(ii)	6,390	4,866
Communication		5,475	3,365
Transfer agents fees		4,817	725
Bank charges and interest		4,235	530
Amortisation		580	515
Loss (gain) on disposal of short term investments		-	(2,819)
Exchange (gain)loss		(43,345)	23,020
		543,831	205,637
<b>Non-controlling interests</b>		(543,831)	(205,637)
<b>Net loss for period</b>		58,170	-
<b>Basic and diluted loss per share information</b>		(485,661)	(205,637)
Net Loss per share	10	\$ (0.01)	\$ (0.01)

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

# Bontan Corporation Inc.

Consolidated Statements of Cash Flows

(Canadian Dollars)

(Unaudited – see Notice to Reader dated August 20, 2010)

For the three months ended June 30,	Note	2010	2009
<b>Cash flows from operating activities</b>			
Net loss for year		\$ (485,661)	\$ (205,637)
non-controlling interests		\$ (58,170)	
Amortization of office equipment and furniture		580	515
Gain on disposal of short term investments		-	(2,819)
Consulting fees settled for common shares	5	22,868	20,484
<b>Net change in working capital components</b>			
Other receivables		(441,216)	29,427
Accounts payable		377,598	33,708
Audit and consulting fees accrued		(952,422)	11,779
		<b>\$ (1,536,423)</b>	<b>\$ (112,543)</b>
<b>Cash flow from(into) investing activities</b>			
Purchase of office equipment and furniture		(1,897)	-
Acquisition of oil & gas properties		(658,279)	
Net proceeds from sale of short term investments		-	66,879
		<b>\$ (660,176)</b>	<b>\$ 66,879</b>
<b>Cash flow from financing activities</b>			
Short term loan		(1,239,531)	-
Common shares issued net of issuance costs		2,029,855	-
		<b>\$ 790,324</b>	<b>\$ -</b>
<b>Decrease in cash during period</b>		<b>(1,406,275)</b>	<b>(45,664)</b>
<b>Cash at beginning of period</b>		<b>2,350,526</b>	<b>352,958</b>
<b>Cash at end of period</b>		<b>\$ 944,251</b>	<b>\$ 307,294</b>
<b>Supplemental disclosures</b>			
<b>Non-cash operating activities</b>			
Consulting fees settled for common shares and options and expensed during the period	5	(22,868)	(20,484)
Consulting fees prepaid in shares	5	(68,029)	-
		<b>\$ (90,897)</b>	<b>\$ (20,484)</b>

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

# Bontan Corporation Inc.

Consolidated Statement of Shareholders' Equity

(Canadian Dollars)

For the three months ended June 30, 2010

(Unaudited – see Notice to Reader dated August 20, 2010)

	Number of Shares	Capital Stock	Warrants	Contributed surplus	Accumulated Deficit	Accumulated other comprehensive loss	Shareholders' Equity
<b>Balance March 31, 2009</b>	<b>30,820,743</b>	<b>\$ 32,854,075</b>	<b>\$2,192,927</b>	<b>\$ 4,154,266</b>	<b>\$(33,335,321)</b>	<b>\$(4,425,018)</b>	<b>\$ 1,440,929</b>
Issued under private placement	34,050,000	5,726,794		-			5,726,794
Finder fee		(572,679)					(572,679)
Value of warrants issued under private placement		(2,859,141)	2,859,141				-
Value of warrants issued as finders fee		(289,687)	289,687				-
Subscriptions received		303,480					303,480
Shares cancelled	(350,000)	(81,957)					(81,957)
Issued under 2009 Consultant Stock Option Plan	708,333	217,372					217,372
Value of warrants issued to induce short term loans			278,325				278,325
Value of warrants issued as part of acquisition of oil & gas properties			1,723,806				1,723,806
Options revaluation upon changes in the terms				419,482			419,482
Net loss					(3,927,244)		(3,927,244)
Unrealised gain on short term investments, net of tax considered available for sale						1,728,805	1,728,805
Balance, March 31, 2010	65,229,076	35,298,257	7,343,886	4,573,748	-37,262,565	-2,696,213	7,257,113
subscription received in fiscal 2010 reversed on issuance of shares		(303,480)					(303,480)
Issued under private placement	12,700,000	2,564,925					2,564,925
Finder fee		(256,493)					(256,493)
Value of warrants issued under private placement		(1,232,145)	1,232,145				-
Value of warrants issued as finders fee		(123,214)	123,214				-
Issued under 2009 Consultant stock compensation plan	135,000	40,105					40,105
Issued on exercise of warrants	250,000	24,903					24,903
Value of warrants exercised		8,489	(8,489)				-
Unrealised gain on short term investments ,net of tax, considered available for sale						21,737	21,737
Net loss for the quarter					(485,661)		(485,661)
<b>Balance, June 30, 2010</b>	<b>78,314,076</b>	<b>\$ 36,021,347</b>	<b>\$8,690,756</b>	<b>\$ 4,573,748</b>	<b>\$(37,748,226)</b>	<b>\$( 2,674,476)</b>	<b>\$ 8,863,149</b>

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

# Bontan Corporation Inc.

Consolidated Statement of Comprehensive Loss and Accumulated Other Comprehensive Loss

(Canadian Dollars)

(Unaudited – see Notice to Reader dated August 20,2010)

	Note	Three months ended June 30,		Year ended
		2010	2009	March 31
		(Unaudited)	(Unaudited)	(Audited)
<b>Other comprehensive gain (loss)</b>				
Net loss for year		\$ (485,661)	\$ (205,637)	\$(3,927,244)
Unrealised gain(loss) for period on short term investments, net of tax considered available for sale	3	21,737	316,203	1,728,805
<b>Comprehensive gain (loss)</b>		<b>(463,924)</b>	<b>110,566</b>	<b>(2,198,439)</b>
<b>Accumulated other comprehensive loss</b>				
Beginning of period		(2,696,213)	(4,425,018)	(4,425,018)
Other comprehensive gain for period		21,737	316,203	1,728,805
<b>Accumulated other comprehensive loss, end of period</b>		<b>\$ (2,674,476)</b>	<b>\$ (4,108,815)</b>	<b>\$ (2,696,213)</b>

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

# Bontan Corporation Inc.

Notes to Consolidated Financial Statements

(Canadian Dollars)

June 30, 2010 and 2009

(Unaudited – see Notice to Reader dated August 20, 2010)

## 1. NATURE OF OPERATIONS

Bontan Corporation Inc. (“the Company”) is a diversified natural resource company that invests in major oil and gas exploration and development projects in countries around the globe through its subsidiary by acquiring a joint venture interest, indirect participation interest and working interest in those projects. The company focuses on projects where the other project partners have proven experience in oil and gas exploration, development and distribution.

During the fiscal year 2010, the Company acquired an indirect 11% working interest in two off-shore drilling licenses in the Levantine Basin, approximately forty kilometres off the West coast of Israel.

The Company does not currently own any oil and gas properties with proven reserves.

## 2. PRINCIPLES AND USE OF ESTIMATES

These financial statements consolidated the accounts of the Company, its wholly owned subsidiary, Israel Oil & Gas Corporation. And Israel Petroleum Company, Limited, a Cayman Island limited company in which Israel Oil & Gas Corporation owns 76.79% equity interest (“IPC Cayman”) and have been prepared in accordance with Canadian generally accepted accounting principles (“GAAP”) with respect to interim financial statements, applied on a consistent basis. Accordingly, they do not include all of the information and footnotes required for compliance with GAAP in Canada for annual audited financial statements. These Statements and notes should be read in conjunction with the audited consolidated financial statements and notes included in the Company’s Annual Report for the fiscal year ended March 31, 2010.

The accounting policies adopted for the preparation of these Statements are same as those applied for the Company’s audited financial statements for the fiscal year ended March 31, 2010.

The preparation of these Statements and the accompanying unaudited notes requires management to make estimates and assumptions that affect the amounts reported. In the opinion of management, these Statements reflect all adjustments necessary to state fairly the results for the periods presented. Actual results could vary from these estimates and the operating results for the interim periods presented are not necessarily indicative of the results expected for the full year.

### Going concern

Management has prepared these consolidated financial statements in accordance with Canadian Generally Accepted Accounting Principles (“GAAP”) applicable to a going concern, which contemplates that assets will be realized and liabilities discharged in the normal course of business as they come due. To this point, all operational activities and the overhead costs have been funded from the available cash and short term investments and by equity issuances.

The Company has a working capital of approximately \$ 1.1 million and accumulated deficit of approximately \$ 37.7 million. The Company has commitment to meet its share of exploration and development costs of the two licenses in which it has acquired indirect working interest, which would need additional funding in the range of approximately US\$ 12 million within the next six months. The Company will have to secure new cash resources to meet these obligations on its current project. Management is currently evaluating and pursuing funding alternatives, including additional farm-out agreements and new equity issuances. While the management has so far been successful in raising the required equity financing, there is no assurance that these initiatives will continue to be

# Bontan Corporation Inc.

## Notes to Consolidated Financial Statements

(Canadian Dollars)

June 30, 2010 and 2009

(Unaudited – see Notice to Reader dated August 20, 2010)

### 2. PRINCIPLES AND USE OF ESTIMATES - continued

successful. Uncertainty in global capital markets could have a negative impact on the Company's ability to access capital in the future.

The Company's ability to continue as a going concern is dependent upon its ability to access sufficient capital to complete exploration and development activities, identify commercial oil and gas reserves and to ultimately have profitable operations. These financial statements do not reflect the adjustments to the carrying values of assets and liabilities and the reported expenses and balance sheet classifications that would be necessary if the Company was unable to realize its assets and settle its liabilities as a going concern in the normal course of operations. Such adjustments could be material.

#### Recent accounting pronouncements

##### *International Financial Reporting Standards ("IFRS")*

In January 2006, the CICA's Accounting Standards Board ("AcSB") formally adopted the strategy of replacing Canadian GAAP with IFRS for Canadian enterprises with public accountability. The current conversion timetable calls for financial reporting under IFRS for accounting periods commencing on or after January 1, 2011. On February 13, 2008 the AcSB confirmed that the use of IFRS will be required in 2011 for publicly accountable profit-oriented enterprises. For these entities, IFRS will be required for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011.

The Company's transition date of April 1, 2011 will require the restatement for comparative purposes of amounts reported by the Company for the year ending March 31, 2011. The Company has assessed the impact of IFRS on its consolidated financial statements and concluded that no significant change will be required in any of its accounting policies upon adoption of IFRS.

### 3. SHORT TERM INVESTMENTS

	June 30, 2010		March 31, 2010	
	Carrying average costs	fair market value	Carrying average costs	fair market value
Marketable securities	4,014,789	1,382,185	4,007,574	1,359,431

Marketable securities are designated as "available-for-sale".

Marketable securities are stated at fair value based on quoted market prices on the balance sheet as at June 30, 2010. An unrealised gain of \$ 21,737 for the quarter ended June 30, 2010 was included in the consolidated statement of comprehensive loss and accumulated other comprehensive loss.

As at June 30, 2010, the Company held warrants in certain marketable securities which are exercisable at its option to convert into equal number of common shares of the said securities. The total exercise price of these warrants was \$ 122,727 (March 31, 2010: \$119,217) and the market value of the underlying securities was \$ 33,053 as at that date (March 31, 2010: \$ 19,506). These warrants and the underlying unrealised gains and losses have not been accounted for in the financial statements since the Company has not yet determined if it would exercise these warrants before their expiry between November 2, 2010 and April 26, 2012.

# Bontan Corporation Inc.

Notes to Consolidated Financial Statements

(Canadian Dollars)

June 30, 2010 and 2009

(Unaudited – see Notice to Reader dated August 20, 2010)

## 4. OFFICE EQUIPMENT AND FURNITURE

	Cost	accumulated amortisation As at June 30, 2010	Net book value	Net book value March 31, 2010	
					(Audited)
Office furniture		4,725	2,139	2,586	2,722
Computer		5,330	1,849	3,481	1,813
Software		5,793	1,740	4,053	4,267
		<b>\$ 15,848</b>	<b>\$ 5,728</b>	<b>\$ 10,120</b>	<b>\$ 8,802</b>

## 5. PREPAID CONSULTING SERVICES

Prepaid consulting services relate to the fair value of shares and options issued under the Company's Consultants' Stock Compensation and Stock Option Plans to consultants for services that will be performed during the period subsequent to the balance sheet date. Changes during the period were as follows:

	Balance at April 1, 2010	Deferred during period	Expensed during period	Balance at June 30, 2009	
Stocks	50,792	40,105	(22,868)	68,029	
	\$ 50,792	\$ 40,105	\$ (22,868)	\$ 68,029	
	Balance at April 1, 2009	Deferred during the year	Canceled during the year	Expensed during the year	Balance at March 31, 2010
Options	\$ -	\$ 419,482	\$ -	\$ (419,482)	\$ -
Stocks	20,484	217,372	(81,957)	(105,107)	50,792
	\$ 20,484	\$ 636,854	\$ (81,957)	\$ (524,589)	\$ 50,792
	Balance at April 1, 2009	Deferred during period	Expensed during period	Balance at June 30, 2009	
Stocks	20,484	-	(20,484)	-	
	\$ 20,484	\$ -	\$ (20,484)	\$ -	

# Bontan Corporation Inc.

Notes to Consolidated Financial Statements

(Canadian Dollars)

June 30, 2010 and 2009

(Unaudited – see Notice to Reader dated August 20, 2010)

## 6. OIL & GAS PROPERTIES AND RELATED EXPENDITURE

<b>Cost of acquisition</b>	
Balance as at April 1, 2010	\$ 5,447,422
Cash paid to Joint venture partners towards 1% working interest (i)	254,544
Interest paid by cash and warrants on funds borrowed for acquisition (ii)	180,578
Balance as at June 30, 2010	<u>\$ 5,882,544</u>
<b>Related expenditure</b>	
Balance as at April 1, 2010	\$ 1,072,945
Consulting fee	73,312
Legal fees	268,676
Other direct costs	55,122
	\$ 1,470,055
Balance as at June 30, 2010	<u><u>7,352,599</u></u>

(i) Under a new agreement entered on March 25, 2010 between the Company, IPC Cayman and three other joint venture partners ("new agreement"), the company was entitled to increase its working interest from 10% to 11% by paying an additional US\$ 240,000. This amount was paid during the quarter ended June 30, 2010.

(ii) In fiscal year 2010, the Company issued warrants to induce short term loans borrowed to finance the cost of acquisition. Value of these warrants of \$ 173,953 which related to the period after March 31, 2010 was adjusted against the short term loans as at March 31, 2010. Upon settlement of these loans during the three months ended June 30, 2010, the value of warrants was transferred to the cost of acquisition.

The management carried out an impairment tests, involving (a) an independent geologist's evaluation of the prospective resources on the two prospects in accordance with NI 51-101, Sec 5-9, and (b) review of definite work plan prepared by the steering committee of the joint venture partners and its acceptance by the Israeli Ministry of National Infrastructure, and concluded that there was no permanent impairment.

As per the new agreement, the Operator will acquire 5% working interest in the two licenses from the existing partners proportionately from their respective shares for a total price of US\$ 1.2 million. This acquisition will reduce the Company's share from 11% to 10.45%. This acquisition has not yet been done. The operator is also given an option to acquire an additional 5% from the existing partners.

As per the new agreement, the Operator has agreed to grant the existing partners of the two licenses an option to purchase up to 12.5% of "Samuel" license where the operator holds working interest with other partners, in accordance with their pro rata share. The exact cost of acquisition is not yet determined.



# Bontan Corporation Inc.

Notes to Consolidated Financial Statements

(Canadian Dollars)

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(Unaudited – see Notice to Reader dated August 20, 2010)

## 7. CAPITAL STOCK

(a) Authorized

Unlimited number of common shares

(b) Issued

	June 30, 2010 (Unaudited)		March 31, 2010 (Audited)	
	Common Shares	Amount	Common Shares	Amount
Beginning of period	65,229,076	\$35,298,257	30,820,743	\$32,854,075
Canceled	-	-	(350,000)	(81,957)
Issued under 2009 Consultant Stock Compensation Plan (i)	135,000	40,105	708,333	217,372
Issued under private placements (ii)	12,700,000	2,564,925	34,050,000	5,726,794
Finder's fee (ii)	-	(256,493)	-	(572,679)
Value assigned to warrants issued under private placements (note 9(a) (i))	-	(1,232,145)	-	(2,859,141)
Value assigned to warrants issued as finders fee under private placements	-	(123,214)	-	(289,687)
Issued on exercise of warrants	250,000	24,903	-	-
Value of warrants exercised transferred from warrants	-	8,489	-	-
Subscriptions received in fiscal 2010 reversed on issuance of shares	-	(303,480)	-	303,480
	<b>78,314,076</b>	<b>\$36,021,347</b>	65,229,076	\$35,298,257

(j) On April 7, 2009, the Company registered a 2009 Consultant Stock Compensation Plan with the Securities and Exchange Commission in a registration statement under the US Securities Act of 1933. Three million common shares of the Company were registered under the Plan. During the three months ended June 30, 2010, 135,000 common shares were issued to three persons out of this plan. These shares were valued at the market price of the common shares prevailing on the date of issue.

(ii) On November 20, 2009, the Board of Directors of the Company approved a private placement to raise equity funds up to US\$5,500,000, raised subsequent to US\$7.9 million. The private placement consists of Units up to a maximum of 27.5 million, raised subsequently to 39.5 million, to be issued at US\$ 0.20 per Unit. Each Unit would comprise one common share of the Company and one full warrant convertible into one common share of the Company at an exercise price of US\$0.35 each within five years of the issuance of the warrants, subject to an early recall if the market price of the Company's common shares exceeds US\$1 for a period of 20 consecutive trading days.

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Notes to Consolidated Financial Statements

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## 7. CAPITAL STOCK – (b) – continued

The Board also approved a finder's fee of 10% of the proceeds raised from the issuance of Units and warrants attached thereto and 10% of the warrants issued in warrants under the same terms, payable to Current Capital Corp., a related party, net of any fees payable to anyone else.

During the three months ended June 30, 2010, the Company received thirty six subscriptions who subscribed a total of 12.7 million Units for gross proceeds of approximately US\$2.6 million. The subscription was closed on April 30, 2010.

## 8. STOCK OPTION PLANS

(a) The following is a summary of all Stock Option Plans as at June 30, 2009:

Plan	Date of registration *	# of Options					Outstanding
		Registered	issued	Expired	Exercised		
1999 Stock option Plan	April 30, 2003		3,000,000	3,000,000	-70,000	-1,200,000	1,730,000
2003 Stock Option Plan	July 22, 2004		2,500,000	2,500,000	-155,000	-400,000	1,945,000
The Robinson Plan	December 5, 2005		1,100,000	1,100,000	-	-	1,100,000
2005 Stock Option Plan	December 5, 2005		1,000,000	50,000	-	-	50,000
			<u>7,600,000</u>	<u>6,650,000</u>	<u>-225,000</u>	<u>-1,600,000</u>	<u>4,825,000</u>

\* Registered with the Securities and Exchange Commission of the United States of America (SEC) as required under the Securities Act of 1933.

All options were fully vested on the dates of their grant.

(b) There were no movements during the quarter ended June 30, 2010. The weighted average exercise price of the outstanding stock options is US\$0.15 (March 31, 2010 and June 30, 2009: \$0.15.)

(c) Details of weighted average remaining life of the options granted and outstanding are as follows:

	June 30, 2010	March 31, 2010
Number of options outstanding and exercisable	4,825,000	4,825,000
Exercise price in US\$	0.15	0.15
Weighted average remaining contractual life (years)	3.75	4.00

All options were fully vested immediately as at June 30 and March 31, 2010. The options can be exercised at any time after vesting within the exercise period in accordance with the applicable option agreement. The exercise price was more than the market price on the date of the grants for 1,995,000 options and less than the market price for the balance of 2,830,000 options. Upon expiry or termination of the contracts, vested options must be exercised within 30 days for consultants and 90 days for directors.

# Bontan Corporation Inc.

## Notes to Consolidated Financial Statements

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(Unaudited – see Notice to Reader dated August 20, 2010)

### 9. WARRANTS

(a) Movement in warrants during the period are as follows:

March 31,	Note	# of warrants	June 30, 2010 (Unaudited)		# of warrants	March 31, 2010 (Audited)		
			Weighted average exercise price	Fair value		Weighted average exercise price	Fair value	
Issued and outstanding, beginning of period			59,701,420	0.28	7,343,886	13,846,420	0.24	2,192,927
Issued under 2008-9 Private Placement			-	-	-	9,000,000	0.10	339,560
Issued as finders fee under 2008-9 private placement			-	-	-	1,000,000	0.10	37,729
Issued under 2009-10 Private Placement	i		12,700,000	0.35	1,232,145	25,050,000	0.35	2,519,581
Issued as finders fee under 2009-10 private placement	i		1,270,000	0.35	123,214	2,505,000	0.35	251,958
Exercised			(250,000)	-0.10	(8,489)	-	-	-
Issued in connection with acquisition of licences			-	-	-	7,000,000	0.35	1,723,806
Issued as inducement for loans			-	-	-	1,300,000	0.35	278,325
Issued and outstanding, end of period			73,421,420	\$ 0.26	\$8,690,756	59,701,420	\$ 0.28	\$7,343,886

(i) The company issued 12.7 million warrants under a 2009-10 private placement relating to Units subscribed plus 1.27 million as a finder's fee during the three months ended June 30, 2010 as explained in Note 7(b)(ii). These warrants are convertible into equal number of common shares at an exercise price of US\$0.35 per warrant and expire within five years of their issue.

The fair value of these warrants has been estimated using a Black-Scholes option price model with the following assumptions:

Risk free interest rate	1%
Expected dividend	nil
Expected volatility	140.04%
Expected life	1,826 days
Market price	US\$0.33

The fair value of the warrants as per the Black-Scholes option price model amounted to \$7,288,984. Using the relative fair value method, an amount of \$1,232,145 for warrants issued to private placees and \$ 123,214 for warrants issued as finder's fee (total 59%) has been accounted for as reduction in the value of common shares and increase in the value of warrants.

# Bontan Corporation Inc.

Notes to Consolidated Financial Statements

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(Unaudited – see Notice to Reader dated August 20, 2010)

## 9. WARRANTS – continued

(b) Details of weighted average remaining life of the warrants granted and outstanding are as follows:

Exercise price in US\$	June 30, 2010		March 31, 2010 (Audited)	
	Warrants outstanding & exercisable		Warrants outstanding & exercisable	
	Number	Weighted average remaining contractual life (years)	Number	Weighted average remaining contractual life (years)
0.10	10,750,000	3.67	11,000,000	3.91
0.25	12,846,420	3.75	12,846,420	4.00
0.35	49,825,000	4.63	35,855,000	4.75
0.46	73,421,420	4.33	59,701,420	4.47

## 10. LOSS PER SHARE

Loss per share is calculated on the weighted average number of common shares outstanding during the period, which were 78,270,743 shares for the three months ended June 30, 2010 (three months ended June 30, 2009– 30,820,743).

The Company had approximately 73.4 million (June 30, 2009:13.8 million) warrants and 4.8 million options(June 30, 2009: 4.8 million) , which were not exercised as at June 30, 2010. Inclusion of these warrants and options in the computation of diluted loss per share would have an anti-dilutive effect on loss per share and are therefore excluded from the computation. Consequently, there is no difference between loss per share and diluted loss per share.

## 11. CONSULTING FEE

For the three months ended June 30,	2010	2009
Fees settled in stocks and options (Note 5)	22,868	20,484
Fees settled for cash	185,821	65,864
	<b>\$ 208,689</b>	<b>\$ 86,348</b>

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### 12. COMMITMENTS AND CONTINGENT LIABILITIES

- (i) The Company entered into media relations and investor relations contracts with Current Capital Corp., a shareholder corporation, effective July 1, 2004 initially for a period of one year and renewed automatically unless cancelled in writing by a 30-day notice, for a total monthly fee of US\$10,000.
- (j) The Company entered into a consulting contract with Mr. Kam Shah, the Chief Executive Officer and Chief Financial Officer on April 1, 2005 for a five-year term. This term was extended to another five years to March 31, 2015 by the audit committee on April 1, 2010. Mr. Shah's monthly fee is \$15,000 plus taxes. Further, the contract provides for a lump sum compensation of US\$250,000 for early termination of the contract without cause. The contract also provides for entitlement to stock compensation and stock options under appropriate plans as may be decided by the board of directors from time to time.
- (k) The Company entered into a consulting contract with Mr. Terence Robinson, a key consultant and a former Chief Executive Officer, on April 1, 2003 for a six-year term up to March 31, 2009. On August 4, 2009, this contract was renewed for another five years effective April 1, 2009. The renewed contract provides for a fixed monthly fee of \$10,000 plus taxes. The Consultant will also be entitled to stock compensation and stock options under appropriate plans as may be decided by the board of directors from time to time.
- (l) The Company has a consulting contract with Mr. John Robinson. Mr. John Robinson is the sole owner of Current Capital Corp., a firm with which the Company has an ongoing contract for media and investor relations, and a brother of Mr. Terence Robinson who is a key consultant to the Company and a former Chief Executive Officer of the Company. Mr. Robinson provides services that include assisting the management in evaluating new projects and monitoring short term investment opportunities that the Company may participate in from time to time. A new Consulting Contract was signed with Mr. John Robinson on July 1, 2009 for period to March 31, 2014. The Contract provides for a fixed monthly fee of \$8,500 plus taxes. The Consultant will also be entitled to stock compensation and stock options under appropriate plans as may be decided by the board of directors from time to time.
- (m) The Company has agreed to the payment of a finder's fee to Current Capital Corp., a related party, at the rate of 10% of the proceeds from the exercise of any of the outstanding warrants. The likely fee if all the remaining warrants are exercised will be approximately \$ 1.8 million.
- (n) The Company's subsidiary, IPC Cayman has a consulting agreement with its manager and sole director, International Three Crown Petroleum to pay a management fee of US\$ 20,000 per month.
- (o) Under the terms of the Agreement governing the allocation of ownership to the two off shore drilling licenses in Israel, the Company's is required to provide a proof of its financial capability to contribute, when required, its share of the development costs. The Company's share of these costs is estimated not to exceed US\$ 12 million.
- (p) Under an agreement with IPC Cayman, the Company is required to issue up to 500,000 warrants over a period to be defined under a Warrant Plan for issuance to employees and consultants of IPC Cayman other than its sole director for services to be rendered. No warrants have yet been issued.

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### 13. RELATED PARTY TRANSACTIONS

Transactions with related parties are incurred in the normal course of business and are measured at the exchange amount, which is the amount of consideration established and agreed to between the related parties. Related party transactions and balances have been listed below, unless they have been disclosed elsewhere in the financial statements. Amounts are for three months ended June 30, 2010 and balances are at June 30, 2010. Comparative amounts are for the three months ended June 30, 2009 and balances as at June 30, 2009.

- (i) Included in shareholders information expense is \$30,688 (2009 – \$35,387) to Current Capital Corp, (CCC) for media relations services. CCC is a shareholder corporation and a director of the Company provides accounting services as a consultant.
- (ii) CCC charged \$6,061 for rent (2008: \$4,352). ), \$8,319 of office expenses were charged by the entity controlled by the sole director of IPC Cayman (2009: \$ nil)
- (iii) Finders fee of \$ 312,469 (2009: \$nil) was charged by CCC in connection with the private placement. The fee included a cash fee of \$ 189,255 and 1,270,000 warrants valued at \$123,214 using the black-Scholes option price model.
- (iv) Business expenses of \$5,540 (2009: \$4,963) were reimbursed to directors of the corporation and \$21,901 (2008 - \$20,049) to a key consultant and a former chief executive officer of the Company. Travel and related expenses of \$48,375 (2009: \$nil) were charged by the sole director of IPC Cayman. \$45,392 of these charges has been included in oil & gas properties and related expenditure. Further, sole director of IPC Cayman also charged \$17,880 for book keeping services (2009: \$ nil)
- (v) Consulting fees include cash fee paid to directors for services of \$47,500 (2009: \$ 32,500), \$ 30,000 (2009: \$ 30,000) paid to a key consultant and a former chief executive officer of the Company, \$25,500 paid to a consultant who controls CCC (2009: \$nil) and \$61,656 was paid to the sole director of IPC Cayman. Fees prepaid to a director \$nil (2009: \$ 24,349).
- (vi) Accounts payable includes \$59,982 (2009: \$22,542) due to CCC, \$nil (2009: \$2,737) due to directors, \$34,754 (2009: \$69,700) due to a key consultant and a former chief executive officer of the Company, and due to a consultant who controls CCC \$17,850 (2009: \$ nil).
- (vii) Included in short term investments is an investment of \$nil (2009: \$200,000) in a private corporation controlled by a brother of the key consultant. The investment was written off as at March 31, 2010.
- (viii) Included in short term investments is an investment of \$1,869,381 carrying cost and \$529,597 fair value (2009: \$1,837,956 carrying cost and \$533,615 fair value) in a public corporation controlled by a key shareholder of the Company. This investment represents common shares acquired in open market or through private placements and represents less than 1% of the said Corporation.
- (ix) Included in other receivable is a fee advance of \$nil made to a director. (2009: \$ 70,000).

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### 14. PENDING DISPUTES

(III) The sole director of the Company's subsidiary, IPC Cayman communicated to the Company that it is required to complete best efforts financing of \$18 million and to contribute all proceeds to IPC Cayman. He has also presented the Company with an invoice for \$ 2,291,001 claiming it represented estimated proceeds from the private placement financing completed by the Company on April 30, 2010.

The management disputes these claims by the sole director of the IPC Cayman and is currently engaged in negotiations with the sole director to resolve these matters. The final outcome of such negotiation and any litigation that may arise if such negotiations fail is not determinable.

In any event, the management believes that such claims have no bearing on the consolidated financial statements of the Company.

(IV) IPC Cayman received communication in May 2010 from a lawyer of a non related investor alleging that IPC Cayman made an agreement with his client in January 2010 which involved sale of a part of the working interest in the two drilling licenses. IPC Cayman denies the fact and considers such an agreement null and void. No legal action has been taken to date. The Company and IPC Cayman are confident that they will successfully defend any such action if taken in future.

### 15. SEGMENTED INFORMATION

As at June 30 and March 31, 2010, the Company had only one major business segment-

**Energy sector:** This segment includes the Company's acquisition of interests in joint ventures and projects relating to exploration and commercial drilling of oil and gas and related products.

The accounting policies of the segments are same as those described in Note 4 of the audited consolidated financial statements for the year ended March 31, 2010.

The Company acquired in fiscal 2010 an indirect 11% working interest in two off-shore drilling licenses in the Laventine basin, approximately forty kilometres off the West coast of Israel.

#### Geographic Information

The Company operates from one location in Canada AND ITS SUBSIDIARY, ipc Cayman has an office in the US. (2009: one location in Canada). Its assets were located as follows:

Location	June 30, 2010	March 31, 2010	June 30, 2009
Canada	\$ 2,455,969	\$ 3,615,914	\$ 1,749,000
US	36,786	217,497	-
Israel	7,834,496	6,586,376	-
	<b>\$ 10,327,251</b>	<b>\$ 10,419,787</b>	<b>\$ 1,749,000</b>

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## 16. FINANCIAL INSTRUMENTS AND CONCENTRATION OF RISKS

The Company is exposed in varying degrees to a number of risks arising from financial instruments. Management's close involvement in the operations allows for the identification of risks and variances from expectations. The Company does not participate in the use of financial instruments to mitigate these risks and has no designated hedging transactions. The Board approves and monitors the risk management processes. The Board's main objectives for managing risks are to ensure liquidity, the fulfilment of obligations and limited exposure to credit and market risks while ensuring greater returns on the surplus funds on hand. There were no changes to the objectives or the process from the prior year. Cash, short term investments, accounts payable and accruals are classified as level one financial instruments.

The types of risk exposure and the way in which such exposures are managed are as follows:

(a) Concentration risk:

Concentration risks exist in cash and cash equivalents because significant balances are maintained with one financial institution and a brokerage firm. The risk is mitigated because the financial institutions are international banks and the brokerage firm is well known Canadian brokerage firm with good market reputation and all its assets are backed up by a major Canadian bank. The Company's key asset, the indirect working interest in two off shore drilling licenses is located in Israel.

(b) Market price risk:

Market risk primarily arises from the Company's short term investments in marketable securities which accounted for approximately 15% of total assets of the Company as at March 31, 2010 (69% as at March 31, 2009). Further, the Company's holding in one Canadian marketable security accounted for approximately 57% (2009: 33%) of the total short term investment in marketable securities or 9% (2009: 23%) of total assets as at March 31, 2010.

The Management tries to mitigate this risk by monitoring daily all its investments with experienced consultants and ensuring that investments are made in companies which are financially stable with viable businesses.

(c) Liquidity risk:

The Company monitors its liquidity position regularly to assess whether it has the funds necessary to fulfill planned exploration commitments on its petroleum and natural gas properties or that viable options are available to fund such commitments from new equity issuances or alternative sources such as farm-out agreements. However, as an exploration company at an early stage of development and without significant internally generated cash flow, there are inherent liquidity risks, including the possibility that additional financing may not be available to the Company, or that actual exploration expenditures may exceed those planned. The current uncertainty in global markets could have an impact on the Company's future ability to access capital on terms that are acceptable to the Company. The Company has so far been able to raise the required financing to meet its obligations on time.



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## 16. FINANCIAL INSTRUMENTS AND CONCENTRATION OF RISKS – (c) - continued

The Company maintains limited cash for its operational needs while most of its surplus cash is invested in short term marketable securities which are available on short notice to fund the Company's operating costs and other financial demands.

### (d) Currency risk

The operating results and financial position of the Company are reported in Canadian dollars. Approximately 14% of total monetary assets at June 30, 2010 (23% as at March 31, 2010 and 17% as at June 30, 2009), and approximately 88% of its liabilities as at that date (87% as at March 31, 2010 and nil as at June 30, 2009 ) were held in US dollars. The results of the Company's operations are therefore subject to currency transaction and translation risk.

The fluctuation of the US dollar in relation to the Canadian dollar will consequently impact the loss of the Company and may also affect the value of the Company's assets and the amount of shareholders' equity.

Comparative foreign exchange rates are as follows:

	<u>June 30, 2010</u>	<u>March 31, 2010</u>	<u>June 30, 2009</u>
One US Dollar to CDN Dollar	1.0606	1.0156	1.163-

The Company has not entered into any agreements or purchased any foreign currency hedging arrangements to hedge possible currency risks at this time.

The balances in US Dollar as at June 30, 2010 were as follows: (all figures in 000'CDN\$ equivalent)

	<u>2010</u>
Cash, receivables & short term investments	\$1,408
Accounts payable and accrual	(1,658)
Net liabilities	<u>\$(205)</u>

Based on the above net exposure, a 5% depreciation of the Canadian dollar against US dollar will increase the net liabilities by \$12,500 while a 5% appreciation of the Canadian dollar against US dollar will decrease the net liabilities by \$ 12,500.

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### 17. CAPITAL DISCLOSURES

The Company considers the items included in Shareholders' Equity as capital. The Company had payables of approximately \$ 1.9 million as at June 30, 2010 and current assets, mostly in cash and short term investments of approximately \$2.9 million. The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to pursue new business opportunities and to maintain a flexible capital structure which optimizes the costs of capital at an acceptable risk.

The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Company may attempt to issue new shares, issue new debt, acquire or dispose of assets or adjust the amount of cash and short term investments.

As at June 30, 2010, the shareholders' equity was approximately \$ 8.4 million (March 31, 2010: \$ 7.2 million). Approximately 27% or \$2.3 million was held in cash and short term investments (March 31, 2010: \$3.8 million or 55%). The Company completed its November 2009 private placement on April 30, 2010 and approximately additional \$2.3 million was raised.

The Company is not subject to any externally imposed capital requirements and does not presently utilize any quantitative measures to monitor its capital.

The Company expects its current capital resources will be sufficient to carry its business plans and operations through its current operating period. However, the Company has commitments to raise approximately US\$ \$12 million within the next six months to meet its obligations under the indirect working interest held in two off shore Israeli licenses.

### 18. DIFFERENCES BETWEEN CANADIAN AND UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRINCIPLES

These financial statements have been prepared in accordance with generally accepted accounting principles in Canada ("Canadian GAAP"). Which are not materially different from principles, practices and methods used in the United States ("US GAAP") and in SEC Regulation S-X.

#### Future U.S. accounting policy changes

There were no new accounting developments in the US standards that would affect the results of operations or financial position of the Company other than those detailed in the audited consolidated financial statements for the year ended March 31, 2010.

### 19. PRIOR PERIOD'S FIGURES

Certain prior period's amounts have been reclassified to conform to current presentation.

## PART II

### INFORMATION NOT REQUIRED IN PROSPECTUS

#### ITEM 6. – INDEMNIFICATION OF DIRECTORS AND OFFICERS.

The Bylaws require us to indemnify a director or officer, a former director or officer, or a person who acts or acted at our request as a director or officer of a body corporate of which we are or were a shareholder or creditor, and his heirs and legal representatives, against all costs, charges and expenses, including an amount paid to settle an action or satisfy a judgment, reasonably incurred by him in respect of any civil, criminal or administrative action or proceeding to which he is made a party by reason of being or having been a director or officer of or such body corporate, if (a) he acted honestly and in good faith with a view to the best interests of our company; and (b) in the case of a criminal or administrative action or proceeding that is enforced by a monetary penalty, he had reasonable grounds for believing that his conduct was lawful. We will also indemnify such person in such other circumstances as the Business Corporations Act or law permits or requires. The Bylaws permit the purchase of indemnity insurance.

#### ITEM 7. – RECENT SALES OF UNREGISTERED SECURITIES

In the three years preceding the filing of this registration statement, we have issued and sold the following securities that were not registered under the Securities Act. We believe that each of the following issuances was exempt from registration under the Securities Act in reliance on Regulation D under the Securities Act or pursuant to Section 4(2) of the Securities Act regarding transactions not involving a public offering or in reliance on Regulation S under the Securities Act regarding sales by an issuer in offshore transactions.

As of April 30, 2010, we sold 37,750,000 units at USD \$0.20 per unit to 71 accredited investors. Each unit consisted of one common share and one warrant to purchase one common share at an exercise price of USD \$0.35 per share. Proceeds net of issuance costs from the sale were approximately USD \$6,795,000. In addition, we issued warrants to purchase 3,775,000 common shares at an exercise price of USD \$0.35 per share to an accredited party as a finder's fee.

In connection with the acquisition of indirect working interest in offshore licensees, we issued a warrant to purchase up to 5,000,000 common shares to International Three Crown Petroleum and a warrant to purchase up to 2,000,000 common shares to Allied Ventures. These warrants have a 5-year term and an exercise price of USD \$0.35 per share and cash-less exercise feature.

On November 12, 2009, we sold a US \$850,000 promissory note together with a 5-year warrant to purchase 1,000,000 common shares at an exercise price of US \$0.35 per share to one accredited investor. On November 24, 2009, we sold a US\$ 125,000 promissory note together with a 5-year warrant to purchase 150,000 common shares at an exercise price of US\$0.35 per share to one accredited investor. On January 13, 2010, we sold a US\$ 125,000 promissory note together with a 5-year warrant to purchase 150,000 common shares at an exercise price of US\$0.35 per share to one accredited investor.

On October 15, 2009, we sold 10 million units at USD \$0.05 per unit to 11 accredited investors. Each unit consisted of one common share and one warrant to purchase one common share at an exercise price of USD \$0.10 per share. Proceeds net of issuance costs from the sale were approximately USD \$450,000. In addition, we issued warrants to purchase 1,000,000 common shares at an exercise price of USD \$0.10 per share to an accredited party as a finder's fee.

**ITEM 8. – EXHIBITS**

- 1.1 Articles of Incorporation of the Company - Incorporated herein by reference to Exhibit 1(ix) to the Company's Registration Statement on Form 20-F filed on June 12, 2000.
- 1.2 By-Laws of the Company - Incorporated herein by reference to Exhibit 1(xi) to the Company's Registration Statement on Form 20-F filed on June 12, 2000.
- 1.3 Certificate of name change from Kamlo Gold Mines Limited to NRT Research Technologies Inc. - Incorporated herein by reference to Exhibit 1(iii) to the Company's Registration Statement on Form 20-F filed on June 12, 2000.
- 1.4 Certificate of name change from NRT Research Technologies Inc. to NRT Industries Inc. - Incorporated herein by reference to Exhibit 1(iv) to the Company's Registration Statement on Form 20-F filed on June 12, 2000.
- 1.5 Certificate of name change from NRT Industries Inc. to CUDA Consolidated Inc. - Incorporated herein by reference to Exhibit 1(v) to the Company's Registration Statement on Form 20-F filed on June 12, 2000.
- 1.6 Certificate of name change from CUDA Consolidated Inc. to Foodquest Corp. - Incorporated herein by reference to Exhibit 1(vi) to the Company's Registration Statement on Form 20-F filed on June 12, 2000.
- 1.7 Certificate of name change from Foodquest Corp. to Foodquest International Corp. - Incorporated herein by reference to Exhibit 1(vii) to the Company's Registration Statement on Form 20-F filed on June 12, 2000.
- 1.8 Certificate of name change from Foodquest International Corp. to Dealcheck.com Inc. - Incorporated herein by reference to Exhibit 1(viii) to the Company's Registration Statement on Form 20-F filed on June 12, 2000.
- 1.9 Certificate of name change from Dealcheck.com Inc. to Bontan Corporation Inc. - Incorporated herein by reference to Exhibit 1(viii) to the Company's Annual Report on Form 20-F filed on September 23, 2003.
- 2(a) Specimen Common Share certificate - Incorporated herein by reference to Exhibit 1(viii) to the Company's Annual Report on Form 20-F filed on September 23, 2003.
- 4(a)2.i Investor relations contract with Current Capital Corp. dated April 1, 2003 Incorporated herein by reference to Exhibit 4 (a) 2i to the Company's Annual Report on Form 20-F for fiscal 2005 filed on September 28, 2005.
- 4(a)2.ii Media Relation Contract with Current Capital corp. dated April 1, 2003 Incorporated herein by reference to Exhibit 4 (a) 2ii to the Company's Annual Report on Form 20-F for fiscal 2005 filed on September 28, 2005.
- 4(a) 2.iii A letter dated April1, 2005 extending the contracts under 4(a) 2.i and ii. Incorporated herein by reference to Exhibit 4 (a) 2iii to the Company's Annual Report on Form 20-F for fiscal 2005 filed on September 28, 2005.
- 4(c)1 Consulting Agreement dated April 1, 2005 with Kam Shah Incorporated herein by reference to Exhibit 4 (c) 1 to the Company's Annual Report on Form 20-F for fiscal 2005 filed on September 28, 2005.
- 4(c) 2 Letter of April 1, 2010 extending consulting Agreement of Mr. Kam Shah to March 31, 2015 incorporated herein by reference to Exhibit EX-4C2 to Amendment # 2 to the Registration Statement,F-1 filed on June 30, 2010.

- 4(c) 3 Consulting Agreement dated August 4, 2009 with Terence Robinson - incorporated herein by reference to Exhibit EX-10.8 to Amendment # 1 to the Registration Statement,F-1 filed on February 25, 2010.
- 4(c) 4 Consulting Agreement dated July 1, 2009 with John Robinson - incorporated herein by reference to Exhibit EX-10.9 to Amendment # 1 to the Registration Statement,F-1 filed on February 25, 2010.
- 4(c) (iv) 1 The Robinson Option Plan, 2005 Stock Option Plan and 2005 Consultant Stock Compensation Plan - Incorporated herein by reference to Form S-8 filed on December 5, 2005.
- 4(c) (iv) 2 2007 Consultant Stock Compensation Plan – Incorporated herein by reference to Form S-8 filed on January 16, 2007.
- 5.1 Legal Opinion of Sui & Company - - incorporated herein by reference to Exhibit EX-5.1 to Amendment # 3 to the Registration Statement F-1 filed on September 29, 2010.
- 10.1 Contribution and Assignment Agreement dated as of November 14, 2009 by and among International Three Crown Petroleum LLC, Bontan Oil & Gas Corporation, the Company, Allied Ventures Incorporated and Israel Petroleum Company, Limited.- incorporated herein by reference to Exhibit EX-10.1 to Amendment # 1 to the Registration Statement,F-1 filed on February 25, 2010.
- 10.2 Stockholders Agreement dated as of November 14, 2009 by and among Israel Petroleum Company, Limited, Bontan Oil & Gas Corporation, Allied Ventures Incorporated and the Company (for the purposes identified therein) - - incorporated herein by reference to Exhibit EX-10.2 to Amendment # 1 to the Registration Statement,F-1 filed on February 25, 2010.
- 10.3 Allocation of Rights and Settlement Agreement dated March 25, 2010 - Incorporated herein by reference to Amendment No.2 to Registration Statement on Form F-1 filed on June 30, 2010
- 10.4 Agreement regarding Ownership Interest in Israel Petroleum Company, Limited dated April 14, 2010 - Incorporated herein by reference to Exhibit 10.4 to Amendment No.2 to Registration Statement on Form F-1 filed on June 30, 2010
- 10.5 Promissory Note to Castle Rock Resources II, LLC, dated November 12, 2009 - Incorporated herein by reference to Exhibit 10.5 to Amendment No.2 to Registration Statement on Form F-1 filed on June 30, 2010
- 10.6 Pledge Agreement with Castle Rock Resources II, LLC - - incorporated herein by reference to Exhibit EX-10.5 to Amendment # 1 to the Registration Statement,F-1 filed on February 25, 2010.
- 10.7 Form of Warrant to Purchase Common Stock by and between International Three Crown Petroleum LLC and the Company - - incorporated herein by reference to Exhibit EX-10.6 to Amendment # 1 to the Registration Statement,F-1 filed on February 25, 2010.
- 10.8 Form of Warrant to Purchase Common Stock by and between Allied Ventures Incorporated and the Company - - incorporated herein by reference to Exhibit EX-10.7 to Amendment # 1 to the Registration Statement,F-1 filed on February 25, 2010.
- 10.9\* Partnership Subscription and Contribution Agreement dated October 13, 2010
- 23.1 Consent of Schwartz Levitsky Feldman LLP - - incorporated herein by reference to Exhibit EX-23.1 to Amendment # 3 to the Registration Statement F-1 filed on September 29, 2010.
- 23.2 Consent of Sui & Company - - incorporated herein by reference to Exhibit EX-5.1 to Amendment # 3 to the Registration Statement F-1 filed on September 29, 2010.

## ITEM 9. - UNDERTAKINGS

(a) The undersigned registrant hereby undertakes:

(1) To file, during any period in which offers or sales are being made, a post-effective amendment to this registration statement:

(i) To include any prospectus required by Section 10(a) (3) of the Securities Act of 1933;

(ii) To reflect in the prospectus any facts or events arising after the effective date of this registration statement (or the most recent post-effective amendment thereof) which, individually or in the aggregate, represent a fundamental change in the information set forth in this registration statement. Notwithstanding the foregoing, any increase or decrease in volume of securities offered (if the total dollar value of securities offered would not exceed that which was registered) and any deviation from the low or high end of the estimated maximum offering range may be reflected in the form of prospectus filed with the Commission pursuant to Rule 424(b) if, in the aggregate, the changes in volume and price represent no more than a 20% change in the maximum aggregate offering price set forth in the "Calculation of Registration Fee" table in the effective registration statement; and

(iii) To include any material information with respect to the plan of distribution not previously disclosed in the registration statement or any material change to such information in the registration statement.

(2) That, for the purpose of determining any liability under the Securities Act of 1933, each such post-effective amendment shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial *bona fide* offering thereof.

(3) To remove from registration by means of a post-effective amendment any of the securities being registered which remain unsold at the termination of the offering.

(4) If the registrant is a foreign private issuer, to file a post-effective amendment to the registration statement to include any financial statements required by § 210.3-19 of this chapter at the start of any delayed offering or throughout a continuous offering. Financial statements and information otherwise required by Section 10(a) (3) of the Act need not be furnished, provided that the registrant includes in the prospectus, by means of a post-effective amendment, financial statements required pursuant to this paragraph (a) (4) and other information necessary to ensure that all other information in the prospectus is at least as current as the date of those financial statements. Notwithstanding the foregoing, with respect to registration statements on Form F-3 (§ 239.33 of this chapter), a post-effective amendment need not be filed to include financial statements and information required by Section 10(a)(3) of the Act or § 210.3-19 of this chapter if such financial statements and information are contained in periodic reports filed with or furnished to the Commission by the registrant pursuant to section 13 or section 15(d) of the Securities Exchange Act of 1934 that are incorporated by reference in the Form F-3.

(5) That, for the purpose of determining liability under the Securities Act of 1933 to any purchaser, if the registrant is subject to Rule 430C (§230.430C of this chapter), each prospectus filed pursuant to Rule 424(b) as part of a registration statement relating to an offering, other than registration statements relying on Rule 430B or other than prospectuses filed in reliance on Rule 430A (§230.430A of this chapter), shall be deemed to be part of and included in the registration statement as of the date it is first used after effectiveness. Provided, however, that no statement made in a registration statement or prospectus that is part of the registration statement or made in a document incorporated or deemed incorporated by reference into the registration statement or prospectus that is part of the registration statement will, as to a purchaser with a time of contract of sale prior to such first use, supersede or modify any statement that was made in the registration statement or prospectus that was part of the registration statements or made in any such document immediately prior to such date of first use.

(b) Insofar as indemnification for liabilities arising under the Securities Act of 1933 may be permitted to directors, officers and controlling persons of the registrant pursuant to the foregoing provisions, or otherwise, the registrant has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the registrant of expenses incurred or paid by a director, officer or controlling person of the registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Act and will be governed by the final adjudication of such issue.

**SIGNATURES**

Pursuant to the requirements of the Securities Act of 1933, the registrant certifies that it has reasonable grounds to believe that it meets all of the requirements for filing on Form F-1 and has duly caused this amendment No. 4 to this registration statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Toronto, Province of Ontario, on November 17, 2010.

By: /s/ KAM SHAH

Kam Shah

Chief Executive and Financial Officer

Pursuant to the requirements of the Securities Act of 1933, this registration statement has been signed by the following persons in the capacities and on the dates indicated.

<b>Signature</b>	<b>Title/Capacity</b>	<b>Date</b>
/s/ KAM SHAH Kam Shah	Chief Executive Officer, Chief Financial Officer and Director (principal executive, financial and accounting officer)	November 22, 2010
/s/ DEAN BRADLEY Dean Bradley	Director	November 22, 2010
/s/ BRETT REES Brett Rees	Director	November 22, 2010





## Partnership Subscription and Contribution Agreement

This Partnership Subscription and Contribution Agreement is made and entered into this 13 day of October, 2010, among IPC Oil and Gas (Israel) Limited Partnership, an Israeli limited partnership ("**IPC Israel**" or "**IPC**"), Ofer Energy Enterprises LP (in formation), an Israeli limited partnership ("**Investor**"), Ofer Investments Ltd., an Israeli company ("**Ofer Investments**"), Israel Petroleum Company, Limited, a Cayman Islands company ("**IPC Cayman**"), in its capacity as sole limited partner of IPC Israel and International Three Crown Petroleum LLC (a Colorado LLC) ("**ITCP**"), in its capacity as sole general partner of IPC Israel and as sole director of IPC Cayman. ITCP, IPC Israel, and IPC Cayman shall be referred to hereinafter as the "**Developers**". The Developers are entering into this Agreement severally and not jointly.

Now, therefore, the parties hereto agree as follows:

Whereas IPC Israel owns certain rights in Israeli offshore drilling licenses and, alone or together with other owners of rights in those licenses, may enter into transactions with third parties with respect to those licenses as well as with respect to other permits, licenses and leases issued by the State of Israel with respect to oil and gas exploration and development; and

Whereas the Investor and the Developers have reached an agreement pursuant to which the Investor will subscribe such amount of participation shares in IPC Israel equal to one-half of interests in IPC Israel (immediately after subscription therefor) in consideration for a total investment of \$28,000,000 as hereinafter set forth.

### **1. Preamble**

The Preamble to this Agreement forms integral part hereof.

### **2. Warranties of the Developers:** The Developers, jointly and severally with respect to IPC Israel but severally and not jointly with respect to themselves, hereby warrant and represent to the Investor that:

2.1. IPC Israel currently owns, free and clear of any pledges, liens or third party rights except as hereafter described section 2.1.3, a 13.609% working interest in the Israeli offshore drilling licenses called "Myra" (registration no. 347 in the Petroleum Rights Registry) and "Sara" (registration no.348 in the Petroleum Rights Registry), and attached hereto as **Annexes 1 and 2**, respectively, are copies of the "Myra" and "Sara" licenses and the registration of the working interests in the Sara and Myra licenses in the name of IPC Israel in the Petroleum Rights Registry (each a "**License**" or a "**License Area**", and collectively the "**Licenses**"). The rights under the Licenses are subject to compliance with the Israel Petroleum Law and the rules, regulation and guidelines promulgated thereunder.

2.1.1. The Licenses are fully valid and in full force and effect.

2.1.2. Attached hereto as **Annex 3** is the binding work program currently in effect with respect of the Sara and Myra Licenses as approved by the Petroleum Commissioner (the "**Petroleum Commissioner**" or "**Commissioner**") of the Israeli Ministry of National Infrastructures (the "**Work Program**"). Except as set forth in the JOA, the Work Program constitutes the entire outstanding work obligations with respect to the Sara and Myra License Areas, all work obligations under the Work Program that were to be performed prior to the date hereof have been fulfilled by the dates stipulated in Annex 3, and the Developers are not aware of any cause or circumstance which may prevent fulfillment of the future work obligations under existing determinations of the Commissioner.

2.1.3. IPC Israel's ownership of the Licenses is subject to:

2.1.3.1. a proportionate share of overriding royalties totaling 10.5% (including 1% held by Three Crown Petroleum LLC, an affiliate of ITCP and Mr. Howard Cooper (herein "**Cooper**")), as referred to in the Allocation of Rights Agreement referred to below, and each of the following agreements, attached as **Annex 4**: (i) "Overriding Royalty Agreement" dated April 25, 2010 between PetroMed Corporation, East Mediterranean Exploration Company Ltd., Israel Petroleum Company, Ltd., Emmanuelle Energy Ltd., IDB-DT (2010) Energy Ltd. And Royalty Trust; (ii) "Overriding Royalty Agreement dated April, 25, 2010 between PetroMed Corporation, Israel Petroleum Company, Ltd., Emmanuelle Energy Ltd., IDB-DT (2010) Energy Ltd and East Mediterranean Exploration Company Ltd; (iii) "TCP Overriding Royalty Agreement" dated April 25, 2010 between PetroMed Corporation, East Mediterranean Exploration Company Ltd., Israel Petroleum Company, Limited., Emmanuelle Energy Ltd., IDB-DT (2010) Energy Ltd and Three Crown Petroleum LLC; (iv) "Overriding Royalty Agreement – ILDC" dated April 25, 2010 between PetroMed Corporation, East Mediterranean Exploration Company Ltd., Israel Petroleum Company, Limited., Emmanuelle Energy Ltd., IDB-DT (2010) Energy Ltd and Israel Land Development Company Ltd and (v) Overriding Royalty Agreement – IDB-DT" dated April 25, 2010 between PetroMed Corporation, East Mediterranean Exploration Company Ltd., Israel Petroleum Company, Limited., Emmanuelle Energy Ltd., IDB-DT (2010) Energy Ltd and IDB-DT (2010) Energy Ltd;

2.1.3.2. a proportionate share of the obligation of all owners of working interests in the Licenses to convey up to an additional 5% working interest to GeoGlobal Resources (India), Inc., as evidenced in the (i) Operation and Participation Agreement by and among IPC Cayman, Emmanuelle Energy Ltd., IDB-DT Energy (2010) Ltd., PBT Capital Partners LLC, and GeoGlobal Resources (India) Inc. dated as of May 19, 2010 and (ii) an Option Agreement – Samuel License by and among IPC Cayman, Emmanuelle Energy Ltd., IDB-DT Energy (2010) Ltd., PetroMed Corporation, PBT Capital Partners LLC and GeoGlobal Resources (India) Inc. dated as of May 19, 2010, copies of which are annexed hereto as **Annex 5**;

2.1.3.3. the Allocation of Rights and Settlement Agreement dated as of March 25, 2010 ("**Allocation of Rights Agreement**", a copy of which is annexed hereto as **Annex 6**);

2.1.3.4. the JOAs described in Section 2.4 (which includes a draft JOA which has not been executed by all relevant parties to date);

2.1.3.5. Draft of First Amendment to the Operation and Participation Agreement by and among IPC Cayman, Emmanuelle Energy Ltd., IDB-DT Energy (2010) Ltd., PBT Capital Partners LLC, and GeoGlobal Resources (India) Inc., a copy of which is annexed hereto as **Annex 7**; and

2.2. IPC Israel and ITCP are duly registered and in good standing in the respective jurisdictions in which they are organized and copies of their registration certificates and constitutive documents are attached hereto as **Annex 8**. All beneficial interests in IPC Israel are owned by IPC Cayman, while of record the interests are held 99.9% by IPC Cayman and 0.1% by ITCP, free and clear of any pledges, liens or third party rights. ITCP is the sole director of IPC Cayman, and Cooper is the majority owner and manager of ITCP.

2.3. The execution of this agreement and the performance of the transactions contemplated hereunder do not conflict with or contravene any agreements, undertakings, licenses or permits to which any of the Developers are bound, provided however that the Developers do not make any warranty or representation with respect to any determination that the Petroleum Commissioner may make, as contemplated by Section 6 hereof.

2.4. Attached as **Annex 9** are copies of the draft Joint Operating Agreements currently being contemplated by the owners of the Sara and Myra Licenses ("**JOA**") which if executed would govern the conduct of petroleum operations therein.

2.5. Except for a letter in which Shlomo Fogel asserts a claim for the right to acquire an unquantified interest in the Sara and Myra Licenses (the "**Fogel Claim**"), previously disclosed to Investor, no litigation exists or is threatened against any of the Developers, nor is there any ground for such. The Developers do not believe that the claim of Shlomo Fogel has merit.

2.6. The Developers have provided the Investor with access to the data room maintained by, and various geological reports prepared for, the owners of the Sara and Myra Licenses containing 3D seismic and other geological and geophysical data in their possession relating to the Sara and Myra Licenses and they are not in control of or aware of any other material data or interpretations of the data contained in the data room which may be material to the consideration by the Investor in the making of its investment hereunder.

2.7. Attached hereto as **Annex 10**, is a balance sheet as of June 30, 2010, of IPC Israel which fairly and accurately states the assets and liabilities of IPC Israel and, except for incurring expenses in relation to the Licenses up to \$925,000, since June 30, 2010, there has not been any material adverse change with respect thereto. IPC Israel is in the process of becoming duly registered with the tax authorities in Israel and has paid all taxes and withholdings due therefrom.

2.8. The rights of IPC Israel in the Licenses constitute all and any rights of whatsoever kind that IPC Israel, IPC Cayman, ITCP or any other affiliate thereof, own or are or may be entitled to with respect to the Sara and Myra License Areas.

2.9. IPC Israel has no employees, holds no shares in other entities, has no bank accounts (other than funds held for IPC Israel (i) in an account registered in the name of IPC Cayman and (ii) in an account registered in the name of its accountant, Shimony and Company), has not issued any powers of attorney (other than power of attorney issued to its legal counsel in connection with filings under the Israeli Petroleum Law) and has not issued any guaranties.

2.10. IPC Cayman, ITCP, Cooper or any affiliates thereof, have no claims whatsoever against IPC Israel, ITCP or in respect of the Licenses, except for cash and accounts receivables up to an amount of \$500,000 held by IPC Israel, which IPC Cayman may direct to the use of payment of Excluded Expenses (as defined below).

2.11. IPC Israel has assumed certain payment obligations of IPC Cayman, as provided in the Amended and Restated Assignment and Assumption dated October 9, 2010 between IPC Cayman and IPC Israel, attached as **Annex 11** hereto. The parties agree that all cash, accounts receivable and accounts payable as at the date of Closing, of which all cash and accounts receivable may be used to pay Excluded Expenses, at the election and/or request of IPC Cayman or ITCP. "**Excluded Expenses**" shall mean all accounts payable of IPC Israel as at the date hereof, including those included in Annex 11. In addition, IPC Cayman may at its option make capital contributions (without increasing the capital account of IPC Israel) to IPC Israel and cause IPC Israel to make the payment of all unpaid Excluded Expenses. In any event Investor shall not be required to contribute any amounts to enable IPC to pay for said accounts payable, without its express prior written consent.

2.12. IPC Israel has an option to acquire a 14.325% interest of 20% of the working interest in the Samuel drilling license (registration no. 388 in the Petroleum Rights Registry), however, the Developers do not make any representations or warranties with respect to such option.

2.13. ITCP represents that the inclusion of the Special ITCP Covenants Amendment (as defined below) is binding on ITCP and its members qua members.

### **3. Transaction and Consideration:**

3.1. At the Closing as hereafter defined, Investor shall subscribe for participation shares of limited partnership interest in IPC Israel, equal to 50% of all of the limited partnership interests therein (immediately after subscription therefor), free and clear of any pledges, liens or third party rights, and shall receive certain voting and managements rights related to IPC Israel, as further set forth in the Joint Management Agreement (the "**Joint Management Agreement**") attached as **Annex B** hereto (the "**Special ITCP Covenants**"), in consideration for an aggregate investment of \$28,000,000, as adjusted in accordance with Section 4 (the "**Investment**").

3.2. **Deposit:** At Closing, the Investor shall transfer to IPC Israel the amount of \$2,000,000 (the "**Deposit**") on account of the Investment to cover a portion of the Initial Exploration Well Costs (as defined below) immediately upon cash calls made by the operator under the JOA (the "**Operator**").

- 3.3. "**Initial Exploration Well Costs**" shall mean 13.609% of the costs of Drilling, Deepening, Testing, Sidetracking, Plugging Back, Recompletion, Reworking and either Completing or plugging and abandoning of an Initial Exploration Well drilled on each of the Sara and Myra Licenses under the JOA up to the Investment and subject to the Well Caps described in Section 4 below. "**Initial Exploration Wells**" shall mean the initial exploratory well in each of the Myra and Sara License Areas.
- 3.4. **Areas and Mutual Interest and Right of First Offer.** Each party (the "**Offering Party**") agrees to grant the other party a right of first offer with respect to all opportunities (the "**Opportunities**") related to permits, licenses and/or leases related to oil and gas in Israel, including off-shore. In connection with such Opportunities, the Offering Party shall deliver a written notification to the other party which shall include the terms of such an Opportunity (the "**Opportunity Notice**"). In the event that the other party fails to accept such Opportunity within thirty (30) days following receipt of the Notice, then the Offering Party may offer such Opportunity to a third party during the ninety (90) day period following the expiration of the foregoing thirty (30) day period, at the same terms specified in the Notice. After said ninety (90) day period, said Opportunities will be offered anew under this First Offer mechanism. This provision shall cease to apply on the fifth anniversary hereof. For the sake of clarity, Opportunities shall not be deemed to include any transaction (such as sale or other disposition) in the overriding royalty rights held by the Investor with respect to the Sara and Myra License Areas as of the date hereof.

#### 4. **Terms of the Investment:**

- 4.1. **Background:** IPC Israel will be required to pay the Initial Exploration Well Costs pursuant to the Work Program for the drilling of the Initial Exploration Wells approved by the Petroleum Commissioner and approved AFEs. Such payments will be required to be made pursuant to cash calls made by the Operator pursuant to duly authorized operations budgets and AFEs under the JOAs for each License Area. For the purposes of this Section 4, reference to "JOA" shall include any then current Joint Operating Agreements.
- 4.2. **Performance of Investment:** Investor shall contribute to IPC Israel, upon cash calls made by the Operator within the time period required under said call, the funds necessary to pay to the Operator such amount equal to IPC Israel 13.609% share of Initial Exploration Well Costs for the two Initial Exploration Wells but not more than \$28,000,000 (such amount to include the Deposit) subject to the per Well Cap stipulated in Section 4.3 hereinafter.
- 4.3. **Per Well Cap:** Subject to Investor's obligations under Section 4.5 herein, Investor's performance of the Investment shall be capped at U.S.\$ 14,000,000 per well or the cost of the Well, whichever the lower ("**Well Cap**"), provided, however, that the Well Cap may be increased for the second Initial Exploration Wells to the extent the amount contributed for the first Initial Exploration Well is less than \$14,000,000 and the first Initial Exploration Well resulted in a "Commercial Discovery" of hydrocarbons within the terms of the Petroleum Law 5751-1951 ("**Commercial Discovery**").

For the avoidance of doubt, the provisions above are demonstrated in these examples:

**Example 1 – Application of Cap:** IPC Israel 13.609% share of Initial Exploration Well Costs for the first Initial Exploration Well equals \$14,000,000, the Well Cap for such well will be \$14,000,000 (and contributions up this amount shall be made solely by Investor) and the well cap for the next Initial Exploration Well will be \$14,000,000. If it is then determined that IPC Israel's 13.609% share of Initial Exploration Well Costs for the second Initial Exploration Well equals \$16,000,000, Investor shall contribute up to the cap, i.e. \$14,000,000 and the remaining amount will need to be provided by IPC Israel from other sources. The Investor and IPC Cayman agree to increase their capital commitments to IPC Israel in respect of said shortfall of the remaining \$2,000,000.

**Example 2 – Cap Shift from Well to Well:** if IPC Israel's 13.609% share of Initial Exploration Well Costs for the first Initial Exploration Well equals \$10,000,000 and the first Initial Exploration resulted in a Commercial Discovery, the Well Cap for such well will be \$10,000,000 and the well cap for the next Initial Exploration Well will be increased to \$18,000,000 so that for the next well Investor will be required to contribute up to \$18,000,000. If in fact IPC Israel's 13.609% share of Initial Exploration Well Costs for the next Initial Exploration Well equals \$18,000,000, Investor will not be required to contribute more than that amount. If, on the other hand, IPC Israel's 13.609% share of Initial Exploration Well Costs for the next Initial Exploration Well equals \$20,000,000, then Investor shall contribute up to the adjusted well cap, i.e. \$18,000,000 and the remaining amount will need to be provided by IPC Israel from other sources. The Investor and IPC Cayman agree to increase their capital commitments to IPC Israel in respect of said shortfall of the remaining \$2,000,000.

- 4.4. If the aggregate pro rata share of IPC Israel for the Initial Exploration Well Costs for the two Initial Exploration Wells is less than \$28,000,000, then, subject to this Section 4.4, the unutilized portion of the Initial Exploration Well Costs shall be cancelled and the Investor shall be under no further obligation to make additional contributions in performance of the Investment with respect to the Exploration Wells, provided, however, that if, no later than June 30, 2011, the holders of the interests in the License Areas enter into a binding agreement with a new operator, or an amendment to an agreement with the then current operator, who agrees to carry part of their investments for Initial Exploration Well Costs for either or both of the Initial Exploration Wells, then any part of the Investment that is reduced due to the carry of such operator (whether as a result of reduction in the pro-rata share of IPC in the License and/or any other reason), less an amount equal to \$2,000,000, shall remain available to the credit of IPC Israel for Initial Exploration Well Costs for additional Exploration Wells drilled on the Sara and Myra Licenses or other licenses acquired by the IPC Israel, in order of drilling, subject to the terms and limitations contained in this Section 4.
- 4.5. If the aggregate pro rata share of IPC Israel for the Initial Exploration Well Costs for the two Initial Exploration Wells is more than \$28,000,000, then the remaining amount will need to be provided by IPC Israel from other sources. The Investor and IPC Cayman agree to increase their capital commitments to IPC Israel in respect of said shortfall. In addition, the Investor and IPC Cayman agree to increase their capital commitments to IPC Israel and to pay their portion of any cash calls under the JOA, related to expenses that are not part of the Initial Exploration Well Costs.
- 4.6. If the first Initial Exploration Well does not result in a "**Commercial Discovery**", then the Investor shall be entitled to be reimbursed on a nonrecourse basis for half of the Investment for the unsuccessful well plus interest accruing at a rate of 10% annually; provided however that such reimbursement to be payable only from 66.6% of the proceeds (net of applicable expenses) of production accruing to IPC Israel, if any, attributable to the ownership interest of IPC Israel in the Initial Exploration Well that resulted in a Commercial Discovery or 66.6% of the cash distribution or return of equity permitted by the lenders financing the development of the License Areas ("**Investor Payback**").

The above provision may be illustrated by the following example:

IPC Israel 13.609% share of Initial Exploration Well Costs for the first Initial Exploration Well equals \$14,000,000 for the first well and \$15,000,000 for the second well. Investor contributes up to the well cap, so that \$14,000,000 is contributed by Investor for the first well, and \$14,000,000 is contributed by Investor for the second well, both in performance of the Investment. The first well is unsuccessful. The second well is a Commercial Discovery. Investor is entitled to be reimbursed up to \$14,000,000 of its contributions for the first well (i.e. half of those contributions made in satisfaction of the Investment in the unsuccessful well) from 66.6% of the net proceeds from the sale of production attributable to IPC Israel interest in the first well or cash release from the lenders as aforesaid.

- 4.7. Ofer Investments Ltd. (the "**Parent**") hereby guarantees towards the Developers the obligation of the Investor to provide the remaining amount of the Investment following the delivery to IPC Israel of the Deposit (i.e., additional \$26,000,000 or the cost of the Initial Exploration Wells, whichever the lower). The Parent shall make payment of any amount required from Investor, immediately upon failure by Investor to deliver in a timely manner any amounts required under the Investment and a written notice of such failure has been delivered to the Parent.
- 4.8. Investor fully understands and agrees to consequences of the breach of the timely failure to make the Investment, such consequences being the forfeiture of all the Investor's interests in IPC Israel.
- 4.9. Except as set forth in Section 4.4 with respect to the decrease in the pro rata share of IPC in the Licenses, the Investment shall be adjusted pro rata to agreed increases or decrease in the pro rata share of IPC in the Licenses.

#### 5. **Closing**

The closing of the transaction ("**Closing**") shall be consummated on the date of the execution hereof or the date following the execution, at which time IPC Israel delivers to the Investor the confirmation of registration at the Partnership Registrar of Investor's participation shares of limited partnership interest in IPC Israel, equal to 50% of all of the limited partnership interests therein (immediately after subscription therefor) (without including the provisions of Annex A), pursuant to and against which Investor shall deliver the Deposit to IPC Israel.

Promptly following the Closing, the Parties shall execute an amendment to the IPC Israel partnership agreement containing terms and conditions described in the Partnership Term Sheet attached hereto as Annex A.

Promptly following the Closing, the Parties shall make such adjustment (to extent required) to ensure that IPC Cayman (or its designee) and Investor hold equal portions of the limited partnership rights, in light of the holding of ITCP as the General Partner and the beneficial interest of IPC Cayman in said holdings of ITCP.

In addition, at Closing ITPC and the Investor shall execute the Joint Management Agreement and the Articles of Organization of ITPC shall be amended to include reference to the Special ITPC Covenants in substantially the following language (the "**Special ITPC Covenants Amendment**"): "The managing member of the LLC shall comply in all respects with the Joint Management Agreement (the "Joint Management Agreement") among Investor, Israel Petroleum Company, Limited and the LLC, related to the management of IPC Oil and Gas (Israel) Limited Partnership, including, without limitation, compliance with any voting rights and/or veto rights granted to Investor (or its designee) pursuant to the Joint Management Agreement".

6. **Petroleum Commissioner Notice.** To the extent required by law, the consent of the Petroleum Commissioner shall be a condition precedent to the grant of rights to Investor, as contemplated herein. Within 30 days from the date of the Closing or sooner, the Parties shall notify the Petroleum Commissioner of this transaction and, if within 180 days from the date hereof, the Petroleum Commissioner lawfully notifies the Parties that the subscription by the Investor to rights in IPC Israel and or in ITCP requires approval by the Petroleum Commissioner under applicable law and that such approval will not be forthcoming for reasons that are not curable by IPC Israel (without imposing either on IPC Israel or the Investor any waiver, loss or burden) or Investor (a "**Rejection Notice**") or is otherwise delayed, then the Investor shall be afforded an additional period until December 31, 2011 to obtain the consent of the Petroleum Commissioner. If, however, the Commissioner requires that for the purposes of issuing its consent, the Investor and/or IPC Cayman and/ ITCP or the controlling shareholders thereof agree that any transfer of their limited partnership interests or shares be subject to the consent of the Commissioner, the Parties agree to accept such requirement, provided that IPC Cayman, ITCP or the controlling shareholders thereof shall not be required to agree to any action that may prevent (i) the conveyance of IPC Cayman's interests in IPC Israel to a company publicly traded on the Tel Aviv Stock Exchange (the "**IPC Shell**") or (ii) the replacement of ITCP as a general partner of IPC Israel as contemplated herein.

7. **Termination and Restitution.** Notwithstanding the foregoing, in no event shall the delivery (or delay in delivery) of the Rejection Notice or any delay in issuance of the consent by the Petroleum Commissioner delay the payment of any drawdown under the Investment to IPC Israel as provided herein. If the consent of the Petroleum Commissioner is not obtained pursuant to the provisions of section 6 above by December 31, 2011, then (i) the Investor may give notice to the Parties that it is terminating the Agreement in which case IPC shall be obligated to make restitution payment to the Investor equal to the amount of the Investment actually made plus any other capital contributions made by the Investor to such date plus interest at the rate of 10% per annum from the date each amount of the Investment or capital contribution was made and shall be repayable in full (including accrued interest) (hereinafter: the "**Restitution Payment**") by June 30, 2013 or (ii) IPC Israel may give notice to the Investor that it is terminating this Agreement and shall be obligated to effect the Restitution Payment within seven days of its notice. Upon receipt of the Restitution Payment in full without set-off or deduction and a release of Investor and Parent from any obligations, liabilities and claims with respect to IPC Israel and/or to the Developers (the "**Release**"), the Investor shall transfer its limited partnership interests and shares in the General Partner as per the instructions of the General Partner. Upon termination of the Agreement, and upon and against receipt of the Restitution Payment and the Release as aforesaid, Investor shall execute any document reasonably requested by IPC Israel, IPC Cayman or ITCP to confirm the termination of its limited and general partnership interest and/or its rights under the Joint Management Agreement, free and clear of any pledge or claims, and each of Investor, IPC Cayman and ITCP hereby irrevocably appoints and empowers IPC Israel as its power of attorney to execute such documents.



## 8. **Breach**

- 8.1. **Indemnification.** In the event of any breach of the Developers' warranties or representations made under this Agreement, each of IPC Cayman and ITPC (the "**IPC Indemnifying Parties**") shall, subject to the limitations set forth below, indemnify the Investor, including its directors, officers, employees and agents (the "**Investor Indemnified Parties**") against, and hold Investor Indemnified Party harmless from, any and all loss or damage (including reasonable legal fees and costs) (collectively, "**Losses**") arising out of, or as a result of, or in connection with, said breach of the Developers' representations or warranties contained in this Agreement.
- 8.2. The IPC Indemnifying Parties shall, subject to the limitations set forth below, indemnify the Investor Indemnified Parties against, and hold Investor Indemnified Party harmless from, any and all Losses arising out of, or as a result of, or in connection with, any final judgment of a court of competent jurisdiction against IPC Israel in connection with the Fogel Claim.
- 8.3. **Survival of Representations.** The representations and warranties set forth in this Agreement shall survive the Closing and shall remain in full force and effect until the second anniversary of the Closing (except for the representations set forth in Section 2.1 (except for Sections 2.1.1 and 2.1.2) and the second sentence of Section 2.2 (the "**Ownership Representations**") which shall survive until the expiration of the applicable statute of limitations).
- 8.4. **Limitations on Indemnification.**
- 8.4.1. Notwithstanding anything to the contrary herein, IPC Indemnifying Parties shall have no obligation to indemnify for Losses exceeding an aggregate amount of the Investment. In addition, the IPC Indemnifying Parties have no obligation to indemnify for Losses until the aggregate amount of all Losses with respect to those matters exceeds \$50,000.
- 8.4.2. In the event that the IPC Indemnifying Parties fail to indemnify the Investor Indemnified Parties, in accordance with the provisions of this Section 8, then the Investor may elect, in lieu of any remedy available to it under Sections 8.1 and 8.2, to dilute the limited partnership interests of the IPC Indemnifying Parties in IPC Israel and the membership interests in ITPC related to its current rights as general partner of IPC Israel (and no other right), as applicable, in a proportional rate to the indemnification amount payable to the Investor hereunder.
- 8.5. Notwithstanding the foregoing, in the event of a breach by the Developers of the Ownership Representations, or in the event of a material breach by the Investor of its representation, warranties and covenants, the non breaching party shall have all remedies available at law with respect to a breach of contract, including termination due to a material breach.
- 8.6. Except as provided in Section 8.5, the indemnification obligations of Sections 8.1, 8.2 and 8.4 will constitute the sole remedy of Investor against the IPC Indemnified Parties in respect of a breach of any representation, warranty, covenant or agreement of such IPC Indemnified Parties under this Agreement.
- 8.7. IPC Indemnifying Parties shall have no recourse to IPC Israel in a respect to an indemnifying event pursuant to which Investor seeks indemnity from said persons.

## 9. **Establishment of a new General Partner**

As soon as practically possible but no later than December 31, 2010, ITCP and Investor will use best efforts to establish a new Israeli entity to replace ITPC as the general partner of IPC Israel. In such case, Investor's Special ITCP Covenants and the Joint Management Agreement shall automatically terminate. The parties agree that Investor or Investor Shell (as defined below) shall own 50% of the interests in such entity and IPC Cayman or the IPC Shell shall own 50% of the interests in such. The General Partner shall be entitled to the remuneration from IPC Israel as shall be agreed to by the parties, which shall be substantially similar to the remuneration currently payable to Modiin Energy LP.

## 10. **Contemplated Transfer of IPC Cayman's Interests to a Publicly Traded Shell and Subsequent Flotation of IPC**

Investor agrees that that IPC Cayman may, after the Closing, freely convey its interests in IPC Israel to the IPC Shell in exchange for ownership of initially 90% of the equity ownership of the IPC Shell, and IPC Cayman and ITCP agree that the Investor may, after the Closing, freely convey its interests in IPC Israel to a company publicly traded on the Tel Aviv Stock Exchange. Except as provided herein, the Investor or IPC Cayman, as the case may be, shall bear no liability, cost or responsibility in connection with any such transfer effected by the other.

The Parties declare their current intent to float the participation units of IPC Israel on the Tel-Aviv Stock Exchange ("**Partnership IPO**") as soon as practically possible subject to the parties arriving at mutually agreeable terms and structure that are commercially reasonable for the parties, after full consideration. Investor agrees that the said flotation shall not be in lieu of Investor's obligations to fund the Initial Exploration Well Costs.

## 11. **Representations, Warranties, Acknowledgments and Risk Disclaimer of Investor and Investor Parent**

**Financial Capability.** Each of the Investor (for itself and on behalf of any beneficiary) and Offer Investments has the funds required, and the financial capability necessary, to fulfill its obligations under this Agreement and any other agreement, document or instrument to be performed by the Agreement.

**Experience.** Each of the Investor (for itself and on behalf of any beneficiary) and Offer Investments is able to fend for itself in the transactions contemplated by this Agreement, has such knowledge and experience in financial business matters as to be capable of evaluating the merits and risks of its investment, has no need for liquidity in its investment and has the ability to bear the economic risks of its investment. Investor conducted all necessary diligence related to the Investment with a geological expert with respect to the data provided to Investor and is familiar with the regulatory environment relevant to the business of IPC Israel and the Licenses, including with all the Petroleum Law, and all regulations, and other promulgations of the Petroleum Commissioner.

**Investment.** Investor (for itself and on behalf of any beneficiary) has been advised and understands that the interest it acquires herein has not been registered under any applicable securities laws and that in this connection; Investor has been further advised and understands that no public market now exists for the interest it acquired in IPC Israel and that a public market may never exist for such interest.

**Brokers.** Investor (for itself and on behalf of any beneficiary) has no contract with any broker, finder or similar agent with respect to the transactions contemplated by this Agreement.

**Beneficial Interests.** The Investor may acquire a portion of the partnership interests in IPC Israel or the shares ITCP and/or the new general partner (together: the "**Interests**") for undisclosed beneficiaries so long that the number of such beneficiaries, together shall not result in a public offering. The Interests shall be recorded in the name of the Investor only, the beneficiaries shall have no right to deal with IPC Israel IPC Cayman or ITCP directly and Investor shall solely, exercise control over such interests (including any related voting rights and/or management rights). Investor acknowledges and agrees that any covenant and/or representation made by IPC Israel, IPC Cayman and/or ITCP, is made solely for the benefit of the Investor and not for the benefit of such undisclosed beneficiaries.

Investor acknowledges that nothing in the Agreement or the annexes or schedules hereto shall be construed as being inconsistent with the Allocation of Rights Agreement and with Developer's obligations thereunder.

## 12. **Governing Law, Dispute Resolution and Jurisdiction**

- 12.1. The substantive laws of the State of Israel (without regard to choice of law provisions) govern this Agreement.
- 12.2. Any dispute arising out of or in connection with this Agreement, including any question regarding its existence, validity or termination, shall be referred to and finally resolved by binding arbitration to be conducted in English in Tel Aviv, Israel, under the Israeli Arbitration Law (1968), before a single arbitrator. The arbitrator shall be appointed by the parties, or, if the parties are unable to agree on the identity of the arbitrator, by the then-current chairman of the Tel Aviv District of the Israeli Bar. Any party may bring a claim for injunctive relief in any court of competent jurisdiction.
- 12.3. Each Party hereby (i) consents to service of process in any action between the Parties arising in whole or in part under or in connection with this Agreement in any manner permitted by Israeli law, (ii) agrees that service of process made in accordance with clause (i) or made by registered or certified mail, return receipt requested, at its address specified herein, will constitute good and valid service of process in any such action (iii) waives and agrees not to assert (by way of motion, as a defense, or otherwise) in any such action any claim that service of process made in accordance with clause (i) or (ii) does not constitute good and valid service of process. Each of IPC Cayman and ITCP hereby irrevocably appoints Itay Weinstein at Shimony and Company as agent for service of process for the purposes of this Agreement and Annexes A and B.

## 13. **MISCELLANEOUS**

- 13.1. **US Tax Elections.** Neither IPC Israel nor the partners will unreasonably prevent, and will use commercially reasonable efforts to assist with, the filing of US elections, forms or return filings that Cooper, in his sole discretion may deem appropriate, so long as the partnership and the other partners are not anticipated to have negative consequences or expenses due to such actions by Cooper. Such US elections, forms or return filings may include, but are not limited to US Form 8832 (choice of type of tax entity), US IRC Section 754 Election (tax basis adjustments), US IRC Section 367 Gain Recognition Agreements.
- 13.2. The Parties agree to use reasonable efforts to coordinate any public announcement or filing required by applicable law regarding the transaction contemplated hereby, the Partnership, the Licenses or the business and affairs of the Partnership, provided that nothing herein shall prevent either Party from making such disclosures in a timely manner as it shall deem are required by law.
- 13.3. This Agreement represents the entire agreement between the Parties in relation to the subject matter hereof and supersedes any previous agreement or understanding between the Parties in relation to all or any such matters.
- 13.4. No term or condition of this Agreement shall be considered to be waived by any Party unless, and to the extent that, such waiver is given in writing and authorized by the waiving Parties.
- 13.5. No provision of this Agreement is intended by the Parties to be construed as creating any right(s) enforceable by a third party and all third party rights implied by law are, to the extent permissible by law, excluded from this Agreement.
- 13.6. This Agreement may be executed in any number of counterparts with the same effect as if the signatures were upon a single engrossment of this Agreement, but shall not be effective until each Party has executed at least one counterpart.

13.7. Each of the Parties shall from time to time hereafter and upon any reasonable request of any other Party, make or cause to be made all such further acts, deeds, assurances and things as may be required or necessary to more effectually implement and carry out the true intent and meaning of this Agreement.

13.8. This Agreement shall be binding upon and shall inure to the benefit of the Parties hereto and their respective successors and assigns (if any).

13.9. All notices authorized or required between the parties by any of the provision of this Agreement shall be in writing, in English, and delivered in person or by courier service or by any electronic means of transmitting written communications which provides written confirmation of complete transmission, and addressed to the appropriate party. Oral communication does not constitute notice for purposes of this Agreement. A notice given under this Agreement shall be deemed delivered only when actually delivered to the address of the party as follows. A party may change its address by giving written notice of its new address to the other parties:

If to Investor:

1 Abba Eban Blv., Herzlia Pituach 46120, Israel

with a copy to:

Jack Smith, Adv. Gornitzky & Co., 45 Rothschild Blvd. (Zion Building) Tel-Aviv 65784 Israel

If to IPC Israel:

co Three Crown Petroleum LLC, 2614 Larkspur Lane, Unit E, Vail CO 81657

with a copy to:

Itay Weinstein, Shimony and Company, 5 Bedner St., Ramat Gan 52542 Israel

and

David Chertok, Adv. Meitar Liquornik Geva & Leshem Brandwein 16 Abba Hillel Rd. Ramat Gan 52506, Israel

If to ITCP or IPC Cayman:

co Three Crown Petroleum LLC, 2614 Larkspur Lane, Unit E, Vail CO 81657

with a copy to:

Itay Weinstein, Shimony and Company, 5 Bedner St., Ramat Gan 52542 Israel

and

David Chertok, Adv. Meitar Liquornik Geva & Leshem Brandwein 16 Abba Hillel Rd. Ramat Gan 52506, Israel

*[Remainder of Page Intentionally Left Blank]*

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IN WITNESS this Agreement has been executed by the Parties and is intended to be and is delivered on the date appearing on its first page.

\_\_\_\_\_  
Ofer Energy Enterprises LP  
(In formation)

\_\_\_\_\_  
Israel Petroleum Company Limited

\_\_\_\_\_  
Internation Three Crown Petroleum LLC

\_\_\_\_\_  
IPC Oil and Gas (Israel) Limited Partnership

\_\_\_\_\_  
Ofer Investments Ltd.

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**JOINT OPERATING AGREEMENT**

**Dated October 6, 2010**

**between**

**IPC OIL AND GAS (ISRAEL) LIMITED PARTNERSHIP  
EMANUELLE ENERGY LIMITED  
EMANUELLE ENERGY OIL AND GAS LIMITED PARTNERSHIP  
THE ISRAEL LAND AND DEVELOPMENT COMPANY LIMITED  
IDB DEVELOPMENT CORPORATION LIMITED  
MODIIN ENERGY LIMITED PARTNERSHIP**

**and**

**BLUE WATER OIL AND GAS EXPLORATION LIMITED**

as Non-Operators

**and**

**GEOGLOBAL RESOURCES (INDIA) INC.**

as Operator

**Relating to**

**347/MYRA LICENSE, OFFSHORE ISRAEL**



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THIS AGREEMENT is made as of the 6th day of October 2010 (the "Effective Date") among:

- (1) IPC OIL AND GAS (ISRAEL) LIMITED PARTNERSHIP, an Israeli limited partnership having its principal place of business at [ ] (hereinafter referred to as "IPC");
- (2) EMANUELLE ENERGY LIMITED, an Israeli limited liability company having its principal place of business at 2 Shenkar Street Tel Aviv 68010 Israel (hereinafter referred to as "EMANUELLE");
- (3) EMANUELLE ENERGY OIL AND GAS LIMITED PARTNERSHIP, an Israeli limited liability partnership having its principal place of business at 2 Shenkar Street Tel Aviv 68010 Israel (hereinafter referred to as "EMANUELLE PARTNERHSIP");
- (4) THE ISRAEL LAND DEVELOPMENT COMPANY LIMITED, an Israeli limited liability company having its principal place of business at 2 Shenkar Street Tel Aviv 68010 Israel (hereinafter referred to as "ILDC");
- (5) IDB DEVELOPMENT CORPORATION LIMITED, an Israeli limited liability company having its principal place of business at 3 Azrieli Center, Triangle Tower, Tel Aviv 67023, Israel (hereinafter referred to as "IDB");
- (6) MODIIN ENERGY LIMITED PARTNERSHIP, an Israeli limited liability partnership having its principal place of business at 3 Azrieli Center, Triangle Tower, Tel Aviv 67023, Israel (hereinafter referred to as "MODIIN");
- (7) BLUE WATER OIL AND GAS EXPLOARTION LIMITED, an Israeli limited liability company having its principal place of business at K Street, NW 1667 Suite 1230 Washington DC 20006, U.S.A (hereinafter referred to as "BLUE WATER");
- (8) GEOGLOBAL RESOURCES (INDIA), INC., a Barbados corporation having its principal place of business at Suite 200, 625 – 4th Avenue SW Calgary, Alberta Canada (hereinafter referred to as "GGR").

The entities named above, and their respective successors and assignees (if any), may sometimes individually be referred to as "Party" and collectively as the "Parties".

**WITNESSETH:**

WHEREAS, each of the Parties owns, as of the Effective Date, or has the right to acquire a Participating Interest in and to the License;

WHEREAS, the Parties desire to define their respective rights and obligations with respect to their operations under the Contract;

NOW, THEREFORE, in consideration of the premises and the mutual covenants and agreements and obligations set out below and to be performed, the Parties agree as follows:

**ARTICLE 1**

**DEFINITIONS**

As used in this Agreement, the following words and terms shall have the meaning ascribed to them below and in the event that any of them are defined under Laws / Regulations the definition under the Laws/ Regulations shall prevail to the extent a conflict exists:

- 1.1 **Accounting Procedure** means the rules, provisions and conditions contained in Exhibit A.
- 1.2 **AFE** means an authorization for expenditure pursuant to Article 6.7.
- 1.3 **Affiliate** means a legal entity which Controls, or is Controlled by, or which is Controlled by an entity which Controls, a Party.

- 1.4 **Agreed Interest Rate** means interest compounded on a monthly basis, at the rate per annum equal to the one (1) month term, London Interbank Offered Rate (LIBOR rate) for Dollar deposits, as published in London by the Financial Times or if not published, then by The Wall Street Journal, plus two (2) percentage points, applicable on the first Business Day prior to the due date of payment and thereafter on the first Business Day of each succeeding calendar month. If the aforesaid rate is contrary to any applicable usury law, the rate of interest to be charged shall be the maximum rate permitted by such applicable law.
- 1.5 **Agreement** means this agreement, together with the Exhibits attached to this agreement, and any extension, renewal or amendment hereof agreed to in writing by the Parties.
- 1.6 **Appraisal Well** means any well (other than an Exploration Well or a Development Well) whose purpose at the time of commencement of drilling such well is to appraise the extent or the volume of Petroleum reserves contained in an existing Discovery.
- 1.7 **Business Day** means a Day on which the banks in both Tel Aviv, Israel and New York City, United States of America are customarily open for business.
- 1.8 **Calendar Quarter** means a period of three (3) months commencing with January 1 and ending on the following March 31, a period of three (3) months commencing with April 1 and ending on the following June 30, a period of three (3) months commencing with July 1 and ending on the following September 30, or a period of three (3) months commencing with October 1 and ending on the following December 31, all in accordance with the Gregorian Calendar.

- 1.9 **Calendar Year** means a period of twelve (12) months commencing with January 1 and ending on the following December 31 according to the Gregorian Calendar.
- 1.10 **Commercial Discovery** means any Discovery that is sufficient to entitle the Parties to apply for authorization from the Government to commence exploitation.
- 1.11 **Completion** means an operation intended to complete a well through the Christmas tree as a producer of Petroleum in one or more Zones, including the setting of production casing, perforating, stimulating the well and production Testing conducted in such operation. **"Complete"** and other derivatives shall be construed accordingly.
- 1.12 **Consenting Party** means a Party who agrees to participate in and pay its share of the cost of an Exclusive Operation.
- 1.13 **Consequential Loss** means any loss, damages, costs, expenses or liabilities caused (directly or indirectly) by any of the following arising out of, relating to, or connected with this Agreement or the operations carried out under this Agreement: (i) reservoir or formation damage; (ii) inability to produce, use or dispose of Petroleum; (iii) loss or deferment of income or profit; (iv) business interruption, (v) punitive damages; or (vi) other indirect damages or losses whether or not similar to the foregoing.
- 1.14 **Contract** means the License, any petroleum license issued pursuant to the Law in lieu of the License and any petroleum lease granted following a Discovery in any such license, any extension, renewal or amendment to any such license or lease.
- 1.15 **Contract Area** means, as of the Effective Date, the area covered by the Contract (described in Exhibit B) by way of a plat and co-ordinates. The perimeter or perimeters of the Contract Area shall correspond to that area covered by the Contract, as such area may vary from time to time during the term of validity of the Contract.
- 1.16 **Control** means the ownership directly or indirectly of fifty percent (50%) or more of the voting rights in a legal entity or the ability to control the decision-making of such entity. **"Controls"**, **"Controlled by"** and other derivatives shall be construed accordingly.
- 1.17 **Crude Oil** means Petroleum comprising all crude oils, condensates, and natural gas liquids at atmospheric pressure.
- 1.18 **Day** means a calendar day unless otherwise specifically provided.
- 1.19 **Deepening** means an operation whereby a well is drilled to an objective Zone below the deepest Zone in which the well was previously drilled, or below the deepest Zone proposed in the associated AFE (if required), whichever is the deeper. **"Deepen"** and other derivatives shall be construed accordingly.
- 1.20 **Defaulting Party** has the meaning ascribed to it in Article 8.1.
- 1.21 **Default Notice** has the meaning ascribed to it in Article 8.1.
- 1.22 **Default Period** has the meaning ascribed to it in Article 8.1.
- 1.23 **Development Plan** means a plan for the development of Petroleum from an Exploitation Area.
- 1.24 **Development Well** means any well drilled for the production of Petroleum pursuant to a Development Plan.
- 1.25 **Discovery** means the discovery of an accumulation of Petroleum whose existence until that moment was unproven by drilling.
- 1.26 **Dispute** means any dispute, controversy or claim (of any and every kind or type, whether based on contract, tort, statute, regulation, or otherwise) arising out of, relating to, or connected with this Agreement or the operations carried out under this Agreement, including any dispute as to the construction, validity, interpretation, enforceability or breach of this Agreement.
- 1.27 **Dollar or \$** means the lawful currency of the United States of America.
- 1.28 **Entitlement** means that quantity of Petroleum (excluding all quantities used or lost in Joint Operations) of which a Party has the right and obligation to take delivery pursuant to the terms of this Agreement and the Contract, as such rights and obligations may be adjusted by the terms of any lifting, balancing and other disposal agreements entered into pursuant to Article 9.
- 1.29 **Environmental Loss** means any loss, damages, costs, expenses or liabilities (other than Consequential Loss) caused by a discharge of Petroleum, pollutants or other contaminants into or onto any medium (such as land, surface water, ground water and/or air) arising out of, relating to, or connected with this Agreement or the operations carried out under this Agreement, including any of the following: (i) injury or damage to, or destruction of, natural resources or real or personal property; (ii) cost of pollution control, cleanup and removal; (iii) cost of restoration of natural resources; and (iv) fines, penalties or other assessments.
- 1.30 **Exclusive Operation** means those operations and activities carried out pursuant to this Agreement, the costs of which are chargeable to the account of less than all the Parties.
- 1.31 **Exclusive Well** means a well drilled pursuant to an Exclusive Operation.
- 1.32 **Exploitation Area** means that part of the Contract Area which is established for development of a Commercial Discovery pursuant to the Contract or, if the Contract does not establish an exploitation area, then that part of the Contract Area which is delineated as the exploitation area in a Development Plan approved as a Joint Operation or as an Exclusive Operation.
- 1.33 **Exploitation Period** means any and all periods of exploitation during which the production and removal of Petroleum is permitted under the Contract.
- 1.34 **Exploration Period** means any and all periods of exploration set out in the Contract.
- 1.35 **Exploration Well** means any well the purpose of which at the time of the commencement of drilling is to explore for an accumulation of Petroleum, which accumulation was at that time unproven by drilling.
- 1.36 **G & G Data** means only geological, geophysical and geochemical data and other similar information that is not obtained through a well bore.
- 1.37 **Government** means the government of Israel and any political subdivision, agency or instrumentality thereof.
- 1.38 **Gross Negligence / Willful Misconduct** means any act or failure to act (whether sole, joint or concurrent) by any person or entity which was intended to cause, or which was in reckless disregard of or wanton indifference to, harmful consequences such person or entity knew, or should have known, such act or failure would have on the safety or property of another person or entity.

- 1.39 **Joint Account** means the accounts maintained by Operator in accordance with the provisions of this Agreement, including the Accounting Procedure.
- 1.40 **Joint Operations** means those operations and activities carried out by Operator pursuant to this Agreement, the costs of which are chargeable to all Parties.
- 1.41 **Joint Property** means, at any point in time, all wells, facilities, equipment, materials, information, funds and property (other than Petroleum) held for use in Joint Operations.
- 1.42 **Laws / Regulations** means the Petroleum Law and all other laws, statutes, rules and regulations from time to time governing activities in the Contract Area.
- 1.43 **License** means the 347/MYRA petroleum license granted by the Minister under the Petroleum Law on 14 July 2008 and any extension, renewal, amendment or supplement thereto.
- 1.44 **Minimum Work Obligations** means those work and/or expenditure obligations specified in the Contract that must be performed in order to satisfy the obligations of the Contract.
- 1.45 **Minister** has the meaning given to it in the Petroleum Law.
- 1.46 **Natural Gas** means all gaseous Petroleum (including wet gas, dry gas and residue gas), but excluding Crude Oil.
- 1.47 **Non-Consenting Party** means each Party who elects not to participate in an Exclusive Operation.
- 1.48 **Non-Operator** means each Party to this Agreement other than Operator.
- 1.49 **Operating Committee** means the committee constituted in accordance with Article 5.
- 1.50 **Operator** means a Party to this Agreement designated as such in accordance with Articles 4 or 7.12(F).
- 1.51 **Participating Interest** means as to any Party, the undivided interest of such Party (expressed as a percentage of the total interests of all Parties) in the rights and obligations derived from the Parties' interest in the Contract and this Agreement.
- 1.52 **Petroleum** has the meaning given in the Petroleum Law, and includes Crude Oil and Natural Gas.
- 1.53 **Petroleum Law** means Israeli Petroleum Law 5712-1952, as amended, supplemented or re-enacted from time to time.
- 1.54 **Plugging Back** means a single operation whereby a deeper Zone is abandoned in order to attempt a Completion in a shallower Zone. "**Plug Back**" and other derivatives shall be construed accordingly.
- 1.55 **Recompletion** means an operation whereby a Completion in one Zone is abandoned in order to attempt a Completion in a different Zone within the existing wellbore. "**Recomplete**" and other derivatives shall be construed accordingly.
- 1.56 **Reworking** means an operation conducted in the wellbore of a well after it is Completed to secure, restore, or improve production in a Zone which is currently open to production in the wellbore. Such operations include well stimulation operations, but exclude any routine repair or maintenance work, or drilling, Sidetracking, Deepening, Completing, Recompleting, or Plugging Back of a well. "**Rework**" and other derivatives shall be construed accordingly.
- 1.57 **Security** means (i) a guarantee or standby letter of credit issued by a bank; (ii) an on-demand bond issued by a surety corporation; (iii) a corporate guarantee; (iv) any financial security required by the Contract, any Laws / Regulations or this Agreement; and (v) any financial security agreed from time to time by the Parties; provided, however, that the bank, surety or corporation issuing the guarantee, standby letter of credit, bond or other security (as applicable) has a credit rating indicating it has a sufficient worth to pay its obligations in all reasonably foreseeable circumstances.

- 1.58 Senior Supervisory Personnel** means, with respect to a Party, any individual who functions as its designated manager or supervisor who is responsible for or in charge of onsite drilling, construction or production and related operations, or any other field operations and any individual who functions for such Party or one of its Affiliates at a management level equivalent to or superior to the tier selected, or any officer or director of such Party or one of its Affiliates.
- 1.59 Sidetracking** means the directional control and intentional deviation of a well from vertical so as to change the bottom hole location unless done to straighten the hole or to drill around junk in the hole or to overcome other mechanical difficulties. “**Sidetrack**” and other derivatives shall be construed accordingly.
- 1.60 Testing** means an operation intended to evaluate the capacity of a Zone to produce Petroleum. “**Test**” and other derivatives shall be construed accordingly.
- 1.61 Urgent Operational Matters** has the meaning ascribed to it in Article 5.12(A)(1).
- 1.62 Work Program and Budget** means a work program for Joint Operations and budget therefor as described and approved in accordance with Article 6.
- 1.63 Zone** means a stratum of earth containing or thought to contain an accumulation of Petroleum separately producible from any other accumulation of Petroleum.

## ARTICLE 2

### EFFECTIVE DATE AND TERM

This Agreement shall have effect from the Effective Date (as defined in the preamble to this Agreement) and shall continue in effect until the following occur in accordance with the terms of this Agreement: the Contract terminates; all materials, equipment and personal property used in connection with Joint Operations or Exclusive Operations have been disposed of or removed; and final settlement (including settlement in relation to any financial audit carried out pursuant to the Accounting Procedure) has been made between the Parties. Notwithstanding the preceding sentence: (i) Article 10 shall remain in effect until all abandonment obligations have been satisfied; and (ii) Article 4.5, Article 8, Article 15.2, Article 18 and the indemnity obligation under Article 19.1(A) shall remain in effect until all obligations have been extinguished and all Disputes have been resolved. Termination of this Agreement shall be without prejudice to any rights and obligations arising out of or in connection with this Agreement which have vested, matured or accrued prior to such termination.

## ARTICLE 3

### SCOPE

#### 3.1 Scope

- (A) The purpose of this Agreement is to establish the respective rights and obligations of the Parties with regard to operations under the Contract, including the joint exploration, appraisal, development, production and disposition of Petroleum from the Contract Area.
- (B) For greater certainty, the Parties confirm that, except to the extent expressly included in the Contract, the following activities are outside of the scope of this Agreement and are not addressed herein:
- (1) construction, operation, ownership, maintenance, repair and removal of facilities downstream from the delivery point (as determined under Article 9) of the Parties' Entitlements;
  - (2) transportation of the Parties' Entitlements downstream from the delivery point (as determined under Article 9);
  - (3) marketing and sales of Petroleum, except as expressly provided in Article 7.12(E), Article 8.4 and Article 9;
  - (4) acquisition of rights to explore for, appraise, develop or produce Petroleum outside the Contract Area (other than as a consequence of unitization with an adjoining contract area under the terms of the Contract); and
  - (5) exploration, appraisal, development or production of minerals other than Petroleum, whether inside or outside the Contract Area.

3.2 Participating Interest

(A) Subject to Article 3.2(C), the Participating Interests of the Parties as of the Effective Date are:

IPC	13.609%
EMANUELLE	24.161 %
EMANUELLE PARTNERHSIP	19.161%
ILDC	5.000%
IDB	5.000 %
MODIIN	19.282 %
BLUE WATER	8.787%
GGR	5.000%

(B) If a Party transfers all or part of its Participating Interest pursuant to the provisions of this Agreement and the Contract, the Participating Interests of the Parties shall be revised accordingly.

(C) (1) The Participating Interest of Blue Water is subject to divestment as provided in the Structure and Participation Agreement dated April 25, 2010 by and among the Parties other than GGR and PBT Capital Partners LLC ("PBT-CP" and the "PBT Agreement" respectively), and in the event of such divestment, the Participating Interest of Blue Water shall be owned by Emanuelle, Emanuelle Partnership, ILDC and IDB and Modiin (and their respective Affiliates) in proportion to their (and their respective Affiliates') Participating Interests;(2) The Participating Interest of GGR is subject to compliance by GGR with its obligations set forth in the Operating and Participating Agreement dated May 19, 2010 among the Parties (the "GGR Agreement") and is subject to GGR's right and option to increase its Participating Interest by 2.5% in the manner provided in the GGR Agreement; (3) the Participating Interest of GGR is subject to GGR's option to increase its Participating Interest by further 2.5% subject to the terms and conditions of the Option Agreement dated May 19, 2010 among GGR, Emmanuelle, IDB-DT (2010) and PBT-CP (the "Option Agreement").

(D) The following shall occur in the event that GGR is removed from its position as Operator pursuant to Section 4.10 (whether for breach or not):

(1) in the event that GGR is removed as Operator prior to the later of (a) March 31, 2011; or (b) the date on which GGR provides to Non-Operators its geological model which shall include GGR's designated well location and target objective for the first Exploration Well (the "**GGR Model**"); then at the option of two (2) or more of the total number of Non- Operators holding a combined Participating Interest of at least fifty one percent (51%), to be exercised by delivery of written notice to GGR from Emanuelle or other representative designated by Non-Operators no later than 10 days following the date of their decision to remove GGR as Operator, GGR's Participating Interest shall be reduced to 1.5% upon GGR being reimbursed by each of the Non-Operators, severally for their proportionate shares, for the aggregate of the following: (a) U.S.\$420,000 (i.e., 70% of the Purchase Price paid to Non-Operators by GGR for its Participating Interest pursuant to the GGR Agreement, plus (b) U.S.\$ 14,000 as reimbursement to GGR of 70% of its share of accrued costs and expenses paid by GGR to Non-Operators pursuant to the GGR Agreement plus (c) GGR shall be reimbursed 70% of its share of costs and expenses paid to the Joint Account less 70% of any operating fees or other amounts paid by Non- Operators to GGR for its services hereunder. If GGR has acquired the Increased Interest under the GGR Agreement prior to such removal, all amounts in clauses (a), (b) and (c) of the preceding sentence shall be increased to reflect the amounts paid by GGR to Non- Operators and to the Joint Account on account of such Increased Interest. The reimbursement to GGR of the amounts specified in this paragraph shall be made by Emanuelle acting as agent for the Non-Operators upon delivery of the notice of the removal of GGR as Operator, and each Non-Operator shall pay to Emanuelle its proportionate share of such amounts in accordance with each Party's Participating Interest within 10 days of the decision to effect such removal, and the failure to make such payment by any Non-Operator shall be deemed a Default under this Agreement.



- (2) in the event that GGR is removed as the Operator after March 31, 2011 and after providing the GGR Model but prior to GGR spudding the first Exploration Well, at the option of two (2) or more of the total number of Non-Operators holding a combined Participating Interest of at least fifty one percent (51%), to be exercised by delivery of written notice to GGR from Emanuelle or other representative designated by Non- Operators no later than 10 days following the date of their decision to remove GGR as Operator, GGR's Participating Interest shall upon being reimbursed as set out below, be reduced to a 2.5% Participating Interest if the Operating Committee approves GGR's suggested location and target for the first Exploration Well and pursuant to the drilling of said Exploration Well a Commercial Discovery is made, in which event GGR shall retain a 2.5% Participating Interest and the Parties (including GGR as to its reduced Participating Interest) shall in addition assign to GGR an undivided 0.4% overriding royalty interest of Petroleum produced, saved and marketed from the said Exploration Well and burdening the Participating Interests of the Parties in the Exploration Well in proportion to their respective ownership at the time of the commencement of the drilling of the Well, but limited to production of Petroleum from the wellbore of such Exploration Well and not to any production of Petroleum from any other well attributable to ownership of Participating Interests in such Exploration Well in the event of any unitization or pooling of interests that may thereafter occur, all as further detailed in the Overriding Royalty Agreement attached hereto as Exhibit D. In the event of a reduction of GGR's Participating Interest pursuant to this paragraph, GGR shall be reimbursed by each of the Non-Operators, severally for their proportionate shares, for the aggregate of the following: (a) U.S.\$300,000, i.e., 50% of the Purchase Price paid to them by GGR for its Participating Interest in the License pursuant to the GGR Agreement, plus (b) U.S.S 10,000 as reimbursement to GGR of 50% of its share of accrued costs and expenses paid by GGR to Non-Operators pursuant to the GGR Agreement, plus (c) GGR shall be reimbursed 50% of its share of costs and expenses paid to the Joint Account less 50% of any operating fees or other amounts paid by Non-Operators to GGR for its services hereunder. If GGR has acquired the Increased Interest under the GGR Agreement prior to such removal, all amounts in clauses (a), (b) and (c) of the preceding sentence shall be increased to reflect the amounts paid by GGR to Non-Operators and to the Joint Account on account of such Increased Interest. The reimbursement to GGR of the amounts specified in this paragraph shall be made by Emanuelle acting as agent for the Non- Operators upon delivery of the notice of the removal of GGR as Operator, and each Non- Operator shall pay to Emanuelle its proportionate share of such amounts in accordance with each Party's Participating Interest within 10 days of the decision to effect such removal, and the failure to make such payment by any Non-Operator shall be deemed a Default under this Agreement.
- (3) in the event that GGR is removed as the Operator after March 31, 2011 and after providing the GGR Model and prior to GGR completing the drilling of the first Exploration Well, and either (a) the Operating Committee does not approve GGR's suggested location and target objective for the first Exploration Well or (b) the Operating Committee approves GGR's suggested location and target objective for the first Exploration Well however no Commercial Discovery is made at such location pursuant to the drilling of said Exploration Well, then in either such event at the option of two (2) or more of the total number of Non-Operators holding a combined Participating Interest of at least fifty one percent (51%), to be exercised by delivery of written notice to GGR from Emanuelle or other representative designated by Non-Operators no later than 10 days following the date of their decision to remove GGR as Operator, GGR's Participating Interest shall upon being reimbursed as set out below be reduced to 1.5% and GGR shall be reimbursed by each of the Non-Operators, severally for their proportionate shares, for the aggregate of the following (a) U.S.\$420,000, i.e., 70% of the Purchase Price paid to them by GGR for its Participating Interest in the License pursuant to the GGR Agreement, plus (b) U.S. \$ 14,000 as reimbursement to GGR of 70% of its share of accrued costs and expenses paid by GGR to Non-Operators pursuant to the GGR Agreement, plus (c) GGR shall be reimbursed 70% of its share of costs and expenses paid to the Joint Account less 70% of any operating fees or other amounts paid by Non- Operators to GGR for its services hereunder. If GGR has acquired the Increased Interest under the GGR Agreement prior to such removal, all amounts in clauses (a), (b) and (c) of the preceding sentence shall be increased to reflect the amounts paid by GGR to Non- Operators and to the Joint Account on account of such Increased Interest. The reimbursement to GGR of the amounts specified in this paragraph shall be made by Emanuelle acting as agent for the Non-Operators upon delivery of the notice of the removal of GGR as Operator, and each Non-Operator shall pay to Emanuelle its proportionate share of such amounts in accordance with each Party's Participating Interest within 10 days of the decision to effect such removal, and the failure to make such payment by any Non-Operator shall be deemed a Default under this Agreement. GGR shall not be entitled to receive an overriding royalty interest in the event of removal pursuant to this paragraph.

- (4) in the event that GGR is removed as the Operator after it completes the drilling of the first Exploration Well at the location and target objective suggested by GGR in the GGR Model following which no Commercial Discovery is made in such Well, then at the option of two (2) or more of the total number of Non-Operators holding a combined Participating Interest of at least fifty one percent (51%), to be exercised by delivery of written notice to GGR from Emanuelle or other representative designated by Non- Operators no later than 10 days following the date of their decision to remove GGR as Operator, GGR's Participating Interest shall be reduced to 1.50% and GGR shall be reimbursed by the Non-Operators in accordance with subparagraph (3) above. GGR shall not be entitled to receive an overriding royalty interest in the event of removal pursuant to this paragraph.
- (5) in the event that GGR is removed after it completes the drilling of the first Exploration Well following which a Commercial Discovery is made in such Well at the location suggested by GGR in the GGR Model, at the option of two (2) or more of the total number of Non-Operators holding a combined Participating Interest of at least fifty one percent (51%), to be exercised by delivery of written notice to GGR from Emanuelle or other representative designated by Non-Operators no later than 10 days following the date of their decision to remove GGR as Operator, the following shall apply: GGR shall sell its entire Participating Interest to the successor Operator for a price equal to fair market value or if the other Non-Operators together with GGR are selling all or a portion of their interest, then the price shall be equal to GGR's pro rata share of the price payable by the successor Operator as determined by the Non-Operators, The successor Operator shall be a bona fide Operator that is approved by the Government and is not related in any way, directly or indirectly, to the other Participating Interest Owners.
- (6) In the event that GGR is removed as Operator under any of the circumstances described in paragraphs (1) - (5) above, and the Non-Operators have not elected to exercise any of their above-mentioned options to require GGR to relinquish portions of its Participating Interest, the Parties agree to transfer a pro-rata proportion of their Participating Interests to the successor Operator, at the price agreed by the Parties.
- (E) If GGR is not removed as Operator prior to the time when the first Exploratory Well is spudded and the Well is drilled at the location and to the target objective suggested by the GGR Model and the Well is not a Commercial Discovery, then at the option of two (2) or more of the total number of Non-Operators holding a combined Participating Interest of at least fifty one percent (51%), to be exercised by delivery of written notice to GGR from Emanuelle or other representative designated by Non-Operators no later than 10 days following the date of the plugging and abandoning of the first Exploratory Well, GGR's Participating Interest shall be reduced to 1.5% and GGR shall not be entitled to reimbursement for any portion of the Purchase Price it paid to the Non-Operators for its Participating Interest or any expenses paid in connection therewith or any overriding royalty interest.
- (F) All relinquishments or transfers of Participating Interest that occur pursuant to this Article 3.2 shall be made free and clear of any overriding royalties, liens, or financial encumbrances arising by, through or under GGR or its Affiliates, and GGR covenants and agrees to execute any necessary applications, deeds of transfer, and other instruments required by the Government to effect such transfer.

### 3.3 **Ownership, Obligations and Liabilities**

- (A) Unless otherwise provided in this Agreement, all the rights and interests in and under the Contract, all Joint Property, and any Petroleum produced from the Contract Area shall, subject to the terms of the Contract, be owned by the Parties in accordance with their respective Participating Interests.
- (B) Unless otherwise provided in this Agreement, the obligations of the Parties under the Contract and all liabilities and expenses incurred by Operator in connection with Joint Operations shall be charged to the Joint Account and all credits to the Joint Account shall be shared by the Parties, in accordance with their respective Participating Interests.
- (C) Each Party shall pay when due, in accordance with the Accounting Procedure, its Participating Interest share of Joint Account expenses, including cash advances and interest, accrued pursuant to this Agreement. A Party's payment of any charge under this Agreement shall be without prejudice to its right to later contest the charge.

### 3.4 **Guarantees**

In the event that any guarantee required in respect of the Contract ("**Guarantee**") has been provided or procured by any Party (the "**Guarantor Party**") prior to the Effective Date, the Guarantor Party shall maintain such guarantee in place after the Effective Date as required by the Government or in accordance with the Contract. The costs of maintaining the Guarantee and providing or procuring new Guarantees shall be for the Joint Account and shall be borne by each of the Parties in proportion to its Participating Interest. In the event that any payment is made pursuant to such guarantee by the Guarantor Party, each Party shall indemnify the Guarantor Party against such payment in proportion to its Participating Interest share.

ARTICLE 4

OPERATOR

4.1 *Designation of Operator*

GGR is designated as initial Operator and agrees to act as such in accordance with this Agreement.

4.2 *Rights and Duties of Operator*

(A) Subject to the terms and conditions of this Agreement, Operator shall have all of the rights, functions and duties of Operator under the Contract and shall have exclusive charge of and shall conduct all Joint Operations. Operator may employ independent contractors and agents (which independent contractors and agents may include an Affiliate of Operator, a Non-Operator, or an Affiliate of a Non-Operator) in such Joint Operations.

(B) In the conduct of Joint Operations Operator shall:

- (1) perform Joint Operations in accordance with the provisions of the Contract, Laws / Regulations and this Agreement, and the decisions of the Operating Committee not in conflict with this Agreement;
- (2) conduct all Joint Operations in a diligent, safe and efficient manner in accordance with such good and prudent petroleum industry practices and field conservation principles as are generally followed by the international petroleum industry under similar circumstances;
- (3) exercise due care with respect to the receipt, payment and accounting of funds in accordance with good and prudent practices as are generally followed by the international petroleum industry under similar circumstances;
- (4) subject to Article 4.6 and the Accounting Procedure, neither gain a profit nor suffer a loss as a result of being the Operator in its conduct of Joint Operations, provided that Operator may rely upon Operating Committee approval of specific accounting practices not in conflict with the Accounting Procedure;
- (5) perform the duties for the Operating Committee set out in Article 5, and prepare and submit to the Operating Committee proposed Work Programs and Budgets and (if required) AFEs, as provided in Article 6;
- (6) acquire all permits, consents, approvals, and surface or other rights that may be required for or in connection with the conduct of Joint Operations;
- (7) upon receipt of reasonable advance notice, permit the representatives of any of the Parties to have at all reasonable times during normal business hours and at their own risk and expense reasonable access to the Joint Operations with the right to observe all Joint Operations and to inspect all Joint Property and to conduct financial audits as provided in the Accounting Procedure;
- (8) maintain the Contract in full force and effect in accordance with such good and prudent petroleum industry practices as are generally followed by the international petroleum industry under similar circumstances. Operator shall pay and discharge all liabilities and expenses incurred in connection with Joint Operations from the Joint Account in a timely manner and keep and maintain the Joint Property free from all liens, charges and encumbrances arising out of Joint Operations;

- (9) pay to the Government from the Joint Account, within the periods and in the manner prescribed by the Contract and Laws / Regulations, all periodic payments, royalties, taxes, fees and other payments pertaining to Joint Operations but excluding any taxes measured by the incomes of the Parties;
- (10) carry out the obligations of Operator pursuant to the Contract, including preparing and furnishing such reports, records and information as may be required pursuant to the Contract;
- (11) have, in accordance with any decisions of the Operating Committee, the right and obligation to represent the Parties in all dealings with the Government with respect to matters arising under the Contract and Joint Operations. Operator shall notify the other Parties as soon as possible in advance of such meetings. Operator shall keep Non-Operators promptly informed of all material communications between Operator and the Government. Subject to the Contract and any necessary Government approvals, Non-Operators shall have the right to attend any meetings with the Government with respect to such matters. Nothing contained in this Agreement shall restrict any Party from holding discussions with the Government with respect to any issue peculiar to its particular business interests arising under the Contract or this Agreement, but in such event such Party shall promptly advise the Parties, if possible, before and in any event promptly after such discussions, provided that such Party shall not be required to divulge to the Parties any matters discussed to the extent the same involve proprietary information or matters not affecting the Parties;
- (12) in accordance with Article 9.3 and any decisions of the Operating Committee, assess (to the extent lawful) alternatives for the disposition of Natural Gas from a Discovery;
- (13) in case of an emergency (including a significant fire, explosion, Natural Gas release, Crude Oil release, or sabotage; an incident involving loss of life, serious injury to an employee, contractor, or third party, or serious property damage; strikes and riots; or evacuations of Operator personnel): (i) take all necessary and proper measures for the protection of life, health, the environment and property; and (ii) as soon as reasonably practicable, report to Non-Operators the details of such event and any measures Operator has taken or plans to take in response thereto;
- (14) establish and implement pursuant to Article 4.12 an HSE plan to govern Joint Operations which is designed to ensure compliance with applicable HSE laws, rules and regulations and this Agreement;
- (15) include, to the extent practical, in its contracts with independent contractors and to the extent lawful, provisions which:
  - (a) establish that such contractors can only enforce their contracts against Operator;
  - (b) permit Operator, on behalf of itself and Non-Operators, to enforce contractual indemnities against, and recover losses and damages suffered by them (insofar as recovered under their contracts) from, such contractors; and
  - (c) require such contractors to take insurance required by Article 4.7(H).

#### **4.3 Operator Personnel**

Operator shall engage or retain only such employees, contractors, consultants and agents as are reasonably necessary to conduct Joint Operations. Subject to the Contract and this Agreement, Operator shall determine the number of employees, contractors, consultants and agents, the selection of such persons, their hours of work, and the compensation to be paid to all such persons in connection with Joint Operations.

#### **4.4 Information Supplied by Operator**

- (A) Operator shall provide Non-Operators with the following data and reports (to the extent to be charged to the Joint Account) as they are currently produced or compiled from Joint Operations:
  - (1) copies of all logs or surveys, including in digitally recorded format if such exists;

- (2) daily drilling reports;
  - (3) copies of all Tests and core data and analysis reports;
  - (4) final well recap report;
  - (5) copies of plugging reports;
  - (6) copies of final geological and geophysical maps, seismic sections and shot point location maps;
  - (7) engineering studies, development schedules and quarterly progress reports on development projects;
  - (8) field and well performance reports, including reservoir studies and reserve estimates;
  - (9) as requested by a Non-Operator, (i) copies of all material reports relating to Joint Operations or the Contract Area furnished by Operator to the Government; and (ii) other material studies and reports relating to Joint Operations;
  - (10) gas balancing reports under agreements provided for in Article 9.3;
  - (11) such additional information as a Non-Operator may reasonably request, provided that the requesting Party or Parties pay the costs of preparation of such information and that the preparation of such information will not unduly burden Operator's administrative and technical personnel. Only Non-Operators who pay such costs will receive such additional information; and
  - (12) other reports as directed by the Operating Committee.
- (B) Operator shall give Non-Operators access at all reasonable times during normal business hours to all data and reports (other than data and reports provided to Non-Operators in accordance with Article 4.4(A)) acquired in the conduct of Joint Operations, which a Non-Operator may reasonably request. Any Non-Operator may make copies of such other data at its sole expense.

#### **4.5 Settlement of Claims and Lawsuits**

- (A) Operator shall promptly notify the Parties of any and all material claims or suits that relate in any way to Joint Operations. Subject to approval of the Operating Committee, Operator shall represent the Parties and defend or oppose the claim or suit. Operator may in its sole discretion compromise or settle any such claim or suit or any related series of claims or suits for an amount not to exceed the equivalent of fifty thousand Dollars (\$50,000) exclusive of legal fees. Operator shall obtain the approval and direction of the Operating Committee on amounts in excess of the above-stated amount. Without prejudice to the foregoing, each Non-Operator shall have the right to be represented by its own counsel at its own expense in the settlement, compromise or defense of such claims or suits.
- (B) Any Non-Operator shall promptly notify the other Parties of any claim made against such Non-Operator by a third party that arises out of or may affect the Joint Operations, and such Non-Operator shall defend or settle the same in accordance with any directions given by the Operating Committee. Those costs, expenses and damages incurred pursuant to such defense or settlement which are attributable to Joint Operations shall be for the Joint Account.
- (C) Notwithstanding Article 4.5(A) and Article 4.5(B), each Party shall have the right to participate in any such suit, prosecution, defense or settlement conducted in accordance with Article 4.5(A) and Article 4.5(B), at its sole cost and expense; provided always that no Party may settle its Participating Interest share of any claim without first satisfying the Operating Committee that it can do so without prejudicing the interests of the Joint Operations.

#### **4.6 Limitation on Liability of Operator**

- (A) Except as set out in Article 4.6(C), neither Operator nor any other Indemnitee (as defined below) shall bear (except as a Party to the extent of its Participating Interest share) any damage, loss, cost, expense or liability resulting from performing (or failing to perform) the duties and functions of Operator, and the Indemnitees are hereby released from liability to Non-Operators for any and all damages, losses, costs, expenses and liabilities arising out of, incidental to or resulting from such performance or failure to perform, even though caused in whole or in part by a pre-existing defect, or the negligence (whether sole, joint or concurrent), strict liability or other legal fault of Operator (or any such Indemnitee).

- (B) Except as set out in Article 4.6(C), the Parties shall (in proportion to their Participating Interests) defend and indemnify Operator and its Affiliates, and their respective directors, officers, and employees (collectively, the "**Indemnitees**"), from any and all damages, losses, costs, expenses (including reasonable legal costs, expenses and attorneys' fees) and liabilities incidental to claims, demands or causes of action brought by or on behalf of any person or entity, which claims, demands or causes of action arise out of, are incidental to or result from Joint Operations, even though caused in whole or in part by a pre-existing defect, or the negligence (whether sole, joint or concurrent), strict liability or other legal fault of Operator (or any such Indemnitee).
- (C) Notwithstanding Articles 4.6(A) or 4.6(B), if any Senior Supervisory Personnel of Operator or its Affiliates engage in Gross Negligence /Willful Misconduct which as determined through final arbitration or by a court having jurisdiction proximately causes the Parties to incur damage, loss, cost, expense or liability for claims, demands or causes of action referred to in Articles 4.6(A) or 4.6(B), then, in addition to its Participating Interest share Operator shall bear all such damages, losses, costs, expenses and liabilities.
- Notwithstanding the foregoing, under no circumstances shall any Indemnitee (except as a Party to the extent of its Participating Interest) bear any Consequential Loss or Environmental Loss.
- (D) Nothing in this Article 4.6 shall be deemed to relieve the Party designated as Operator from its Participating Interest share of any damage, loss, cost, expense or liability arising out of, incidental to, or resulting from Joint Operations.

**4.7 Insurance Obtained by Operator**

- (A) Operator shall procure and maintain for the Joint Account all insurance in the types and amounts required by the Contract or Laws / Regulations or as otherwise agreed by the Operating Committee.
- (B) Operator shall procure and maintain any further insurance, at reasonable rates, as the Operating Committee may from time to time require. In the event that such further insurance is, in Operator's reasonable opinion, unavailable or available only at an unreasonable cost, Operator shall promptly notify the Non-Operators in order to allow the Operating Committee to reconsider such further insurance.
- (C) Each Party will be provided the opportunity to underwrite any or all of the insurance to be obtained by Operator under 4.7(B), through such Party's Affiliate insurance company or, if such direct insurance is not so permitted, through reinsurance policies to such Party's Affiliate insurance company; provided that the security and creditworthiness of such insurance arrangements are satisfactory to Operator, and that such arrangements will not result in any part of the premiums for such insurance not being recoverable under the Contract, or being significantly higher than the market rate.
- (D) Subject to the Contract and the Laws / Regulations, any Party may elect not to participate in the insurance to be procured under 4.7(B) provided such Party:
- (1) gives prompt written notice to that effect to Operator;
  - (2) does nothing which may interfere with Operator's negotiations for such insurance for the other Parties;

- (3) obtains insurance prior to or concurrent with the commencement of relevant operations and maintains such insurance (in respect of which a current certificate of adequate coverage, provided at least once a year, shall be sufficient evidence) which fully covers its Participating Interest share of the risks that would be covered by the insurance to be procured under Article 4.7(B), and which the Operating Committee determines to be acceptable. No such determination of acceptability shall in any way absolve a non-participating Party from its obligation to meet each cash call (except, in accordance with Article 4.7(F), as regards the costs of the insurance policy in which such Party has elected not to participate) including any cash call with respect to damages and losses and/or the costs of remedying the same in accordance with the terms of this Agreement, the Contract and Laws / Regulations. If such Party obtains other insurance, such insurance shall (a) contain a waiver of subrogation in favor of all the other Parties, the Operator and their insurers but only with respect to their interests under this Agreement; (b) provide that thirty (30) days written notice be given to Operator prior to any material change in, or cancellation of, such insurance policy; (c) be primary to, and receive no contribution from, any other insurance maintained by or on behalf of, or benefiting Operator or the other Parties; and (d) contain adequate territorial extensions and coverage in the location of the Joint Operations; and
- (4) is responsible for all deductibles, coinsurance payments, self-insured exposures, uninsured or underinsured exposures relating to its interests under this Agreement.
- (E) The cost of insurance in which all the Parties are participating shall be for the Joint Account and the cost of insurance in which less than all the Parties are participating shall be charged to the Parties participating in proportion to their respective Participating Interests. Subject to the preceding sentence, the cost of insurance with respect to an Exclusive Operation shall be charged to the Consenting Parties.
- (F) Operator shall, with respect to all insurance obtained under this Article 4.7:
- (1) use reasonable endeavors to procure or cause to be procured such insurance prior to or concurrent with, the commencement of relevant operations and maintain or cause to be maintained such insurance during the term of the relevant operations or any longer term required under the Contract or Laws / Regulations;
  - (2) promptly inform the participating Parties when such insurance is obtained and supply them with certificates of insurance or copies of the relevant policies when the same are issued;
  - (3) arrange for the participating Parties, according to their respective Participating Interests, to be named as co-insureds on the relevant policies with waivers of subrogation in favor of all the Parties but only with respect to their interests under this Agreement;
  - (4) use reasonable endeavors to ensure that each policy shall survive the default or bankruptcy of the insured for claims arising out of an event before such default or bankruptcy and that all rights of the insured shall revert to the Parties not in default or bankruptcy; and
  - (5) duly file all claims and take all necessary and proper steps to collect any proceeds and credit any proceeds to the participating Parties in proportion to their respective Participating Interests.
- (G) Operator shall use its reasonable endeavors to require all contractors performing work with respect to Joint Operations to:
- (1) obtain and maintain any and all insurance in the types and amounts required by the Contract, Laws / Regulations or any decision of the Operating Committee;
  - (2) name the Parties as additional insureds on the contractor's insurance policies and obtain from their insurers waivers of all rights of recourse against Operator, Non-Operators and their insurers; and
  - (3) provide Operator with certificates reflecting such insurance prior to the commencement of their services.

#### **4.8 Commingling of Funds**

Operator may not commingle with Operator's own funds the monies which Operator receives from or for the Joint Account pursuant to this Agreement. However, Operator reserves the right to make future proposals to the Operating Committee with respect to the commingling of funds to achieve financial efficiency. Interest earned shall be allocated among the Parties on an equitable basis taking into account the date of the funding by each Party and its share of the Joint Account monies. Operator shall apply such earned interest to the next succeeding cash call or, if directed by the Operating Committee, pay it to the Parties.

#### **4.9 Resignation of Operator**

Subject to Article 4.11, prior to engaging a rig, Operator may resign as Operator at any time by so notifying the other Parties at least ninety (90) Days prior to the effective date of such resignation. After the engaging of a rig Operator may resign as Operator at any time by so notifying the other Parties at least one hundred and twenty (120) Days prior to the effective date of such resignation.

#### **4.10 Removal of Operator**

- (A) Subject to Article 4.11, Operator shall be removed upon receipt of notice from any Non-Operator if:
- (1) Operator becomes insolvent or bankrupt, or makes an assignment for the benefit of creditors;
  - (2) an order is made by a court or an effective resolution is passed for the reorganization under any bankruptcy law, dissolution, liquidation, or winding up of Operator;
  - (3) a receiver is appointed for a substantial part of Operator's assets; or
  - (4) Operator dissolves, liquidates, is wound up, or otherwise terminates its existence.
- (B) Subject to Article 4.11, Operator may be removed by the decision of the Non-Operators if Operator has committed a material breach of this Agreement and has either failed to commence to cure that breach within thirty (30) Days after receipt of a notice from Non-Operators detailing the alleged breach or failed to diligently pursue the cure to completion. Any decision of Non-Operators to give notice of breach to Operator or to remove Operator under this Article 4.10(B) shall be made by an affirmative vote of two (2) or more Parties (not being Affiliates of Operator) representing Participating Interests of more than fifty one percent (51%) of the total of such Non-Operator Parties' Participating Interests, provided that at least two of the Parties are not Affiliates of each other.
- (C) If Operator together with any Affiliates of Operator is or becomes the holder of a Participating Interest of less than five percent (5%), then Operator shall be required to promptly notify the other Parties. The Operating Committee shall then vote within thirty (30) Days of such notification on whether or not a successor Operator should be named pursuant to Article 4.11.
- (D) If there is a direct or indirect change in Control of Operator (other than a transfer of Control to an Affiliate of Operator), Operator shall be required to promptly notify the other Parties. The Operating Committee shall vote within thirty (30) Days of such notification on whether or not a successor Operator should be named pursuant to Article 4.11.
- (E) Subject to Article 4.11, Operator may be removed at any time without cause by the affirmative vote of two (2) or more of the total number of Non-Operators holding a combined Participating Interest of at least fifty one percent (51%), provided that at least two of the Parties are not Affiliates of each other.

#### **4.11 Appointment of Successor**

When a change of Operator occurs pursuant to Article 4.9 or Article 4.10:

- (A) The Operating Committee shall meet as soon as possible to appoint a successor Operator pursuant to the voting procedure of Article 5.9. No Party may be appointed successor Operator against its will.
- (B) If Operator is removed, other than in the case of Article 4.10(C) or Article 4.10(D), neither Operator nor any Affiliate of Operator shall have the right to vote for itself on the appointment of a successor Operator, nor to be considered as a candidate for the successor Operator.
- (C) The resigning or removed Operator shall be compensated out of the Joint Account for its reasonable expenses directly related to its resignation or removal, except in the case of Article 4.10(B).
- (D) The resigning or removed Operator and the successor Operator shall arrange for the taking of an inventory of all Joint Property and Petroleum, and an audit of the books and records of the removed Operator. Such inventory and audit shall be completed, if possible, no later than the effective date of the change of Operator and shall be subject to the approval of the Operating Committee. The liabilities and expenses of such inventory and audit shall be charged to the Joint Account.



- (E) The resignation or removal of Operator and its replacement by the successor Operator shall not become effective prior to receipt of any necessary Government approvals.
- (F) Upon the effective date of the resignation or removal, the successor Operator shall succeed to all duties, rights and authority prescribed for Operator. The former Operator shall transfer to the successor Operator custody of all Joint Property, books of account, records and other documents maintained by Operator pertaining to the Contract Area and to Joint Operations. Upon delivery of the above-described property and data, the former Operator shall be released and discharged from all obligations and liabilities as Operator accruing after such date.

**4.12 Health, Safety and Environment (“HSE”)**

- (A) With the goal of achieving safe and reliable operations in compliance with applicable HSE laws, rules and regulations (including avoiding significant and unintended impact on the safety or health of people, on property, or on the environment), Operator shall in the conduct of Joint Operations:
  - (1) establish and implement an HSE plan in a manner consistent with standards and procedures generally followed in the international petroleum industry under similar circumstances;
  - (2) design and operate Joint Property consistent with the HSE plan; and
  - (3) conform with locally applicable HSE laws, rules and regulations and other HSE-related statutory requirements that may apply.
- (B) The Operating Committee shall from time to time review details of Operator’s HSE plan and Operator’s implementation thereof.
- (C) In the conduct of Joint Operations, Operator shall establish an audit program whereby independent auditors periodically review and verify the effectiveness of the HSE plan.
- (D) Operator shall require its contractors, consultants and agents undertaking activities for the Joint Account to manage HSE risks in a manner consistent with the requirements of this Article 4.12.
- (E) Operator shall establish and enforce rules consistent with those generally followed in the international petroleum industry under similar circumstances that, at a minimum, prohibit within the Contract Area the following:
  - (1) possession, use, distribution or sale of firearms, explosives, or other weapons without the prior written approval of senior management of Operator;
  - (2) possession, use, distribution or sale of alcoholic beverages without the prior written approval of senior management of Operator; and
  - (3) possession, use, distribution or sale of illicit or non-prescribed controlled substances and the misuse of prescribed drugs.

**ARTICLE 5**

**OPERATING COMMITTEE**

**5.1 Establishment of Operating Committee**

To provide for the overall supervision and direction of Joint Operations, there is established an Operating Committee composed of representatives of each Party holding a Participating Interest. Each Party shall appoint one (1) representative and one (1) alternate representative to serve on the Operating Committee. Each Party shall as soon as possible after the date of this Agreement give notice in writing to the other Parties of the name and address of its representative and alternate representative to serve on the Operating Committee. Each Party shall have the right to change its representative and alternate at any time by giving notice of such change to the other Parties.

**5.2 Powers and Duties of Operating Committee**

The Operating Committee shall have the power and duty to authorize and supervise Joint Operations that are necessary or desirable to fulfill the Contract and properly explore and exploit the Contract Area in accordance with this Agreement and in a manner appropriate in the circumstances.

**5.3 Authority to Vote**

The representative of a Party, or in his absence his alternate representative, shall be authorized to represent and bind such Party with respect to any matter which is within the powers of the Operating Committee and is properly brought before the Operating Committee. Each such representative shall have a vote equal to the Participating Interest of the Party such person represents. Each alternate representative shall be entitled to attend all Operating Committee meetings but shall have no vote at such meetings except in the absence of the representative for whom he is the alternate. In addition to the representative and alternate representative, each Party may also bring to any Operating Committee meetings such technical and other advisors as it may deem appropriate.

**5.4 Subcommittees**

The Operating Committee may establish such subcommittees, including technical subcommittees, as the Operating Committee may deem appropriate. The functions of such subcommittees shall be in an advisory capacity or as otherwise determined unanimously by the Parties. Each Party shall have the right to appoint a representative to each subcommittee.

**5.5 Notice of Meeting**

- (A) Operator may call a meeting of the Operating Committee by giving notice to the Parties at least fifteen (15) Days in advance of such meeting.
- (B) Any Non-Operator may request a meeting of the Operating Committee by giving notice to all the other Parties. Upon receiving such request, Operator shall call such meeting for a date not less than fifteen (15) Days nor more than twenty (20) Days after receipt of the request.
- (C) The notice periods above may only be waived with the unanimous consent of all the Parties.

**5.6 Contents of Meeting Notice**

- (A) Each notice of a meeting of the Operating Committee as provided by Operator shall contain:
  - (1) the date, time and location of the meeting;
  - (2) an agenda of the matters and proposals to be considered and/or voted upon; and
  - (3) copies of all proposals to be considered at the meeting (including all appropriate supporting information not previously distributed to the Parties).
- (B) A Party, by notice to the other Parties given not less than seven (7) Days prior to a meeting, may add additional matters to the agenda for a meeting.
- (C) On the request of a Party, and with the unanimous consent of all Parties, the Operating Committee may consider at a meeting a proposal not contained in such meeting agenda.

**5.7 Location of Meetings**

All meetings of the Operating Committee shall be held in Operator's offices in Israel, or elsewhere as the Operating Committee may unanimously decide.

**5.8 Operator's Duties for Meetings**

- (A) With respect to meetings of the Operating Committee and any subcommittee, Operator's duties shall include:
- (1) timely preparation and distribution of the agenda;
  - (2) organization and conduct of the meeting; and
  - (3) preparation of a written record or minutes of each meeting.
- (B) The Operating Committee shall have the right to appoint the chairman of the Operating Committee and all subcommittees.

**5.9 Voting Procedure**

Except as otherwise expressly provided in this Agreement, all decisions, approvals and other actions of the Operating Committee on all proposals coming before it shall be decided by the affirmative vote of two (2) or more Parties then having collectively at least fifty-one percent (51%) of the Participating Interests, provided that at least two of the Parties are not Affiliates of each other, and provided that the affirmative vote shall include the affirmative vote of Emanuelle, Emanuelle Partnership, ILDC, IDB and MODIIN (as long as each of Emanuelle, Emanuelle Partnership, ILDC, IDB and MODIIN, in respect of each one of them, and their respective Affiliates holds at least 50% of its original Participating Interests).

**5.10 Record of Votes**

The chairman of the Operating Committee shall appoint a secretary who shall make a record of each proposal voted on and the results of such voting at each Operating Committee meeting. Each representative shall sign and be provided a copy of such record at the end of such meeting, and it shall be considered the final record of the decisions of the Operating Committee. Any Party abstaining from voting or failing to cast its vote on any proposal within the prescribed time limit shall be deemed to have voted against such proposal.

**5.11 Minutes**

The secretary shall provide each Party with a copy of the minutes of the Operating Committee meeting within fifteen (15) Business Days after the end of the meeting. Each Party shall have fifteen (15) Days after receipt of such minutes to give notice to the secretary of its objections to the minutes. A failure to give notice specifying objection to such minutes within said fifteen (15) Day period shall be deemed to be approval of such minutes. In any event, the votes recorded under Article 5.10 shall take precedence over the minutes described above.

**5.12 Voting by Notice**

- (A) In lieu of a meeting, any Party may submit any proposal to the Operating Committee for a vote by notice. The proposing Party or Parties shall notify Operator who shall give each Party's representative notice describing the proposal so submitted and whether Operator considers such operational matter to require urgent determination. Operator shall include with such notice adequate documentation in connection with such proposal to enable the Parties to make a decision. Each Party shall communicate its vote by notice to Operator and the other Parties within one of the following appropriate time periods after receipt of Operator's notice:
- (1) twenty-four (24) hours in the case of operations which involve the use of a drilling rig that is standing by in the Contract Area and such other operational matters reasonably considered by Operator to require by their nature urgent determination (such operations and matters being referred to as "**Urgent Operational Matters**"); and
  - (2) fifteen (15) Days in the case of all other proposals.
- (B) Except in the case of Article 5.12(A)(1), any Party may, by notice delivered to all Parties within two (2) Days after receipt of Operator's notice, request that the proposal be decided at a meeting rather than by notice. In such an event, that proposal shall be decided at a meeting duly called for that purpose.

(C) Except as provided in Article 10, any Party failing to communicate its vote in a timely manner or abstaining from voting shall be deemed to have voted against such proposal.

(D) If a meeting is not requested, then at the expiration of the appropriate time period, Operator shall give each Party a confirmation notice stating the results of the vote.

#### **5.13 Effect of Vote**

All decisions taken by the Operating Committee pursuant to this Article 5 shall be conclusive and binding on all the Parties, except in the following cases.

- (A) If pursuant to this Article 5, a Joint Operation has been properly proposed to the Operating Committee and the Operating Committee has not approved such proposal in a timely manner, then any Party that voted in favor of such proposal shall have the right for the appropriate period specified below to propose, in accordance with Article 7, an Exclusive Operation involving operations essentially the same as those proposed for such Joint Operation.
- (1) For proposals related to Urgent Operational Matters, such right shall be exercisable for twenty-four (24) hours after the time specified in Article 5.12(A)(1) has expired or after receipt of Operator's notice given to the Parties pursuant to Article 5.13(D), as applicable.
- (2) For proposals to develop a Discovery, such right shall be exercisable for ten (10) Days after the date the Operating Committee was required to consider such proposal pursuant to Article 5.6 or Article 5.12.
- (3) For all other proposals, such right shall be exercisable for five (5) Days after the date the Operating Committee was required to consider such proposal pursuant to Article 5.6 or Article 5.12.
- (B) If the Consenting Parties to an Exclusive Operation under Article 5.13(A) or Article 5.13(B) concur, then the Operating Committee may, at any time, pursuant to this Article 5, reconsider and approve, decide or take action on any proposal that the Operating Committee declined to approve earlier, or modify or revoke an earlier approval, decision or action.
- (C) Once a Joint Operation for the drilling, Deepening, Testing, Sidetracking, Plugging Back, Completing, Re-completing, Reworking, or plugging of a well has been approved and commenced, such operation shall not be discontinued without the consent of the Operating Committee; provided, however, that such operation may be discontinued if:
- (1) an impenetrable substance or other condition in the hole is encountered which in the reasonable judgment of Operator causes the continuation of such operation to be impractical; or
- (2) other circumstances occur which in the reasonable judgment of Operator cause the continuation of such operation to be unwarranted and the Operating Committee, within the period required under Article 5.12(A)(1) after receipt of Operator's notice, approves discontinuing such operation.

On the occurrence of either of the above, Operator shall promptly notify the Parties that such operation is being discontinued pursuant to the foregoing, and any Party shall have the right to propose in accordance with Article 7 an Exclusive Operation to continue such operation.

### **ARTICLE 6**

#### **WORK PROGRAMS AND BUDGETS**

#### **6.1 Exploration and Appraisal**

- (A) Within sixty (60) Days after the Effective Date and thereafter on or before 1st Day of October of each Calendar Year, Operator shall deliver to the Parties a proposed Work Program and Budget detailing the Joint Operations to be performed for the remainder of the current Calendar Year and, if appropriate, for the following Calendar Year. Within thirty (30) Days after such delivery, the Operating Committee shall meet to consider and to endeavor to agree on a Work Program and Budget.

- (B) If a Discovery is made, Operator shall deliver any notice of Discovery required under the Contract and shall as soon as possible submit to the Parties a report containing available details concerning the Discovery and Operator's recommendation as to whether the Discovery merits appraisal. If the Operating Committee determines that the Discovery merits appraisal, Operator within thirty (30) Days shall deliver to the Parties a proposed Work Program and Budget for the appraisal of the Discovery. Within fifteen (15) Days after such delivery, or earlier if necessary to meet any applicable deadline under the Contract, the Operating Committee shall meet to consider, modify and then either approve or reject the appraisal Work Program and Budget. If the appraisal Work Program and Budget is approved by the Operating Committee, Operator shall take such steps as may be required under the Contract to secure approval of the appraisal Work Program and Budget by the Government. In the event the Government requires changes in the appraisal Work Program and Budget, the matter shall be resubmitted to the Operating Committee for further consideration.
- (C) The Work Program and Budget agreed pursuant to this Article shall include at least that part of the Minimum Work Obligations required to be carried out during the Calendar Year in question under the terms of the Contract. If within the time periods prescribed in this Article 6.1 the Operating Committee is unable to agree on such a Work Program and Budget, then the proposal capable of satisfying the Minimum Work Obligations for the Calendar Year in question that receives the largest Participating Interest vote (even if less than the applicable percentage under Article 5.9) shall be deemed adopted as part of the annual Work Program and Budget. If competing proposals receive equal votes, then Operator shall choose between those competing proposals. Any portion of a Work Program and Budget adopted pursuant to this Article 6.1(D) instead of Article 5.9 shall contain only such operations for the Joint Account as are necessary to maintain the Contract in full force and effect, including such operations as are necessary to fulfill the Minimum Work Obligations required for the given Calendar Year.
- (D) Any approved Work Program and Budget may be revised by the Operating Committee from time to time. To the extent such revisions are approved by the Operating Committee, the Work Program and Budget shall be amended accordingly. Operator shall prepare and submit a corresponding Work Program and Budget amendment to the Government if required by the Contract.
- (E) Subject to Article 6.8, approval of any such Work Program and Budget which includes:
- (1) an Exploration Well, whether by drilling, Deepening or Sidetracking, shall include approval for all expenditures necessary for drilling, Deepening, Sidetracking, as applicable, and Testing and Completing an Exploration Well
  - (2) an Appraisal Well, whether by drilling, Deepening or Sidetracking, shall include approval for all expenditures necessary for drilling, Deepening, Sidetracking, as applicable, and Testing and Completing an Appraisal Well.
- (F) Any Party desiring to propose an alternative to the Operator's recommendation pursuant to Article 6.1(E) must do so within the time period provided in Article 5.12(A)(1) by notifying all other Parties. Any such proposal shall include an AFE for such costs.

## 6.2 Development

- (A) If the Operating Committee determines that a Discovery may be a Commercial Discovery, Operator shall, as soon as practicable, deliver to the Parties a Development Plan together with the first annual Work Program and Budget (or a multi-year Work Program and Budget pursuant to Article 6.5) and provisional Work Programs and Budgets for the remainder of the development of the Discovery, which shall contain, *inter alia*:
- (1) details of the proposed work to be undertaken, personnel required and expenditures to be incurred, including the timing of same, on a Calendar Year basis;
  - (2) an estimated date for the commencement of production;

- (3) a delineation of the proposed Exploitation Area; and
  - (4) any other information requested by the Operating Committee.
- (B) After receipt of the Development Plan and prior to any applicable deadline under the Contract, the Operating Committee shall meet to consider, modify and then either approve or reject the Development Plan and the first annual Work Program and Budget for the development of a Discovery, as submitted by Operator. If the Operating Committee determines that the Discovery is a Commercial Discovery and approves the corresponding Development Plan, Operator shall, as soon as possible, deliver any notice of Commercial Discovery required under the Contract and take such other steps as may be required under the Contract to secure approval of the Development Plan by the Government. In the event the Government requires changes in the Development Plan, the matter shall be resubmitted to the Operating Committee for further consideration.
- (C) If the Development Plan is approved, such work shall be incorporated into and form part of annual Work Programs and Budgets, and Operator shall, on or before the 1st Day of October of each Calendar Year submit a Work Program and Budget for the Exploitation Area, for the following Calendar Year. Subject to Article 6.5, within thirty (30) Days after such submission, the Operating Committee shall endeavor to agree to such Work Program and Budget, including any necessary or appropriate revisions to the Work Program and Budget for the approved Development Plan.

#### 6.3 **Production**

On or before the 1st Day of October of each Calendar Year, Operator shall deliver to the Parties a proposed production Work Program and Budget detailing the Joint Operations to be performed in the Exploitation Area and the projected production schedule for the following Calendar Year. Within thirty (30) Days after such delivery, the Operating Committee shall agree upon a production Work Program and Budget, failing which the provisions of Article 6.1(C) shall be applied *mutatis mutandis*.

#### 6.4 **Itemization of Expenditures**

- (A) During the preparation of the proposed Work Programs and Budgets and Development Plans contemplated in this Article 6, Operator shall consult with the Operating Committee or the appropriate subcommittees regarding the contents of such Work Programs and Budgets and Development Plans.
- (B) Each Work Program and Budget and Development Plan submitted by Operator shall contain an itemized estimate of the costs of Joint Operations and all other expenditures to be made for the Joint Account during the Calendar Year in question and shall, *inter alia*:
- (1) identify each work category in sufficient detail to afford the ready identification of the nature, scope and duration of the activity in question;
  - (2) include such reasonable information regarding Operator's allocation procedures and estimated manpower costs as the Operating Committee may determine;
  - (3) comply with the requirements of the Contract ;
  - (4) contain an estimate of funds to be expended by Calendar Quarter; and
  - (5) during the Exploration Period, provide a forecast of annual expenditures and activities through the end of the Exploration Period.
- (C) The Work Program and Budget shall designate the portion or portions of the Contract Area in which Joint Operations itemized in such Work Program and Budget are to be conducted and shall specify the kind and extent of such operations in such detail as the Operating Committee may deem suitable.

#### 6.5 **Multi-Year Work Program and Budget**

Any work that cannot be efficiently completed within a single Calendar Year may be proposed in a multi-year Work Program and Budget. Upon approval by the Operating Committee, such multi-year Work Program and Budget shall, subject only to revisions approved by the Operating Committee thereafter: (i) remain in effect as between the Parties (and the associated cost estimate shall be a binding pro-rata obligation of each Party) through the completion of the work; and (ii) be reflected in each annual Work Program and Budget. If the Contract requires that Work Programs and Budgets be submitted to the Government for approval, such multi-year Work Program and Budget shall be submitted to the Government either in a single request for a multi-year approval or as part of the annual approval process, according to the terms of the Contract.

6.6 Contract Awards

Operator shall award each contract for Joint Operations in accordance with the following procedures (the amounts stated are in Dollars):

	Procedure A	Procedure B
Exploration and Appraisal Operations	0 to 250,000	>250,000
Development Operations	0 to 500,000	>500,000
Production Operations	0 to 250,000	>250,000

Procedure A

- (A) Operator shall award the contract to the best qualified contractor as determined by cost and ability to perform the contract without the obligation to tender and without informing or seeking the approval of the Operating Committee, except that before entering into contracts with Affiliates of Operator, Operator shall obtain the approval of the Operating Committee.

Procedure B

- (C) Operator shall:
  - (1) provide the Parties with a list of the entities whom Operator proposes to invite to tender for the said contract;
  - (2) add to such list any entity whom a Party reasonably requests to be added within fourteen (14) Days of receipt of such list;
  - (3) prepare and dispatch the tender documents to the entities on the list as aforesaid and to Non-Operators;
  - (4) after the expiration of the period allowed for tendering, consider and analyze the details of all bids received;
  - (5) prepare and circulate to the Parties a competitive bid analysis, stating Operator's recommendation as to the entity to whom the contract should be awarded, the reasons therefor, and the technical, commercial and contractual terms to be agreed upon;
  - (6) obtain the approval of the Operating Committee to the recommended bid; and
  - (7) upon the request of a Party, provide such Party with a copy of the final version of the contract.

6.7 Authorization for Expenditure ("AFE") Procedure

- (A) Prior to incurring any commitment or expenditure for activities for the Joint Account, which is estimated to be:
  - (1) in excess of one hundred thousand Dollars (\$100,000) in an exploration or appraisal Work Program and Budget;
  - (2) in excess of two hundred thousand Dollars (\$200,000) in a development Work Program and Budget; and
  - (3) in excess of one hundred thousand Dollars (\$100,000) in a production Work Program and Budget.

Operator shall send to each Non-Operator an AFE as described in Article 6.7(C). Notwithstanding the above, Operator shall not be obliged to furnish an AFE to the Parties with respect to routine operating costs and general and administrative costs that are listed as separate line items in an approved Work Program and Budget.

- (B) Prior to making any expenditures or incurring any commitments for work subject to the AFE procedure in Article 6.7(A), Operator shall obtain the approval of the Operating Committee. If the Operating Committee approves an AFE for the operation within the applicable time period under Article 5.12(A), Operator shall be authorized to conduct the operation under the terms of this Agreement. If the Operating Committee fails to approve an AFE for the operation within the applicable time period, the operation shall be deemed rejected. Operator shall promptly notify the Parties if the operation has been rejected, and, subject to Article 7, any Party may thereafter propose to conduct the operation as an Exclusive Operation under Article 7. When an operation is rejected under this Article 6.7(B) or an operation is approved for differing amounts than those provided for in the applicable line items of the approved Work Program and Budget, the Work Program and Budget shall be deemed to be revised accordingly.
- (C) Each AFE proposed by Operator shall:
  - (1) identify the operation by specific reference to the applicable line items in the Work Program and Budget;
  - (2) describe the work in detail;

- (3) contain Operator's best estimate of the total funds required to carry out such work;
- (4) outline the proposed work schedule;
- (5) provide a timetable of expenditures, if known; and
- (6) be accompanied by such other supporting information as is necessary for an informed decision.

**6.8 Overexpenditures of Work Programs and Budgets**

- (A) For expenditures on any line item of an approved Work Program and Budget, Operator shall be entitled to incur without further approval of the Operating Committee an overexpenditure for such line item up to ten percent (10%) of the authorized amount for such line item; provided that the cumulative total of all overexpenditures for a Calendar Year shall not exceed five percent (5%) of the total annual Work Program and Budget in question.
- (B) At such time as Operator reasonably anticipates the limits of Article 6.8(A) will be exceeded, Operator shall furnish to the Operating Committee a supplemental AFE for the estimated expenditures for the Operating Committee's approval, and Operator shall provide reasonable details of such overexpenditures. The Work Program and Budget shall be revised accordingly and the overexpenditures permitted in Article 6.8(A) shall be based on the revised Work Program and Budget. Operator shall promptly give notice of the amounts of overexpenditures when actually incurred.
- (D) The restrictions contained in this Article 6 shall be without prejudice to Operator's rights to make expenditures for Urgent Operational Matters and for matters contemplated in Article 4.2(B)(13).

**ARTICLE 7**

**OPERATIONS BY LESS THAN ALL PARTIES**

**7.1 Limitation on Applicability**

- (A) No operations may be conducted in furtherance of the Contract except as Joint Operations under Article 5 or as Exclusive Operations under this Article 7. No Exclusive Operation shall be conducted (other than the tie-in of Exclusive Operation facilities with existing production facilities pursuant to Article 7.10) which conflicts with a previously approved Joint Operation or with a previously approved Exclusive Operation.



- (B) Operations which are required to fulfill the Minimum Work Obligations must be proposed and conducted as Joint Operations under Article 5, and may not be proposed or conducted as Exclusive Operations under this Article 7. Except for Exclusive Operations relating to Deepening, Testing, Completing, Sidetracking, Plugging Back, Recompletions or Reworking of a well originally drilled to fulfill the Minimum Work Obligations, no Exclusive Operations may be proposed or conducted until the Minimum Work Obligations are fulfilled.
- (C) No Party may propose or conduct an Exclusive Operation under this Article 7 unless and until such Party has properly exercised its right to propose an Exclusive Operation pursuant to Article 5.13, or is entitled to conduct an Exclusive Operation pursuant to Article 10.
- (D) The following operations may be proposed and conducted as Exclusive Operations, subject to the terms of this Article 7:
- (1) drilling and/or Testing of Exploration Wells and Appraisal Wells;
  - (2) Completion of Exploration Wells and Appraisal Wells not then Completed as productive of Petroleum;
  - (3) Deepening, Sidetracking, Plugging Back and/or Recompletion of Exploration Wells and Appraisal Wells;
  - (4) development of a Commercial Discovery;
  - (5) acquisition of G & G Data;
  - (6) any operations specifically authorized to be undertaken as an Exclusive Operation under Article 10;
- No other type of operation may be proposed or conducted as an Exclusive Operation.

**7.2 Procedure to Propose Exclusive Operations**

- (A) Subject to Article 7.1, if any Party proposes to conduct an Exclusive Operation, such Party shall give notice of the proposed operation to all Parties, other than Non-Consenting Parties who have relinquished their rights to participate in such operation pursuant to Article 7.4(B) or Article 7.4(F) and have no option to reinstate such rights under Article 7.4(C). Such notice shall specify that such operation is proposed as an Exclusive Operation and include the work to be performed, the location, the objectives, and estimated cost of such operation.
- (B) Any Party entitled to receive such notice shall have the right to participate in the proposed operation.
- (1) For proposals to Deepen, Test, Complete, Sidetrack, Plug Back, Recomplete or Rework related to Urgent Operational Matters, any such Party wishing to exercise such right must so notify the proposing Party and Operator within twenty-four (24) hours after receipt of the notice proposing the Exclusive Operation.
  - (2) For proposals to develop a Discovery, any Party wishing to exercise such right must so notify Operator and the Party proposing to develop within sixty (60) Days after receipt of the notice proposing the Exclusive Operation.
  - (3) For all other proposals, any such Party wishing to exercise such right must so notify the proposing Party and Operator within ten (10) Days after receipt of the notice proposing the Exclusive Operation.
- (C) Failure of a Party to whom a proposal notice is delivered to properly reply within the period specified above shall constitute an election by that Party not to participate in the proposed operation.

- (D) If all Parties properly exercise their rights to participate, then the proposed operation shall be conducted as a Joint Operation. Operator shall commence such Joint Operation as promptly as practicable and conduct it with due diligence.
- (E) If less than all Parties entitled to receive such proposal notice properly exercise their rights to participate, then:
- (1) Immediately after the expiration of the applicable notice period set out in Article 7.2(B), Operator shall notify all Parties of the names of the Consenting Parties and the recommendation of the proposing Party as to whether the Consenting Parties should proceed with the Exclusive Operation.
  - (2) Concurrently, Operator shall request the Consenting Parties to specify the Participating Interest each Consenting Party is willing to bear in the Exclusive Operation.
  - (3) Within twenty-four (24) hours after receipt of such notice (except for proposals under Article 7.2(B)(2) which shall be within thirty (30) Days), each Consenting Party shall respond to Operator stating that it is willing to bear a Participating Interest in such Exclusive Operation equal to:
    - (a) only its Participating Interest as stated in Article 3.2(A);
    - (b) a fraction, the numerator of which is such Consenting Party's Participating Interest as stated in Article 3.2(A) and the denominator of which is the aggregate of the Participating Interests of the Consenting Parties as stated in Article 3.2(A); or
    - (c) the Participating Interest as contemplated by Article 7.2(E)(3)(b) plus all or any part of the difference between one hundred percent (100%) and the total of the Participating Interests subscribed by the other Consenting Parties. Any portion of such difference claimed by more than one Party shall be distributed to each claimant on a pro-rata basis.
  - (4) Any Consenting Party failing to advise Operator within the response period set out above shall be deemed to have elected to bear the Participating Interest set out in Article 7.2(E)(3)(b) as to the Exclusive Operation.
  - (5) If, within the response period set out above, the Consenting Parties subscribe less than one hundred percent (100%) of the Participating Interest in the Exclusive Operation, the Party proposing such Exclusive Operation shall be deemed to have withdrawn its proposal for the Exclusive Operation, unless within twenty-four (24) hours of the expiry of the response period set out in Article 7.2(E)(3), the proposing Party notifies the other Consenting Parties that the proposing Party shall bear the unsubscribed Participating Interest.
  - (6) If one hundred percent (100%) subscription to the proposed Exclusive Operation is obtained, Operator shall promptly notify the Consenting Parties of their Participating Interests in the Exclusive Operation.
  - (7) As soon as any Exclusive Operation is fully subscribed pursuant to Article 7.2(E)(6), Operator, subject to Article 7.12(F), shall commence such Exclusive Operation as promptly as practicable and conduct it with due diligence in accordance with this Agreement.
  - (8) If such Exclusive Operation has not been commenced within one hundred and eighty (180) Days (excluding any extension specifically agreed by all Parties or allowed by the Force Majeure provisions of Article 16) after the date of the notice given by Operator under Article 7.2(E)(6), the right to conduct such Exclusive Operation shall terminate. If any Party still desires to conduct such Exclusive Operation, notice proposing such operation must be resubmitted to the Parties in accordance with Article 5, as if no proposal to conduct an Exclusive Operation had been previously made.

### **7.3 Responsibility for Exclusive Operations**

- (A) The Consenting Parties shall bear in accordance with the Participating Interests agreed under Article 7.2(E) the entire cost and liability of conducting an Exclusive Operation and shall indemnify the Non-Consenting Parties from any and all costs and liabilities incurred incidental to such Exclusive Operation (including Consequential Loss and Environmental Loss) and shall keep the Contract Area free and clear of all liens and encumbrances of every kind created by or arising from such Exclusive Operation.

- (B) Notwithstanding Article 7.3(A), each Party shall continue to bear its Participating Interest share of the cost and liability incidental to the operations in which it participated, including plugging and abandoning and restoring the surface location, but only to the extent those costs were not increased by the Exclusive Operation.

#### 7.4 Consequences of Exclusive Operations

- (A) With regard to any Exclusive Operation, for so long as a Non-Consenting Party has the option under Article 7.4(C) to reinstate the rights it relinquished under Article 7.4(B), such Non-Consenting Party shall be entitled to have access concurrently with the Consenting Parties to all data and other information relating to such Exclusive Operation, other than data obtained in an Exclusive Operation for the purpose of acquiring G & G Data. If a Non-Consenting Party desires to receive and acquire the right to use such G & G Data, then such Non-Consenting Party shall have the right to do so by paying to the Consenting Parties its Participating Interest share as set out in Article 3.2(A) of the cost incurred in obtaining such G & G Data.
- (B) Subject to Article 7.4(C) and Articles 7.6(E) and 7.8, each Non-Consenting Party shall be deemed to have relinquished to the Consenting Parties, and the Consenting Parties shall be deemed to own, in proportion to their respective Participating Interests in any Exclusive Operation:
- (1) all of each such Non-Consenting Party's right to participate in further operations in the well or Deepened or Sidetracked portion of a well in which the Exclusive Operation was conducted and on any Discovery made or appraised in the course of such Exclusive Operation; and
  - (2) all of each such Non-Consenting Party's right pursuant to the Contract to take and dispose of Petroleum produced and saved:
    - (a) from the well or Deepened or Sidetracked portion of a well in which such Exclusive Operation was conducted; and
    - (b) from any wells drilled to appraise or develop a Discovery made or appraised in the course of such Exclusive Operation.
- (C) A Non-Consenting Party shall have only the following options to reinstate the rights it relinquished pursuant to Article 7.4(B):
- (1) If the Consenting Parties decide to appraise a Discovery made in the course of an Exclusive Operation, the Consenting Parties shall submit to each Non-Consenting Party the approved appraisal Work Program. For thirty (30) Days (or forty-eight (48) hours for Urgent Operational Matters) from receipt of such appraisal Work Program, each Non-Consenting Party shall have the option to reinstate the rights it relinquished pursuant to Article 7.4(B) and to participate in such appraisal Work Program. The Non-Consenting Party may exercise such option by notifying Operator within the period specified above that such Non-Consenting Party agrees to bear its Participating Interest share of the expense and liability of such appraisal Work Program, and to pay such amounts as set out in Articles 7.5(A) and 7.5(B).
  - (2) If the Consenting Parties decide to develop a Discovery made or appraised in the course of an Exclusive Operation, the Consenting Parties shall submit to the Non-Consenting Parties a Development Plan substantially in the form intended to be submitted to the Government under the Contract. For sixty (60) Days from receipt of such Development Plan or such lesser period of time prescribed by the Contract, each Non-Consenting Party shall have the option to reinstate the rights it relinquished pursuant to Article 7.4(B) and to participate in such Development Plan. The Non-Consenting Party may exercise such option by notifying Operator within the period specified above that such Non-Consenting Party agrees to bear its Participating Interest share of the liability and expense of such Development Plan and such future operating and producing costs, and to pay the amounts as set out in Articles 7.5(A) and 7.5(B).

- (3) If the Consenting Parties decide to Deepen, Complete, Sidetrack, Plug Back or Recomplete an Exclusive Well and such further operation was not included in the original proposal for such Exclusive Well, the Consenting Parties shall submit to the Non-Consenting Parties the approved AFE for such further operation. For thirty (30) Days (or forty-eight (48) hours for Urgent Operational Matters) from receipt of such AFE, each Non-Consenting Party shall have the option to reinstate the rights it relinquished pursuant to Article 7.4(B) and to participate in such operation. The Non-Consenting Party may exercise such option by notifying Operator within the period specified above that such Non-Consenting Party agrees to bear its Participating Interest share of the liability and expense of such further operation, and to pay the amounts as set out in Articles 7.5(A) and 7.5(B).

A Non-Consenting Party shall not be entitled to reinstate its rights in any other type of operation.

- (D) If a Non-Consenting Party does not properly and in a timely manner exercise its option under Article 7.4(C), including paying all amounts due in accordance with Articles 7.5(A) and 7.5(B), such Non-Consenting Party shall have forfeited the options as set out in Article 7.4(C) and the right to participate in the proposed Work Program, unless such Work Program, plan or operation is materially modified or expanded (in which case a new notice and option shall be given to such Non-Consenting Party under Article 7.4(C)).
- (E) A Non-Consenting Party exercising its option under Article 7.4(C) shall notify the other Parties that it agrees to bear its share of the liability and expense of such further operation and to reimburse the amounts set out in Articles 7.5(A) and 7.5(B) that such Non-Consenting Party had not previously paid. Such Non-Consenting Party shall in no way be deemed to be entitled to any amounts paid pursuant to Articles 7.5(A) and 7.5(B) incidental to such Exclusive Operations. The Participating Interest of such Non-Consenting Party in such Exclusive Operation shall be its Participating Interest set out in Article 3.2(A). The Consenting Parties shall contribute to the Participating Interest of the Non-Consenting Party in proportion to the excess Participating Interest that each received under Article 7.2(E). If all Parties participate in the proposed operation, then such operation shall be conducted as a Joint Operation pursuant to Article 5.
- (F) If after the expiry of the period in which a Non-Consenting Party may exercise its option to participate in a Development Plan the Consenting Parties desire to proceed, Operator shall give notice to the Government under the appropriate provision of the Contract requesting a meeting to advise the Government that the Consenting Parties consider the Discovery to be a Commercial Discovery. Following such meeting such Operator for such development shall apply for an Exploitation Area (if applicable in the Contract). Unless the Development Plan is materially modified or expanded prior to the commencement of operations under such plan (in which case a new notice and option shall be given to the Non-Consenting Parties under Article 7.4(C)), each Non-Consenting Party to such Development Plan shall:
- (1) if the Contract so allows, elect not to apply for an Exploitation Area covering such development and forfeit all interest in such Exploitation Area, or
  - (2) if the Contract does not so allow, be deemed to have:
    - (a) elected not to apply for an Exploitation Area covering such development;
    - (b) forfeited all economic interest in such Exploitation Area; and
    - (c) assumed a fiduciary duty to exercise its legal interest in such Exploitation Area for the benefit of the Consenting Parties.

In either case such Non-Consenting Party shall be deemed to have withdrawn from this Agreement to the extent it relates to such Exploitation Area, even if the Development Plan is modified or expanded subsequent to the commencement of operations under such Development Plan and shall be further deemed to have forfeited any right to participate in the construction and ownership of facilities outside such Exploitation Area designed solely for the use of such Exploitation Area.

- (A) Each such Non-Consenting Party shall within thirty (30) Days of the exercise of its option under Article 7.4(C), pay in immediately available funds to the Consenting Parties (in proportion to their respective Participating Interest in the Exclusive Operations in which such Non-Consenting Party is reinstating its rights) a lump sum amount payable in the currency designated by such Consenting Parties. Such lump sum amount shall be equal to such Non-Consenting Party's Participating Interest share of all liabilities and expenses that were incurred in every Exclusive Operation relating to the Discovery (or Exclusive Well, as the case may be) in which the Non-Consenting Party desires to reinstate the rights it relinquished pursuant to Article 7.4(B) and that were not previously paid by such Non-Consenting Party.
- (B) In addition to the payment required under Article 7.5(A), immediately following the exercise of its option under Article 7.4(C) each such Non-Consenting Party shall be liable to reimburse the Consenting Parties who took the risk of such Exclusive Operations (in proportion to their respective Participating Interests) an amount equal to the total of:
  - (1) five hundred percent (500%) of such Non-Consenting Party's Participating Interest share of all liabilities and expenses that were incurred in any Exclusive Operation relating to the obtaining of the portion of the G & G Data which pertains to the Discovery, and that were not previously paid by such Non-Consenting Party; plus
  - (2) twelve hundred percent (1200%) of the Non-Consenting Party's Participating Interest share of all liabilities and expenses that were incurred in any Exclusive Operation relating to the drilling, Deepening, Testing, Completing, Sidetracking, Plugging Back, Re-completing and Reworking of the Exploration Well which made the Discovery in which the Non-Consenting Party desires to reinstate the rights it relinquished pursuant to Article 7.4(B), and that were not previously paid by such Non-Consenting Party; plus
  - (3) eight hundred percent (800%) of the Non-Consenting Party's Participating Interest share of all liabilities and expenses that were incurred in any Exclusive Operation relating to the drilling, Deepening, Testing, Completing, Sidetracking, Plugging Back, Re-completing and Reworking of the Appraisal Well(s) which delineated the Discovery in which the Non-Consenting Party desires to reinstate the rights it relinquished pursuant to Article 7.4(B), and that were not previously paid by such Non-Consenting Party.
- (C) Each such Non-Consenting Party who is liable for the amounts set out in Article 7.5(B) shall within thirty (30) Days of the exercise of its option under Article 7.4(C), pay in immediately available funds the full amount due from it under Article 7.5(B) to such Consenting Parties, in the currency designated by such Consenting Parties

7.6 *Order of Preference of Operations*

- (A) Except as otherwise specifically provided in this Agreement, if any Party desires to propose the conduct of an operation that will conflict with an existing proposal for an Exclusive Operation, such Party shall have the right exercisable for five (5) Days (or twenty-four (24) hours for Urgent Operational Matters) from receipt of the proposal for the Exclusive Operation, to deliver such Party's alternative proposal to all Parties entitled to participate in the proposed operation. Such alternative proposal shall contain the information required under Article 7.2(A).
- (B) Each Party receiving such proposals shall elect by delivery of notice to Operator and to the proposing Parties within the appropriate response period set out in Article 7.2(B) to participate in one of the competing proposals. Any Party not notifying Operator and the proposing Parties within the response period shall be deemed to have voted against the proposals.
- (C) The proposal receiving the largest aggregate Participating Interest vote shall have priority over all other competing proposals. In the case of a tie vote, Operator shall choose among the proposals receiving the largest aggregate Participating Interest vote. Operator shall deliver notice of such result to all Parties entitled to participate in the operation within five (5) Days (or twenty-four (24) hours for Urgent Operational Matters).

- (D) Each Party shall then have two (2) Days (or twenty-four (24) hours for Urgent Operational Matters) from receipt of such notice to elect by delivery of notice to Operator and the proposing Parties whether such Party will participate in such Exclusive Operation, or will relinquish its interest pursuant to Article 7.4(B). Failure by a Party to deliver such notice within such period shall be deemed an election not to participate in the prevailing proposal.
- (E) Notwithstanding the provisions of Article 7.4(B), if for reasons other than the encountering of granite or other practically impenetrable substance or any other condition in the hole rendering further operations impracticable, a well drilled as an Exclusive Operation fails to reach the deepest objective Zone described in the notice proposing such well, Operator shall give notice of such failure to each Non-Consenting Party who submitted or voted for an alternative proposal under this Article 7.6 to drill such well to a shallower Zone than the deepest objective Zone proposed in the notice under which such well was drilled. Each such Non-Consenting Party shall have the option exercisable for forty-eight (48) hours from receipt of such notice to participate for its Participating Interest share in the initial proposed Completion of such well. Each such Non-Consenting Party may exercise such option by notifying Operator that it wishes to participate in such Completion and by paying its Participating Interest share of the cost of drilling such well to its deepest depth drilled in the Zone in which it is Completed. All liabilities and expenses for drilling and Testing the Exclusive Well below that depth shall be for the sole account of the Consenting Parties. If any such Non-Consenting Party does not properly elect to participate in the first Completion proposed for such well, the relinquishment provisions of Article 7.4(B) shall continue to apply to such Non-Consenting Party's interest.

**7.7 Stand-By Costs**

- (A) When an operation has been performed, all tests have been conducted and the results of such tests furnished to the Parties, stand by costs incurred pending response to any Party's notice proposing an Exclusive Operation for Deepening, Testing, Sidetracking, Completing, Plugging Back, Recompleting, Reworking or other further operation in such well (including the period required under Article 7.6 to resolve competing proposals) shall be charged and borne as part of the operation just completed. Stand by costs incurred subsequent to all Parties responding, or expiration of the response time permitted, whichever first occurs, shall be charged to and borne by the Parties proposing the Exclusive Operation in proportion to their Participating Interests, regardless of whether such Exclusive Operation is actually conducted and shall be paid to the Operator by such Parties in advance
- (B) If a further operation related to Urgent Operational Matters is proposed while the drilling rig to be utilized is on location, any Party may request and receive up to five (5) additional Days after expiration of the applicable response period specified in Article 7.2(B)(1) within which to respond by notifying Operator that such Party agrees to bear all stand by costs and other costs incurred during such extended response period. Operator may require such Party to pay the estimated stand by costs in advance as a condition to extending the response period. If more than one Party requests such additional time to respond to the notice, stand by costs shall be allocated between such Parties on a Day-to-Day basis in proportion to their Participating Interests.

**7.8 Special Considerations Regarding Deepening and Sidetracking**

- (A) An Exclusive Well shall not be Deepened or Sidetracked without first affording the Non-Consenting Parties in accordance with this Article 7.8 the opportunity to participate in such operation.
- (B) In the event any Consenting Party desires to Deepen or Sidetrack an Exclusive Well, such Party shall initiate the procedure contemplated by Article 7.2. If a Deepening or Sidetracking operation is approved pursuant to such provisions, and if any Non-Consenting Party to the Exclusive Well elects to participate in such Deepening or Sidetracking operation, such Non-Consenting Party shall not owe amounts pursuant to Article 7.5(B), and such Non-Consenting Party's payment pursuant to Article 7.5(A) shall be such Non-Consenting Party's Participating Interest share of the liabilities and expenses incurred in connection with drilling the Exclusive Well from the surface to the depth previously drilled which such Non-Consenting Party would have paid had such Non-Consenting Party agreed to participate in such Exclusive Well; provided, however, all liabilities and expenses for Testing and Completing or attempting Completion of the well incurred by Consenting Parties prior to the commencement of actual operations to Deepen or Sidetrack beyond the depth previously drilled shall be for the sole account of the Consenting Parties.

**7.9 Use of Property**

- (A) The Parties participating in any Deepening, Testing, Completing, Sidetracking, Plugging Back, Recompleting or Reworking of any well drilled under this Agreement shall be permitted to use (free of cost) all casing, tubing and other equipment in the well that is not needed for operations by the owners of the wellbore, but the ownership of all such equipment shall remain unchanged. On abandonment of a well in which operations with differing participation have been conducted, the Parties abandoning the well shall account for all equipment in the well to the Parties owning such equipment by tendering to them their respective Participating Interest shares of the value of such equipment less the cost of salvage.

**7.10 Deferred Production During Tie-In of Exclusive Operation Facilities**

If, during the tie-in of Exclusive Operation facilities with the existing production facilities of another operation, the production of Petroleum from such other pre-existing operations is temporarily lessened as a result, then the Consenting Parties shall compensate the parties to such existing operation for such deferral of production in the following manner. Operator shall determine the amount by which each Day's production during the tie-in of Exclusive Operation facilities falls below the previous month's average daily production from the existing production facilities of such operation. The so-determined amount of deferred production shall be recovered by all Parties who experienced such deferral in proportion to their respective Participating Interest. Upon completion of the tie-in, such deferred production shall be recovered in full by Operator deducting up to one hundred percent (100%) of the production from the Exclusive Operation, prior to the Consenting Parties being entitled to receive any such production.

**7.11 Conduct of Exclusive Operations**

- (A) Each Exclusive Operation shall be carried out by the Consenting Parties acting as the Operating Committee, subject to the provisions of this Agreement applied *mutatis mutandis* to such Exclusive Operation and subject to the terms and conditions of the Contract.
- (B) The computation of liabilities and expenses incurred in Exclusive Operations, including the liabilities and expenses of Operator for conducting such operations, shall be made in accordance with the principles set out in the Accounting Procedure.
- (C) Operator if it is conducting an Exclusive Operation or if Operator otherwise agrees, shall maintain separate books, financial records and accounts for Exclusive Operations which shall be subject to the same rights of audit and examination as the Joint Account and related records, all as provided in the Accounting Procedure. Said rights of audit and examination shall extend to each of the Consenting Parties and each of the Non-Consenting Parties so long as the latter are, or may be, entitled to elect to participate in such Exclusive Operations.
- (D) Operator, if it is conducting an Exclusive Operation for the Consenting Parties, regardless of whether it is participating in that Exclusive Operation, shall be entitled to request cash advances and shall not be required to use its own funds to pay any cost and expense and shall not be obliged to commence or continue Exclusive Operations until cash advances requested have been made, and the Accounting Procedure shall apply to Operator in respect of any Exclusive Operations conducted by it.

- (E) Should the submission of a Development Plan be approved in accordance with Article 6.2, or should any Party propose (but not yet have the right to commence) a development in accordance with this Article 7 where neither the Development Plan nor the development proposal call for the conduct of additional appraisal drilling, and should any Party wish to drill an additional Appraisal Well prior to development, then the Party proposing the Appraisal Well as an Exclusive Operation shall be entitled to proceed first, but without the right (subject to the following sentence) to future reimbursement pursuant to Article 7.5. If such an Appraisal Well is produced, any Consenting Party shall own and have the right to take in kind and separately dispose of all of the Non-Consenting Party's Entitlement from such Appraisal Well until the value received in sales to purchasers in arm-length transactions equals one hundred percent (100%) of such Non-Consenting Party's Participating Interest shares of all liabilities and expenses that were incurred in any Exclusive Operations relating to the Appraisal Well. Following the completion of drilling such Appraisal Well as an Exclusive Operation, the Parties may proceed with the Development Plan approved pursuant to Article 5.9, or (if applicable) the Parties may complete the procedures to propose an Exclusive Operation to develop a Discovery. If, as the result of drilling such Appraisal Well as an Exclusive Operation, the Party or Parties proposing to develop the Discovery decide(s) not to do so, then each Non-Consenting Party who voted in favor of such Development Plan prior to the drilling of such Appraisal Well shall pay to the Consenting Party the amount such Non-Consenting Party would have paid had such Appraisal Well been drilled as a Joint Operation.
- (F) If Operator is a Non-Consenting Party to an Exclusive Operation to develop a Discovery, then Operator may resign, but in any event shall resign on the unanimous request of the Consenting Parties, as Operator for the Exploitation Area for such Discovery, and the Consenting Parties shall select a Consenting Party to serve as Operator for such Exclusive Operation only by an affirmative vote of one (1) or more Consenting Parties representing in aggregate at least sixty percent (60%) of the total Consenting Parties' Participating Interests. Any such resignation of Operator and appointment of a Consenting Party to serve as Operator for such Exclusive Operation shall be subject to the Parties having first obtained any necessary Government approvals.

## ARTICLE 8

### DEFAULT

#### 8.1 *Default and Notice*

- (A) Any Party that fails to:
- (1) pay when due its share of Joint Account expenses (including cash advances and interest); or
  - (2) obtain and maintain any Security required of such Party under the Contract or this Agreement;
- shall be in default under this Agreement (a "**Defaulting Party**"). Operator, or any non-defaulting Party in case Operator is the Defaulting Party, shall promptly give notice of such default (the "**Default Notice**") to the Defaulting Party and each of the non-defaulting Parties.
- (B) For the purposes of this Article 8, "**Default Period**" means the period beginning five (5) Business Days from the date that the Default Notice is issued in accordance with this Article 8.1 and ending when all the Defaulting Party's defaults pursuant to this Article 8.1 have been remedied in full.

#### 8.2 *Operating Committee Meetings and Data*

- (A) Notwithstanding any other provision of this Agreement, the Defaulting Party shall have no right, during the Default Period, to:
- (1) call or attend Operating Committee or subcommittee meetings;
  - (2) vote on any matter coming before the Operating Committee or any subcommittee;
  - (3) access any data or information relating to any operations under this Agreement;
  - (4) consent to or reject data trades between the Parties and third parties, nor access any data received in such data trades.
  - (5) Transfer (as defined in Article 12.1) all or part of its Participating Interest, except to non-defaulting Parties in accordance with this Article 8;
  - (6) consent to or reject any Transfer (as defined in Article 12.1) or otherwise exercise any other rights in respect of Transfers under this Article 8 or under Article 12;



- (7) receive its Entitlement in accordance with Article 8.4;
- (8) withdraw from this Agreement under Article 13; or
- (9) take assignment of any portion of another Party's Participating Interest in the event such other Party is either in default or withdrawing from this Agreement and the Contract.

(B) Notwithstanding any other provisions in this Agreement, during the Default Period:

- (1) unless agreed otherwise by the non-defaulting Parties, the voting interest of each non-defaulting Party shall be equal to the ratio such non-defaulting Party's Participating Interest bears to the total Participating Interests of the non-defaulting Parties;
- (2) any matters requiring a unanimous vote or approval of the Parties shall not require the vote or approval of the Defaulting Party;
- (3) the Defaulting Party shall be deemed to have elected not to participate in any operations that are voted upon during the Default Period, to the extent such an election would be permitted by Article 5.13 and Article 7; and
- (4) the Defaulting Party shall be deemed to have approved, and shall join with the non-defaulting Parties in taking, any other actions voted on during the Default Period.

### 8.3 Allocation of Defaulted Accounts

- (A) The Party providing the Default Notice pursuant to Article 8.1 shall include in the Default Notice to each non-defaulting Party a statement of: (i) the sum of money that the non-defaulting Party shall pay as its portion of the Amount in Default; and (ii) if the Defaulting Party has failed to obtain or maintain any Security required of such Party in order to maintain the Contract in full force and effect, the type and amount of the Security the non-defaulting Parties, other than the Operator, shall post or the funds they shall pay in order to allow Operator, or (if Operator is in default) the notifying Party, to post and maintain such Security. Unless otherwise agreed, the obligations for which the Defaulting Party is in default shall be satisfied by the non-defaulting Parties, other than the Operator, in proportion to the ratio that each non-defaulting Party's Participating Interest bears to the Participating Interests of all non-defaulting Parties. For the purposes of this Article 8:

**"Amount in Default"** means the Defaulting Party's share of Joint Account expenses which the Defaulting Party has failed to pay when due pursuant to the terms of this Agreement (but excluding any interest owed on such amount); and

**"Total Amount in Default"** means the following amounts: (i) the Amount in Default; (ii) third-party costs of obtaining and maintaining any Security incurred by the non-defaulting Parties or the funds paid by such Parties in order to allow Operator to obtain or maintain Security, in accordance with Article 8.3(A)(ii); plus (iii) any interest at the Agreed Interest Rate accrued on the amount under (i) from the date this amount is due by the Defaulting Party until paid in full by the Defaulting Party and on the amount under (ii) from the date this amount is incurred by the non-defaulting Parties until paid in full by the Defaulting Party.

- (B) If the Defaulting Party remedies its default in full before the Default Period commences, the notifying Party shall promptly notify each non-defaulting Party by facsimile or telephone and by email, and the non-defaulting Parties shall be relieved of their obligations under Article 8.3(A). Otherwise, each non-defaulting Party shall satisfy its obligations under Article 8.3(A)(i) before the Default Period commences and its obligations under Article 8.3(A)(ii) within ten (10) Days following the Default Notice. If any non-defaulting Party fails to satisfy such obligations in a timely manner, such Party shall thereupon be a Defaulting Party subject to the provisions of this Article 8. The non-defaulting Parties shall be entitled to receive their respective shares of the Total Amount in Default payable by such Defaulting Party pursuant to this Article 8.

- (C) If Operator is a Defaulting Party, then all payments otherwise payable to Operator for Joint Account costs pursuant to this Agreement shall be made to the notifying Party instead until the default is cured or a successor Operator appointed. The notifying Party shall maintain such funds in a segregated account separate from its own funds and shall apply such funds to third party claims due and payable from the Joint Account of which it has notice, to the extent Operator would be authorized to make such payments under the terms of this Agreement. The notifying Party shall be entitled to bill or cash call the other Parties in accordance with the Accounting Procedure for proper third party charges that become due and payable during such period to the extent sufficient funds are not available. When Operator has cured its default or a successor Operator is appointed, the notifying Party shall turn over all remaining funds in the account to Operator and shall provide Operator and the other Parties with a detailed accounting of the funds received and expended during this period. The notifying Party shall not be liable for damages, losses, costs, expenses or liabilities arising as a result of its actions under this Article 8.3(C), except to the extent Operator would be liable under Article 4.6.

#### 8.4 Remedies

- (A) During the Default Period, the Defaulting Party shall not have a right to its Entitlement, which shall vest in and be the property of the non-defaulting Parties. Operator (or the notifying Party if Operator is a Defaulting Party) shall be authorized to sell such Entitlement in an arm's-length sale on terms that are commercially reasonable under the circumstances and, after deducting all costs, charges and expenses incurred in connection with such sale, pay the net proceeds to the non-defaulting Parties in proportion to the amounts they are owed by the Defaulting Party as a part of the Total Amount in Default (in payment of first the interest and then the principal) and apply such net proceeds toward the establishment of the Reserve Fund (as defined in Article 8.4(C)), if applicable, until all such Total Amount in Default is recovered and such Reserve Fund is established. Any surplus remaining shall be paid to the Defaulting Party, and any deficiency shall remain a debt due from the Defaulting Party to the non-defaulting Parties. When making sales under this Article 8.4(A), the non-defaulting Parties shall have no obligation to share any existing market or obtain a price equal to the price at which their own production is sold.
- (B) If Operator disposes of any Joint Property or if any other credit or adjustment is made to the Joint Account during the Default Period, Operator (or the notifying Party if Operator is a Defaulting Party) shall be entitled to apply the Defaulting Party's Participating Interest share of the proceeds of such disposal, credit or adjustment against the Total Amount in Default (against first the interest and then the principal) and toward the establishment of the Reserve Fund (as defined in Article 8.4(C)), if applicable. Any surplus remaining shall be paid to the Defaulting Party, and any deficiency shall remain a debt due from the Defaulting Party to the non-defaulting Parties.
- (C) The non-defaulting Parties shall be entitled to apply the net proceeds received under Articles 8.4(A) and 8.4(B) toward the creation of a reserve fund (the "**Reserve Fund**") in an amount equal to the Defaulting Party's Participating Interest share of: (i) the estimated cost to abandon any wells and other property in which the Defaulting Party participated; (ii) the estimated cost of severance benefits for local employees upon cessation of operations; and (iii) any other identifiable costs that the non-defaulting Parties anticipate will be incurred in connection with the cessation of operations. Upon the conclusion of the Default Period, all amounts held in the Reserve Fund shall be returned to the Party that was previously the Defaulting Party.
- (D) If a Defaulting Party fails to fully remedy all its defaults by the thirtieth (30th) Day following the date of the Default Notice, then, without prejudice to any other rights available to each non-defaulting Party to recover its portion of the Total Amount in Default, a majority in interest of the non-defaulting Parties (after excluding Affiliates of the Defaulting Party) shall have the option, exercisable at anytime thereafter during the Default Period, to require that the Defaulting Party completely withdraw from this Agreement and the Contract. Such option shall be exercised by notice to the Defaulting Party and each non-defaulting Party. If such option is exercised, the Defaulting Party shall be deemed to have transferred, pursuant to Article 13.6, effective on the date of the non-defaulting Party's or Parties' notice, its Participating Interest to the non-defaulting Parties. Notwithstanding the terms of Article 13, in the absence of an agreement among the non-defaulting Parties to the contrary, any transfer to the non-defaulting Parties following a withdrawal pursuant to this Article 8.4(D) shall be in proportion to the Participating Interests of the non-defaulting Parties.

- (E) For purposes of Articles 8.4(D), the Defaulting Party shall, without delay following any request from the non-defaulting Parties, do any act required to be done by the Laws / Regulations and any other applicable laws in order to render the transfer of its Participating Interest legally valid, including obtaining all governmental consents and approvals, and shall execute any document and take such other actions as may be necessary in order to effect a prompt and valid transfer. The Defaulting Party shall be obligated to promptly remove any liens and encumbrances which may exist on its assigned Participating Interests. In the event all Government approvals are not obtained in a timely manner, the Defaulting Party shall hold the assigned Participating Interest in trust for the non-defaulting Parties who are entitled to receive it. Each Party constitutes and appoints each other Party its true and lawful attorney to execute such instruments and make such filings and applications as may be necessary to make such transfer legally effective and to obtain any necessary consents of the Government. Actions under this power of attorney may be taken by any Party individually without the joinder of the others. This power of attorney is irrevocable for the term of this Agreement and is coupled with an interest. If requested, each Party shall execute a form prescribed by the Operating Committee setting forth this power of attorney in more detail.
- (F) The non-defaulting Parties shall be entitled to recover from the Defaulting Party all reasonable attorneys' fees and all other reasonable costs sustained in the collection of amounts owing by the Defaulting Party.
- (G) The rights and remedies granted to the non-defaulting Parties in this Article 8 shall be cumulative, not exclusive, and shall be in addition to any other rights and remedies that may be available to the non-defaulting Parties, whether at law, in equity or otherwise. Each right and remedy available to the non-defaulting Parties may be exercised from time to time and so often and in such order as may be considered expedient by the non-defaulting Parties in their sole discretion.

#### **8.5 Survival**

The obligations of the Defaulting Party and the rights of the non-defaulting Parties shall survive the surrender, expiry or termination of the Contract, abandonment of Joint Operations and termination of this Agreement.

#### **8.6 No Right of Set Off**

Each Party acknowledges and accepts that a fundamental principle of this Agreement is that each Party pays its Participating Interest share of all amounts due under this Agreement as and when required. Accordingly, any Party which becomes a Defaulting Party undertakes that, in respect of either any exercise by the non-defaulting Parties of any rights under or the application of any of the provisions of this Article 8, such Party hereby waives any right to raise by way of set off or invoke as a defense, whether in law or equity, any failure by any other Party to pay amounts due and owing under this Agreement or any alleged claim that such Party may have against Operator or any Non-Operator, whether such claim arises under this Agreement or otherwise. Each Party further agrees that the nature and the amount of the remedies granted to the non-defaulting Parties hereunder are reasonable and appropriate in the circumstances.

#### **8.7 Pre-Agreement Joint Expenditures**

It is recognized that various of the Parties have incurred expenditures for the joint benefit prior to the execution of this Agreement. Such pre-Agreement expenditures are itemized on Exhibit C attached hereto. Operator shall invoice the Parties for their proportionate shares of such expenditures as provided in the Accounting Procedure and shall reimburse the Parties for the expenditures listed on Exhibit C upon receipt of funds therefor from the Parties. Any past due amounts (other than amounts being contested in good faith) shall accrue interest at the rate of fifteen percent (15%) per annum from the due date until paid. Failure by a Party to pay its share of any such invoices shall render such Party a Defaulting Party for purposes of this Agreement.

### **ARTICLE 9**

#### **DISPOSITION OF PRODUCTION**

##### **9.1 Right and Obligation to Take in Kind**

Except as otherwise provided in this Article 9 or in Article 8, each Party shall have the right and obligation to own, take in kind and separately dispose of its Entitlement.

##### **9.2 Disposition of Crude Oil**

The Parties shall in good faith, and not less than three (3) months prior to the anticipated first delivery of Crude Oil, as promptly notified by Operator, negotiate and endeavor to conclude the terms of a lifting agreement to cover the off take of Crude Oil produced under the Contract based on the AIPN Model Form Lifting Procedure containing all such terms as may be negotiated and agreed by the parties, consistent with the Development Plan and/or extended well test production rights.

9.3 **Disposition of Natural Gas**

The Parties recognize that if Natural Gas is discovered it may be necessary for the Parties to enter into special arrangements for the disposal of the Natural Gas, which are consistent with the Development Plan and subject to the terms of the Contract.

**ARTICLE 10**

**ABANDONMENT**

**10.1 Abandonment of Wells Drilled as Joint Operations**

- (A) A decision to plug and abandon any well which has been drilled as a Joint Operation shall require the approval of the Operating Committee, unless otherwise required in accordance with applicable Laws/Regulations.
- (B) Should any Party fail to reply within the period prescribed in Article 5.12(A)(1) or Article 5.12(A)(2), whichever is applicable, after delivery of notice of Operator's proposal to plug and abandon such well, such Party shall be deemed to have consented to the proposed abandonment.
- (C) If the Operating Committee approves a decision to plug and abandon an Exploration Well or Appraisal Well, subject to Laws / Regulations, any Party voting against such decision may propose (within the time periods allowed by Article 5.13(A)) to conduct an alternate Exclusive Operation in the wellbore. If no Exclusive Operation is timely proposed, or if an Exclusive Operation is timely proposed but is not commenced within the applicable time periods under Article 7.2, such well shall be plugged and abandoned.
- (D) Any well plugged and abandoned under this Agreement shall be plugged and abandoned in accordance with the Laws / Regulations and at the cost, risk and expense of the Parties who participated in the cost of drilling such well

**10.2 Abandonment of Exclusive Operations**

This Article 10 shall apply *mutatis mutandis* to the abandonment of an Exclusive Well or any well in which an Exclusive Operation has been conducted (in which event all Parties having the right to conduct further operations in such well shall be notified and have the opportunity to conduct Exclusive Operations in the well in accordance with the provisions of this Article 10).

**10.3 Abandonment Security**

If under the Contract or Laws / Regulations, the Parties are or become obliged to pay or contribute to the cost of ceasing operations, then during preparation of a Development Plan, the Parties shall negotiate a security agreement, which shall be completed and executed by all Parties participating in such Development Plan prior to application for an Exploitation Area. The security agreement shall incorporate the following principles:

- (A) a Security shall be provided by each such Party for each Calendar Year commencing with the Calendar Year in which the Discounted Net Value equals or is less than three hundred percent (300%) of the Discounted Net Cost; and
- (B) the amount of the Security required to be provided by each such Party in any Calendar Year (including any security previously provided which will still be current throughout such Calendar Year) shall be equal to the amount by which three hundred percent (300%) of the Discounted Net Cost exceeds the Discounted Net Value, up to a maximum of two hundred percent (200%) of the Discounted Net Cost.

**"Discounted Net Cost"** means that portion of each Party's anticipated before tax cost of ceasing operations in accordance with the Laws / Regulations which remains after deduction of salvage value. Such portion should be calculated at the anticipated time of ceasing operations and discounted at the Discount Rate to December 31 of the Calendar Year in question.

“**Discounted Net Value**” means the value of each Party’s estimated Entitlement which remains after payment of estimated liabilities and expenses required to win, save and transport such production to the delivery point and after deduction of estimated applicable taxes, royalties, imposts and levies on such production. Such Entitlement shall be calculated using estimated market prices and including taxes on income, discounted at the Discount Rate to December 31 of the Calendar Year in question. No account shall be taken of tax allowances expected to be available in respect of the costs of ceasing operations.

“**Discount Rate**” means a rate equal to the one (1) month term, London Interbank Offered Rate (LIBOR rate) for Dollar deposits, as published in London by the Financial Times or if not published, then by The Wall Street Journal and applicable to the date falling thirty (30) Business Days prior to the start of a Calendar Year.

## ARTICLE 11

### SURRENDER, EXTENSIONS AND RENEWALS

#### 11.1 Surrender

- (A) If the Contract requires the Parties to surrender any portion of the Contract Area, Operator shall advise the Operating Committee of such requirement at least one hundred and twenty (120) Days in advance of the earlier of the date for filing irrevocable notice of such surrender or the date of such surrender. Prior to the end of such period, the Operating Committee shall determine pursuant to Article 5 the size and shape of the surrendered area, consistent with the requirements of the Contract. If a sufficient vote of the Operating Committee cannot be attained, then the proposal supported by a simple majority of the Participating Interests shall be adopted. If no proposal attains the support of a simple majority of the Participating Interests, then the proposal receiving the largest aggregate Participating Interest vote shall be adopted. In the event of a tie, Operator shall choose among the proposals receiving the largest aggregate Participating Interest vote. The Parties shall execute any and all documents and take such other actions as may be necessary to effect the surrender. Each Party renounces all claims and causes of action against Operator and any other Parties on account of any area surrendered in accordance with the foregoing but against its recommendation if Petroleum are subsequently discovered under the surrendered area.
- (B) A surrender of all or any part of the Contract Area which is not required by the Contract shall require the unanimous consent of the Parties.

#### 11.2 Extension of the Term

- (A) A proposal by any Party to enter into or extend the term of any Exploration Period or Exploitation Period or any phase of the Contract, or a proposal to extend the term of the Contract, shall be brought before the Operating Committee pursuant to Article 5.
- (B) Any Party shall have the right to enter into or extend the term of any Exploration Period or Exploitation Period or any phase of the Contract or to extend the term of the Contract, regardless of the level of support in the Operating Committee. If any Party takes such action, any Party not wishing to extend shall have a right to withdraw, subject to the requirements of Article 13.

## ARTICLE 12

### TRANSFER OF INTEREST OR RIGHTS

#### 12.1 Obligations

- (A) Subject to the requirements of the Contract, any Transfer (except Transfers pursuant to Article 7, Article 8 or Article 13) shall be effective only if it satisfies the terms and conditions of Article 12.2. Notwithstanding Article 12.2 in the event of a Transfer of all of GGR’s Participating Interest to an Affiliate, GGR shall be deemed to have resigned as Operator for purposes of Article 4.10. Any Transfer of GGR’s Participating Interest to an Affiliate and/or any other assignee or transferee shall, without derogating from any other provision of the Agreement, be subject to an undertaking of such transferee and/or assignee to be bound by the terms and conditions of Article 3.2(D) as if it were GGR.

Should a Transfer subject to this Article occur without satisfaction by the Transferor of the requirements hereof, then each other Party shall be entitled to enforce specific performance of the terms of this Article, in addition to any other remedies (including damages) to which it may be entitled. Each Party agrees that monetary damages alone would not be an adequate remedy for the breach of any Party’s obligations under this Article.

(B) For purposes of this Agreement:

**“Change in Control”** means any direct or indirect change in Control of a Party (whether through merger, sale of shares or other equity interests, or otherwise) through a single transaction or series of related transactions, from one or more transferors to one or more transferees, in which the market value of the Party's Participating Interest represents more than fifty percent (50%) of the aggregate market value of the assets of such Party and its Affiliates that are subject to the change in Control. For the purposes of this definition, market value shall be determined based upon the amount in cash a willing buyer would pay a willing seller in an arm's length transaction.

**“Encumbrance”** means a mortgage, lien, pledge, charge or other encumbrance. **“Encumber”** and other derivatives shall be construed accordingly.

**“Transfer”** means any sale, assignment, Encumbrance or other disposition by a Party of any rights or obligations derived from the Contract or this Agreement (including its Participating Interest), other than its Entitlement and its rights to any credits, refunds or payments under this Agreement, and excluding any direct or indirect change in Control of a Party.

## 12.2. **Transfer**

- (A) Except in the case of a Party transferring all of its Participating Interest, no Transfer shall be made by any Party which results in the transferor or the transferee holding a Participating Interest of less than five percent (5%) or any interest other than a Participating Interest in the Contract and this Agreement.
- (B) Subject to the terms of Articles 4.9 and 4.10, the Party serving as Operator shall remain Operator following Transfer of a portion of its Participating Interest. In the event of a Transfer of all of its Participating Interest, except to an Affiliate, the Party serving as Operator shall be deemed to have resigned as Operator, effective on the date the Transfer becomes effective under this Article 12, in which event a successor Operator shall be appointed in accordance with Article 4.11. If Operator transfers all of its Participating Interest to an Affiliate, that Affiliate shall automatically become the successor Operator, provided that the transferring Operator shall remain liable for its Affiliate's performance of its obligations.
- (C) Both the transferee, and, notwithstanding the Transfer, the transferring Party, shall be liable to the other Parties for the transferring Party's Participating Interest share of any obligations (financial or otherwise) which have vested, matured or accrued under the provisions of the Contract or this Agreement prior to such Transfer. Such obligations shall include any proposed expenditure approved by the Operating Committee prior to the transferring Party notifying the other Parties of its proposed Transfer and costs of plugging and abandoning wells or portions of wells and decommissioning facilities in which the transferring Party participated (or with respect to which it was required to bear a share of the costs pursuant to this sentence) to the extent such costs are payable by the Parties under the Contract.
- (D) A transferee shall have no rights in the Contract or this Agreement (except any notice and cure rights or similar rights that may be provided to a Lien Holder (as defined in Article 12.2(E)) by separate instrument signed by all Parties) unless and until:
  - (1) it expressly undertakes in an instrument reasonably satisfactory to the other Parties to perform the obligations of the Transferor under the Contract and this Agreement in respect of the Participating Interest being transferred and obtains any necessary Government approval for the Transfer and furnishes any Security required by the Government or the Contract on or before the applicable deadlines; and

- (2) except in the case of a Transfer to an Affiliate, each Party has consented in writing to such Transfer (except for a Transfer by GGR to Adira as stipulated in Article 12.1(A), with respect of which such consent is hereby given by the Parties), which consent shall be denied only if the transferee fails to establish to the reasonable satisfaction of each Party its financial capability to perform its payment obligations under the Contract and this Agreement. Any Party which shall not object in writing within twenty-one (21) Days of receipt of notice from the transferring Party as to the identity of the transferee and details of its financial capability shall be deemed to consent to the Transfer.

No consent shall be required under this Article 12.2(D)(2) for a Transfer to an Affiliate if the transferring Party agrees in an instrument reasonably satisfactory to the other Parties to remain liable for its Affiliate's performance of its obligations.

- (E) Nothing contained in this Article 12 shall prevent a Party from Encumbering all or any undivided share of its Participating Interest to a third party (a "*Lien Holder*") for the purpose of security relating to finance, provided that:
- (1) such Party shall remain liable for all obligations relating to such interest;
  - (2) the Encumbrance shall be subject to any necessary approval of the Government and be expressly subordinated to the rights of the other Parties under this Agreement;
  - (3) such Party shall ensure that any Encumbrance shall be expressed to be without prejudice to the provisions of this Agreement.

### 12.3 *Change in Control*

- (A) A Party subject to a Change in Control shall obtain any necessary Government approval with respect to the Change in Control and furnish any replacement Security required by the Government or the Contract on or before the applicable deadlines.
- (B) A Party subject to a Change in Control shall provide evidence reasonably satisfactory to the other Parties that following the Change in Control such Party shall continue to have the financial capability to satisfy its payment obligations under the Contract and this Agreement. Should the Party that is subject to the Change in Control fail to provide such evidence, any other Party, by notice to such Party, may require such Party to provide Security satisfactory to the other Parties with respect to its Participating Interest share of any obligations or liabilities which the Parties may reasonably be expected to incur under the Contract and this Agreement during the then-current Exploration or Exploitation Period or phase of the Contract.

## ARTICLE 13

### WITHDRAWAL FROM AGREEMENT

#### 13.1 *Right of Withdrawal*

- (A) Subject to the provisions of this Article 13 and the Contract, any Party not in default may at its option withdraw from this Agreement and the Contract by giving notice to all other Parties stating its decision to withdraw. Such notice shall be unconditional and irrevocable when given, except as may be provided in Article 13.7.
- (B) The effective date of withdrawal for a withdrawing Party shall be the end of the calendar month following the calendar month in which the notice of withdrawal is given, provided that if all Parties elect to withdraw, the effective date of withdrawal for each Party shall be the date determined by Article 13.9.

#### 13.2 *Partial or Complete Withdrawal*

- (A) Within thirty (30) Days after receipt of each withdrawing Party's notification, each of the other Parties may also give notice that it desires to withdraw from this Agreement and the Contract. Should all Parties give notice of withdrawal, the Parties shall proceed to abandon the Contract Area and terminate the Contract and this Agreement. If less than all of the Parties give such notice of withdrawal, then the withdrawing Parties shall take all steps to withdraw from the Contract and this Agreement on the earliest possible date and execute and deliver all necessary instruments and documents to assign their Participating Interest to the Parties which are not withdrawing, without any compensation whatsoever, in accordance with the provisions of Article 13.6.

- (B) Any Party withdrawing under Article 11.2 or under this Article 13 shall at its option: (1) withdraw from the entirety of the Contract Area, or (2) withdraw only from all exploration activities under the Contract, but not from any Exploitation Area, Commercial Discovery, or Discovery (whether appraised or not) made prior to such withdrawal, provided that a Party may not withdraw only from all exploration activities if any further exploration activities are required to secure the Parties' rights to any Exploration Area, Commercial Discovery or Discovery (whether appraised or not). Such withdrawing Party shall retain its rights in Joint Property, but only insofar as they relate to any such Exploitation Area, Commercial Discovery or Discovery, and shall abandon all other rights in Joint Property.

**13.3 Rights of a Withdrawing Party**

A withdrawing Party shall have the right to receive its Entitlement produced through the effective date of its withdrawal. The withdrawing Party shall be entitled to receive all information to which such Party is otherwise entitled under this Agreement until the effective date of its withdrawal. After giving its notification of withdrawal, a Party shall not be entitled to vote on any matters coming before the Operating Committee, other than matters for which such Party has financial responsibility.

**13.4 Obligations and Liabilities of a Withdrawing Party**

(A) A withdrawing Party shall, following its notification of withdrawal, remain liable only for its share of the following:

- (1) costs of Joint Operations, and Exclusive Operations in which it has agreed to participate, that were approved by the Operating Committee or Consenting Parties as part of a Work Program and Budget (including a multi-year Work Program and Budget under Article 6.5) or AFE prior to such Party's notification of withdrawal, regardless of when they are incurred;
- (2) any Minimum Work Obligations for the current period or phase of the Contract, and for any subsequent period or phase which has been approved pursuant to Article 11.2 and with respect to which such Party has failed to withdraw in a timely manner under Article 13.4(B);
- (3) expenditures described in Articles 4.2(B)(13) and 13.5 related to an emergency occurring prior to the effective date of a Party's withdrawal, regardless of when such expenditures are incurred;
- (4) all other obligations and liabilities of the Parties or Consenting Parties, as applicable, with respect to acts or omissions under this Agreement prior to the effective date of such Party's withdrawal for which such Party would have been liable, had it not withdrawn from this Agreement; and
- (5) in the case of a partially withdrawing Party, any costs and liabilities with respect to Exploitation Areas, Commercial Discoveries and Discoveries from which it has not withdrawn.

The obligations and liabilities for which a withdrawing Party remains liable shall specifically include its share of any costs of plugging and abandoning wells or portions of wells in which it participated (or was required to bear a share of the costs pursuant to Article 13.4(A)(1)) to the extent such costs of plugging and abandoning are payable by the Parties under the Contract. Any mortgages, liens, pledges, charges or other encumbrances which were placed on the withdrawing Party's Participating Interest prior to such Party's withdrawal shall be fully satisfied or released, at the withdrawing Party's expense, prior to its withdrawal. A Party's withdrawal shall not relieve it from liability to the non-withdrawing Parties with respect to any obligations or liabilities attributable to the withdrawing Party under this Article 13 merely because they are not identified or identifiable at the time of withdrawal.



(B) Notwithstanding the foregoing, a Party shall not be liable for any operations or expenditures it voted against (other than operations and expenditures described in Article 13.4(A)(2) or Article 13.4(A)(3)) if it sends notification of its withdrawal within five (5) Days (or within twenty-four (24) hours for Urgent Operational Matters) of the Operating Committee vote approving such operation or expenditure. Likewise, a Party voting against voluntarily entering into or extending of an Exploration Period or Exploitation Period or any phase of the Contract or voluntarily extending the Contract shall not be liable for the Minimum Work Obligations associated therewith provided that it sends notification of its withdrawal within thirty (30) Days of such vote pursuant to Article 11.2.

**13.5 Emergency**

If a well goes out of control or a fire, blow out, sabotage or other emergency occurs on or prior to the effective date of a Party's withdrawal, the withdrawing Party shall remain liable for its Participating Interest share of the costs of such matter, regardless of when they are incurred.

**13.6 Assignment**

A withdrawing Party shall assign its Participating Interest free of cost to each of the non-withdrawing Parties in the proportion which each of their Participating Interests (prior to the withdrawal) bears to the total Participating Interests of all the non-withdrawing Parties (prior to the withdrawal), unless the non-withdrawing Parties agree otherwise. The expenses associated with the withdrawal and assignments shall be borne by the withdrawing Party.

**13.7 Approvals**

A withdrawing Party shall promptly join in such actions as may be necessary or desirable to obtain any Government approvals required in connection with the withdrawal and assignments. The non-withdrawing Parties shall use reasonable endeavors to assist the withdrawing Party in obtaining such approvals. Any penalties or expenses incurred by the Parties in connection with such withdrawal shall be borne by the withdrawing Party. If the Government does not approve a Party's withdrawal and assignment to the other Parties, then the withdrawing Party shall at its option either (1) retract its notice of withdrawal by notice to the other Parties and remain a Party as if such notice of withdrawal had never been sent, or (2) hold its Participating Interest in trust for the sole and exclusive benefit of the non-withdrawing Parties with the right to be reimbursed by the non-withdrawing Parties for any subsequent costs and liabilities incurred by it for which it would not have been liable, had it successfully withdrawn.

**13.8 Security**

A Party withdrawing from this Agreement and the Contract pursuant to this Article 13 shall provide Security satisfactory to the other Parties to satisfy any obligations or liabilities for which the withdrawing Party remains liable in accordance with Article 13.4, but which become due after its withdrawal, including Security to cover the costs of an abandonment, if applicable. Failure to provide such Security shall constitute a default under this Agreement pursuant to Article 8.1(A)(2).

**13.9 Withdrawal or Abandonment by All Parties**

In the event all Parties decide to withdraw, the Parties agree that they shall be bound by the terms and conditions of this Agreement for so long as may be necessary to wind up the affairs of the Parties with the Government, to satisfy any requirements of Laws / Regulations and to facilitate the sale, disposition or abandonment of property or interests held by the Joint Account, all in accordance with Article 2.

**ARTICLE 14**

**RELATIONSHIP OF PARTIES AND TAX**

**14.1 Relationship of Parties**

The rights, duties, obligations and liabilities of the Parties under this Agreement shall be individual, not joint or collective. It is not the intention of the Parties to create, nor shall this Agreement be deemed or construed to create, a mining or other partnership, joint venture or association or (except as explicitly provided in this Agreement) a trust. This Agreement shall not be deemed or construed to authorize any Party to act as an agent, servant or employee for any other Party for any purpose whatsoever except as explicitly set forth in this Agreement. In their relations with each other under this Agreement, the Parties shall not be considered fiduciaries except as expressly provided in this Agreement.

14.2 Tax

(A) Each Party shall be responsible for reporting and discharging its own tax measured by the profit or income of the Party and the satisfaction of such Party's share of all contract obligations under the Contract and under this Agreement. Each Party shall protect, defend and indemnify each other Party from any and all loss, cost or liability arising from the indemnifying Party's failure to report and discharge such taxes or satisfy such obligations. The Parties intend that all income and all tax benefits (including deductions, depreciation, credits and capitalization) with respect to the expenditures made by the Parties hereunder will be allocated by the Government tax authorities to the Parties based on the share of each tax item actually received or borne by each Party. If such allocation is not accomplished due to the application of Laws / Regulations or other Government action, the Parties shall attempt to adopt mutually agreeable arrangements that will allow the Parties to achieve the financial results intended. Operator shall provide each Party, in a timely manner and at such Party's sole expense, with such information with respect to Joint Operations as such Party may reasonably request for preparation of its tax returns or responding to any audit or other tax proceeding.

(B) Joint Levy: If interpretation or enforcement of the Contract by the Government imposes joint and several liability on the Parties for any levy, charge or tax, the Parties agree to cross indemnify each other to the extent that such levy, charge or tax, is owed by one Party individually.

ARTICLE 15

VENTURE INFORMATION - CONFIDENTIALITY - INTELLECTUAL PROPERTY

15.1 Venture Information

- (A) Except as otherwise provided in this Article 15 or in Articles 4.4 and 8.4(A), each Party will be entitled to receive all Venture Information related to operations in which such Party is a participant. "**Venture Information**" means any information and results developed or acquired as a result of Joint Operations and shall be Joint Property, unless provided otherwise in accordance with this Agreement and the Contract. Each Party shall have the right to use all Venture Information it receives, subject to any applicable patents and any limitations set forth in this Agreement and the Contract. For purposes of this Article 15, such right to use shall include the rights to copy, prepare derivative works, and (subject to Article 15.2) disclose any such Venture Information.
- (B) Each Party may, subject to any applicable restrictions and limitations set forth in the Contract, extend the right to use Venture Information to each of its Affiliates which are obligated to terms not less restrictive than this Article 15.
- (C) The acquisition or development of Venture Information under terms other than as specified in this Article 15 shall require the approval of the Operating Committee. The request for approval submitted by a Party shall be accompanied by a description of, and summary of the use and disclosure restrictions which would be applicable to, the Venture Information, and any such Party will be obligated to use all reasonable efforts to arrange for rights to use which are not less restrictive than specified in this Article 15.
- (D) All Venture Information received by a Party under this Agreement is received on an "as is" basis without warranties, express or implied, of any kind. Any use of such Venture Information by a Party shall be at such Party's sole risk.

15.2 Confidentiality

- (A) Subject to the provisions of the Contract and this Article 15, the Parties agree that all information (including Venture Information) in relation with Joint Operations or Exclusive Operations shall be considered confidential and shall be kept confidential and not be disclosed during the term of the Contract and for a period of three (3) years thereafter to any person or entity not a Party to this Agreement, except:
  - (1) to an Affiliate pursuant to Article 15.1(B);
  - (2) to a governmental agency or other entity when required by the Contract ;
  - (3) to the extent such information is required to be furnished in compliance with the applicable law or regulations, or pursuant to any legal proceedings or because of any order of any court binding upon a Party;

- (4) to prospective or actual attorneys engaged by any Party where disclosure of such information is essential to such attorney's work for such Party;
  - (5) to prospective or actual contractors and consultants engaged by any Party where disclosure of such information is essential to such contractor's or consultant's work for such Party;
  - (6) to a bona fide prospective transferee of a Party's Participating Interest to the extent appropriate in order to allow the assessment of such Participating Interest (including an entity with whom a Party and/or its Affiliates are conducting bona fide negotiations directed toward a merger, consolidation or the sale of a majority of its or an Affiliate's shares);
  - (7) to a bank or other financial institution to the extent appropriate to a Party arranging for funding;
  - (8) to the extent such information must be disclosed pursuant to any rules or requirements of any government or stock exchange having jurisdiction over such Party, or its Affiliates; provided that if any Party desires to disclose information in an annual or periodic report to its or its Affiliates' shareholders and to the public and such disclosure is not required pursuant to any rules or requirements of any government or stock exchange, then such Party shall comply with Article 19.3;
  - (9) to its respective employees for the purposes of Joint Operations or Exclusive Operations as the case may be, subject to each Party taking customary precautions to ensure such information is kept confidential; and
  - (10) any information which, through no fault of a Party, becomes a part of the public domain.
- (B) Disclosure as pursuant to Articles 15.2(A)(5), (6), and (7) shall not be made unless prior to such disclosure the disclosing Party has obtained a written undertaking from the recipient party to keep the information strictly confidential subject to the courts and laws having jurisdiction over such recipient party for at least five (5) years and to use the information for the sole purpose described in Articles 15.2(A)(5), (6), and (7), whichever is applicable, with respect to the disclosing Party.

### 15.3 Intellectual Property

- (A) Subject to Articles 15.3(C) and 15.5 and unless provided otherwise in the Contract, all intellectual property rights in the Venture Information shall be Joint Property. Each Party and its Affiliates have the right to use all such intellectual property rights in their own operations (including joint operations or a production sharing arrangement in which the Party or its Affiliates has an ownership or equity interest) without the approval of any other Party. Decisions regarding obtaining, maintaining and licensing such intellectual property rights shall be made by the Operating Committee, and the costs thereof shall be for the Joint Account. Upon unanimous consent of the Operating Committee as to ownership, licensing rights, and income distribution, the ownership of intellectual property rights in the Venture Information may be assigned to the Operator or to a Party.
- (B) Nothing in this Agreement shall be deemed to require a Party to (i) divulge proprietary technology to any of the other Parties; or (ii) grant a license or other rights under any intellectual property rights owned or controlled by such Party or its Affiliates to any of the other Parties.
- (C) If a Party or an Affiliate of a Party has proprietary technology applicable to activities carried out under this Agreement which the Party or its Affiliate desires to make available on terms and conditions other than as specified in Article 15.3(A), the Party or Affiliate may, with the prior approval of the Operating Committee, make the proprietary technology available on terms to be agreed. If the proprietary technology is so made available, then any inventions, discoveries, or improvements which relate to such proprietary technology and which result from Joint Account expenditures shall belong to such Party or Affiliate. In such case, each other Party shall have a perpetual, royalty-free, irrevocable license to practice such inventions, discoveries, or improvements, but only in connection with the Joint Operations.
- (D) Subject to Article 4.6(B), all costs and expenses of defending, settling or otherwise handling any claim which is based on the actual or alleged infringement of any intellectual property right shall be for the account of the operation from which the claim arose, whether Joint Operations or Exclusive Operations.

15.4 **Continuing Obligations**

Any Party ceasing to own a Participating Interest during the term of this Agreement shall nonetheless remain bound by the obligations of confidentiality in Article 15.2, and any Disputes in relation thereto shall be resolved in accordance with Article 18.2.

15.5 **Trades**

Operator may, with approval of the Operating Committee, make well trades and data trades for the benefit of the Parties, with any data so obtained to be furnished to all Parties who participated in the cost of the data that was traded. Operator shall cause any third party to such trade to enter into an undertaking to keep the traded data confidential.

**ARTICLE 16**

**FORCE MAJEURE**

16.1 **Obligations**

If as a result of Force Majeure any Party is rendered unable, wholly or in part, to carry out its obligations under this Agreement, **other than the obligation to pay any amounts due or to furnish Security**, then the obligations of the Party giving such notice, so far as and to the extent that the obligations are affected by such Force Majeure, shall be suspended during the continuance of any inability so caused and for such reasonable period thereafter as may be necessary for the Party to put itself in the same position that it occupied prior to the Force Majeure, but for no longer period. The Party claiming Force Majeure shall notify the other Parties of the Force Majeure within a reasonable time after the occurrence of the facts relied on and shall keep all Parties informed of all significant developments. Such notice shall give reasonably full particulars of the Force Majeure and also estimate the period of time which the Party will probably require to remedy the Force Majeure. The affected Party shall use all reasonable diligence to remove or overcome the Force Majeure situation as quickly as possible in an economic manner but shall not be obligated to settle any labor dispute except on terms acceptable to it, and all such disputes shall be handled within the sole discretion of the affected Party.

16.2 **Definition of Force Majeure**

For the purposes of this Agreement, "**Force Majeure**" means any cause beyond the reasonable control of a Party, and which such Party by the exercise of all reasonable endeavors is unable to prevent, avoid or remove whether similar to the causes specified herein or not, including (insofar as beyond such control but without prejudice to the generality of the foregoing expression) Acts of God, strikes, lockouts, acts of the public enemy, Laws / Regulations, wars or warlike action (whether actual or impending) restraints of government (civil or military), acts of terrorism or sabotage, blockades, insurrections, riots, epidemics, landslides, lightning, earthquakes, fires, sabotage, tropical storms and hurricanes, civil disturbances, tidal waves, explosions, confiscation or seizure by any government or other public authority, and any other causes, whether of the kind herein enumerated or otherwise, that are not reasonably within the control of the party claiming a suspension and that could not have been overcome by the exercise of ordinary diligence; provided that a lack of funds shall not constitute "Force Majeure".

**ARTICLE 17**

**NOTICES**

Except as otherwise specifically provided, all notices authorized or required between the Parties by any of the provisions of this Agreement shall be in writing (in English) and addressed to such Parties and delivered in person or by courier service or by any electronic means of transmitting written communications which provides written confirmation of complete transmission. Oral communication does not constitute notice for purposes of this Agreement, and e-mail addresses and telephone numbers for the Parties are listed below as a matter of convenience only. A notice given under any provision of this Agreement shall be deemed delivered only when received by the Party to whom such notice is directed, and the time for such Party to deliver any notice in response to such originating notice shall run from the date the originating notice is received. "**Received**" for purposes of this Article 17 shall mean actual delivery of the notice to the address of the Party specified hereunder or to be thereafter notified in accordance with this Article 17. Each Party shall have the right to change its address at any time and/or designate that copies of all such notices be directed to another person at another address, by giving written notice thereof to all other Parties.

IPC  
Attention: C/O Meitar Liguornik Geva & Leshem Brandwein, Law Offices.  
Fax + 972-3-6103877  
Tel + 972-3-6103890

BLUE WATER  
Attention: Edward L. Moses  
Fax +1-2022234406  
Tel +1-202-2234404

EMANUELLE and EMANUELLE PARTNERSHIP  
Attention: Ohad Marani  
Fax + 972-3-7962246  
Tel +972-3-7962202

IDB and MODIIN  
Attention: Ron Maor  
Fax +972-3-6075667  
Tel +972-3-6075667

GGR  
Attention: Jean Paul Roy  
Fax + 001-403-7779199  
Tel + 001-403-7779250

ILDC  
Attention: Eli Cohen  
Fax +972-3-7962274  
Tel +972-3- 7962264

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ARTICLE 18

APPLICABLE LAW - DISPUTE RESOLUTION - WAIVER OF SOVEREIGN IMMUNITY

**18.1 Applicable Law**

The substantive laws of the State of Israel, exclusive of any conflicts of laws principles that could require the application of any other law, shall govern this Agreement for all purposes, including the resolution of all Disputes between or among Parties.

**18.2 Dispute Resolution**

In the event of any Dispute between any of the Parties arising out of, or in relation to, this Agreement, including any question regarding its breach, existence, validity or termination, which cannot be settled amicably, a Party may commence an action in final and binding arbitration in accordance with the provisions set forth below:

- (A) **Notification.** A Party who desires to submit a Dispute for resolution shall commence the dispute resolution process by providing the other parties to the Dispute written notice of the Dispute ("**Notice of Dispute**"). The Notice of Dispute shall identify the parties to the Dispute and contain a brief statement of the nature of the Dispute and the relief requested. The submission of a Notice of Dispute shall toll any applicable statutes of limitation related to the Dispute, pending the conclusion or abandonment of dispute resolution proceedings under this Article 18.
- (B) **Negotiations.** The parties to the Dispute shall seek to resolve any Dispute by negotiation between Senior Executives. A "**Senior Executive**" means any individual who has authority to negotiate the settlement of the Dispute for a Party. Within thirty (30) Days after the date of the receipt by each party to the Dispute of the Notice of Dispute (which notice shall request negotiations among Senior Executives), the Senior Executives representing the parties to the Dispute shall meet at a mutually acceptable time and place to exchange relevant information in an attempt to resolve the Dispute. If a Senior Executive intends to be accompanied at the meeting by an attorney, each other party's Senior Executive shall be given written notice of such intention at least three (3) Days in advance and may also be accompanied at the meeting by an attorney. Notwithstanding the above, any Party may initiate arbitration proceedings pursuant to Article 18.2 (D) concerning such Dispute within thirty (30) Days after the date of receipt of the Notice of Dispute.
- (C) **Arbitration.** Any Dispute not finally resolved by alternative dispute resolution procedures set forth in Articles 18.2(B) shall be exclusively and definitively resolved through final and binding arbitration, it being the intention of the Parties that this is a broad form arbitration agreement designed to encompass all possible disputes.

- (1) Rules. The arbitration shall be conducted in accordance with the following arbitration rules (as then in effect) (the "**Rules**"): Arbitration Rules of the International Chamber of Commerce (ICC).
  - (2) Language. The arbitration proceedings shall be conducted in the English language and the arbitrator(s) shall be fluent in the English language.
  - (3) Number of Arbitrators. The arbitration shall be conducted by three arbitrators, unless all parties to the Dispute agree to a sole arbitrator within thirty (30) Days after the filing of the arbitration. For greater certainty, for purposes of this Article 18.2(C), the filing of the arbitration means the date on which the claimant's request for arbitration is received by the other parties to the Dispute.
  - (4) Method of Appointment of the Arbitrators. If the arbitration is to be conducted by a sole arbitrator, then the arbitrator will be jointly selected by the parties to the Dispute. If the parties to the Dispute fail to agree on the arbitrator within thirty (30) Days after the filing of the arbitration, then the ICC shall appoint the arbitrator.

If the arbitration is to be conducted by three arbitrators and there are only two parties to the Dispute, then each party to the Dispute shall appoint one arbitrator within thirty (30) Days of the filing of the arbitration, and the two arbitrators so appointed shall select the presiding arbitrator within thirty (30) Days after the latter of the two arbitrators has been appointed by the parties to the Dispute. If a party to the Dispute fails to appoint its party-appointed arbitrator or if the two party-appointed arbitrators cannot reach an agreement on the presiding arbitrator within the applicable time period, then the ICC shall appoint the remainder of the three arbitrators not yet appointed.

If the arbitration is to be conducted by three arbitrators and there are more than two parties to the Dispute, then within thirty (30) Days of the filing of the arbitration, all claimants shall jointly appoint one arbitrator and all respondents shall jointly appoint one arbitrator, and the two arbitrators so appointed shall select the presiding arbitrator within thirty (30) Days after the latter of the two arbitrators has been appointed by the parties to the Dispute. If either all claimants or all respondents fail to make a joint appointment of an arbitrator or if the party-appointed arbitrators cannot reach an agreement on the presiding arbitrator within the applicable time period, then the ICC shall appoint the remainder of the three arbitrators not yet appointed.
  - (5) Consolidation. If the Parties initiate multiple arbitration proceedings, the subject matters of which are related by common questions of law or fact and which could result in conflicting awards or obligations, then all such proceedings may be consolidated into a single arbitral proceeding.
  - (6) Place of Arbitration. Unless otherwise agreed by all parties to the Dispute, the place of arbitration shall be Tel Aviv, Israel.
  - (7) Notice. All notices required for any arbitration proceeding shall be deemed properly given if sent in accordance with Article 17.
  - (8) Final Award. The arbitration award shall be final and binding on the Parties and shall be immediately enforceable. The Parties waive any right to refer any question of law, and any right of appeal on the law and/or merits to any court to the fullest extent permitted by applicable law in connection with any question of law or fact arising in the course of the arbitration or with respect to any award. Without limiting the generality of the preceding sentence, the Parties agree to exclude any right to appeal any question of law to the courts of England under sections 45 or 69 of the Arbitration Act of 1996.
  - (9) Qualifications and Conduct of the Arbitrators. All arbitrators shall be and remain at all times wholly impartial, and, once appointed, no arbitrator shall have any *ex parte* communications with any of the parties to the Dispute concerning the arbitration or the underlying Dispute other than communications directly concerning the selection of the presiding arbitrator, where applicable.
-

- (10) **Interim Measures.** Notwithstanding any requirements for alternative dispute resolution procedures as set forth in Articles 18(B), any party to the Dispute may apply to a court for interim measures (i) prior to the constitution of the arbitral tribunal (and thereafter as necessary to enforce the arbitral tribunal's rulings); or (ii) in the absence of the jurisdiction of the arbitral tribunal to rule on interim measures in a given jurisdiction. The Parties agree that seeking and obtaining such interim measures shall not waive the right to arbitration. The arbitrators (or in an emergency the presiding arbitrator acting alone in the event one or more of the other arbitrators is unable to be involved in a timely fashion) may grant interim measures including injunctions, attachments and conservation orders in appropriate circumstances, which measures may be immediately enforced by court order. Hearings on requests for interim measures may be held in person, by telephone, by video conference or by other means that permit the parties to the Dispute to present evidence and arguments.
- (11) **Costs and Attorneys' Fees.** The arbitral tribunal is authorized to award costs and attorneys' fees and to allocate them between the parties to the Dispute. The costs of the arbitration proceedings, including attorneys' fees, shall be borne in the manner determined by the arbitral tribunal.
- (12) **Interest.** The award shall include interest, as determined by the arbitral award, from the date of any default or other breach of this Agreement until the arbitral award is paid in full. Interest shall be awarded at the Agreed Interest Rate.
- (13) **Currency of Award.** The arbitral award shall be made and payable in Dollars, free of any tax or other deduction.
- (14) **Exemplary Damages.** The Parties waive their rights to claim or recover, and the arbitral tribunal shall not award, any punitive, multiple, consequential, or other exemplary damages (whether statutory or common law) except to the extent such damages have been awarded to a third party and are subject to allocation between or among the parties to the Dispute.
- (15) **Waiver of Challenge to Decision or Award.** To the extent permitted by law, any right to appeal or challenge any arbitral decision or award, or to oppose enforcement of any such decision or award before a court or any governmental authority, is hereby waived by the Parties except with respect to the limited grounds for modification or non-enforcement provided by any applicable arbitration statute or treaty.
- (B) **Confidentiality.** All negotiations and arbitration, relating to a Dispute (including a settlement resulting from negotiation, an arbitral award, documents exchanged or produced during an arbitration proceeding, and memorials, briefs or other documents prepared for the arbitration) are confidential and may not be disclosed by the Parties, their employees, officers, directors, counsel, consultants, and expert witnesses, except (in accordance with Article 15.2) to the extent necessary to enforce this Article 18 or any arbitration award, to enforce other rights of a Party, or as required by law; provided, however, that breach of this confidentiality provision shall not void any settlement or award.

## ARTICLE 19

### GENERAL PROVISIONS

#### 19.1 Conduct of the Parties

- (A) Each Party warrants that it and its Affiliates have not made, offered, or authorized and will not make, offer, or authorize with respect to the matters which are the subject of this Agreement, any payment, gift, promise or other advantage, whether directly or through any other person or entity, to or for the use or benefit of any public official (*i.e.*, any person holding a legislative, administrative or judicial office, including any person employed by or acting on behalf of a public agency, a public enterprise or a public international organization) or any political party or political party official or candidate for office, where such payment, gift, promise or advantage would violate (i) the applicable laws of Israel and the United States of America; (ii) the laws of the country of incorporation of such Party or such Party's ultimate parent company and of the principal place of business of such ultimate parent company; or (iii) the principles described in the Convention on Combating Bribery of Foreign Public Officials in International Business Transactions, signed in Paris on December 17, 1997, which entered into force on February 15, 1999, and the Convention's Commentaries. Each Party shall defend, indemnify and hold the other Parties harmless from and against any and all claims, damages, losses, penalties, costs and expenses arising from or related to, any breach by such first Party of such warranty. Such indemnity obligation shall survive termination or expiration of this Agreement. Each Party shall in good time (i) respond in reasonable detail to any notice from any other Party reasonably connected with the above-stated warranty; and (ii) furnish applicable documentary support for such response upon request from such other Party.

- (B) Each Party agrees to (i) maintain adequate internal controls; (ii) properly record and report all transactions; and (iii) comply with the laws applicable to it. Each Party must rely on the other Parties' system of internal controls, and on the adequacy of full disclosure of the facts, and of financial and other data regarding the Joint Operations undertaken under this Agreement. No Party is in any way authorized to take any action on behalf of another Party that would result in an inadequate or inaccurate recording and reporting of assets, liabilities or any other transaction, or which would put such Party in violation of its obligations under the laws applicable to the operations under this Agreement.

**19.2 Conflicts of Interest**

- (A) Parties undertake that they shall avoid any conflict of interest between their own interests (including the interests of Affiliates) and the interests of the other Parties in dealing with suppliers, customers and all other organizations or individuals doing or seeking to do business with other Parties in connection with activities contemplated under this Agreement.
- (B) The provisions of the preceding paragraph shall not apply to (1) Operator's performance which is in accordance with the local preference laws or published policies of the Government; or (2) Operator's acquisition of products or services from an Affiliate, or the sale thereof to an Affiliate approved in advance by the Operating Committee.
- (C) Unless otherwise agreed, the Parties and their Affiliates are free to engage or invest (directly or indirectly) in an unlimited number of activities or businesses, any one or more of which may be related to or in competition with the business activities contemplated under this Agreement, without having or incurring any obligation to offer any interest in such business activities to any Party.

**19.3 Public Announcements**

- (A) Operator shall be responsible for the preparation and release of all public announcements and statements regarding this Agreement or the Joint Operations; provided that no public announcement or statement shall be issued or made unless, prior to its release, all the Parties have been furnished with a copy of such statement or announcement and the approval of the Operating Committee has been obtained. Where a public announcement or statement becomes necessary or desirable because of danger to or loss of life, damage to property or pollution as a result of activities arising under this Agreement, Operator is authorized to issue and make such announcement or statement without prior approval of the Parties, but shall promptly furnish all the Parties with a copy of such announcement or statement.
- (B) If a Party wishes to issue or make any public announcement or statement regarding this Agreement or the Joint Operations, it shall not do so unless, prior to the release of the public announcement or statement, such Party furnishes all the Parties with a copy of such announcement or statement, and obtains the approval of the Operating Committee; provided that, notwithstanding any failure to obtain such approval, no Party shall be prohibited from issuing or making any such public announcement or statement if it is necessary to do so in order to comply with the applicable laws, rules or regulations of any government, legal proceedings or stock exchange having jurisdiction over such Party or its Affiliates as set forth in Article 15.2.
- (C) Articles 19.3 (A) and 19.3 (B) shall not apply to any reports, statements or announcements pursuant to any rules or requirements of any government or stock exchange.

**19.4 Successors and Assigns**



Subject to the limitations on Transfer contained in Article 12, this Agreement shall inure to the benefit of and be binding upon the successors and assigns of the Parties.

**19.5 Waiver**

No waiver by any Party of any one or more defaults by another Party in the performance of any provision of this Agreement shall operate or be construed as a waiver of any future default or defaults by the same Party, whether of a like or of a different character. Except as expressly provided in this Agreement no Party shall be deemed to have waived, released or modified any of its rights under this Agreement unless such Party has expressly stated, in writing, that it does waive, release or modify such right.

**19.6 No Third Party Beneficiaries**

The Parties do not intend to create any rights enforceable by third parties under the Contract (Rights of Third Parties) Act 1998 or under any other legislative provisions conferring rights under a contract to persons not a party to that contract nor do they hold their rights on trust for any third parties.

**19.7 Joint Preparation**

Each provision of this Agreement shall be construed as though all Parties participated equally in the drafting of the same. Consequently, the Parties acknowledge and agree that any rule of construction that a document is to be construed against the drafting party shall not be applicable to this Agreement.

**19.8 Severance of Invalid Provisions**

If and for so long as any provision of this Agreement shall be deemed to be judged invalid for any reason whatsoever, such invalidity shall not affect the validity or operation of any other provision of this Agreement except only so far as shall be necessary to give effect to the construction of such invalidity, and any such invalid provision shall be deemed severed from this Agreement without affecting the validity of the balance of this Agreement.

**19.9 Modifications**

There shall be no modification of this Agreement or the Contract except by written consent of all Parties.

**19.10 Interpretation**

- (A) Headings. The topical headings used in this Agreement are for convenience only and shall not be construed as having any substantive significance or as indicating that all of the provisions of this Agreement relating to any topic are to be found in any particular Article.
- (B) Singular and Plural. Reference to the singular includes a reference to the plural and vice versa.
- (C) Gender. Reference to any gender includes a reference to all other genders.
- (D) Article. Unless otherwise provided, reference to any Article or an Exhibit means an Article or Exhibit of this Agreement.
- (E) Include. “*include*” and “*including*” shall mean include or including without limiting the generality of the description preceding such term and are used in an illustrative sense and not a limiting sense.

**19.11 Counterpart Execution**

This Agreement shall be executed in two (2) or more counterparts and each such counterpart shall be deemed an original Agreement for all purposes; provided that no Party shall be bound to this Agreement unless and until all Parties have executed a counterpart. For purposes of assembling the counterparts into one document, Operator is authorized to detach the signature page from one or more counterparts and, after signature thereof by the respective Party, attach each signed signature page to a counterpart.

**19.12 Entirety**

With respect to the subject matter contained herein, this Agreement (i) is the entire agreement of the Parties; and (ii) supersedes all prior understandings and negotiations of the Parties. However, this Article 19.12 shall not operate so as to limit or exclude any liability for fraud or fraudulent misrepresentation. Notwithstanding the foregoing, the PBT Agreement, the GGR Agreement and the Option Agreement shall survive the execution of this Agreement except to the extent such agreements are in conflict with this Agreement, in which event the provisions of this Agreement shall control unless otherwise stated. The Parties other than GGR agree that the Steering Committee created by the Allocation of Rights and Settlement Agreement dated as of March 26, 2010 (the "Settlement Agreement") shall be superseded by the Operating Committee created by this Agreement effective as of the effective date of this Agreement, but the rights and obligations of the Parties accrued prior to the Effective Date hereof with respect to the Steering Committee shall survive the execution of this Agreement. Except as stated in the preceding sentence or as otherwise provided herein, nothing herein shall supersede or modify the Settlement Agreement.

IPC OIL AND GAS (ISRAEL) LIMITED PARTNERSHIP

By:  
(Print or type name)  
Title: \_\_\_\_\_  
Date: \_\_\_\_\_

EMANUELLE ENERGY LIMITED

By:  
(Print or type name)  
Title: \_\_\_\_\_  
Date: \_\_\_\_\_

EMANUELLE ENERGY OIL AND GAS LIMITED PARTNERSHIP

By:  
(Print or type name)  
Title: \_\_\_\_\_  
Date: \_\_\_\_\_

IDB DEVELOPMENT CORPORATION LIMITED

By:  
(Print or type name)  
Title: \_\_\_\_\_

MODIIN ENERGY LIMITED PARTNERSHIP

By:  
(Print or type name)  
Title: \_\_\_\_\_

BLUE WATER OIL AND GAS EXPLOARTION LIMITED

By:  
(Print or type name)  
Title: \_\_\_\_\_

THE ISRAEL LAND AND DEVELOPMENT COMPANY LIMITED

By:  
(Print or type name)  
Title: \_\_\_\_\_

GEOGLOBAL RESOURCES COMPANY LIMITED

By:  
(Print or type name)  
Title: \_\_\_\_\_

EXHIBIT A  
ACCOUNTING PROCEDURE

EXHIBIT C  
ACCOUNTING PROCEDURE

SECTION I

GENERAL PROVISIONS

**1.1 Purpose**

1.1.1 The purpose of this Accounting Procedure is to establish equitable methods for determining charges and credits applicable to operations under the Agreement which reflect the costs of Joint Operations to the end that no Party shall gain or lose in relation to other Parties.

1.1.2 The Parties agree, however, that if the methods prove unfair or inequitable to Operator or Non-Operators, the Parties shall meet and in good faith endeavor to agree on changes in methods deemed necessary to correct any unfairness or inequity.

1.2 **Conflict with Agreement** - In the event of a conflict between the provisions of this Accounting Procedure and the provisions of the Agreement to which this Accounting Procedure is attached, the provisions of the Agreement shall prevail.

1.3 **Definitions** - The definitions contained in Article 1 of the Agreement to which this Accounting Procedure is attached shall apply to this Accounting Procedure and have the same meanings when used herein. Certain terms used herein are defined as follows:

**"Accruals Basis"** shall mean that basis of accounting under which costs and benefits are regarded as applicable to the period in which the liability to the cost is incurred or the right to the benefit arises regardless of when invoiced, paid or received;

**"Advance"** shall mean each payment of cash required to be made pursuant to a Cash Call, and **"Advanced"** shall be construed accordingly;

**"Cash Basis"** shall mean that basis of accounting under which only costs actually paid in cash and benefits actually received are included for any period;

**"Country of Operations"** shall mean the State of Israel.

**"Materials"** shall mean machinery, equipment and supplies acquired and held for use in Joint Operations.

**1.4 Joint Account Records and Currency Exchange**

1.4.1 Operator shall at all times maintain and keep true and correct records of the production and disposition of all Petroleum and of all costs and expenditures under the Agreement, as well as other data necessary or proper for the settlement of accounts between the Parties in connection with their rights and obligations under the Agreement and to enable Parties to comply with their respective applicable income tax and other laws.

1.4.2 Operator shall maintain accounting records pertaining to Joint Operations in accordance with generally accepted accounting practices used in the international petroleum industry and any applicable statutory obligations of the Country of Operations as well as the provisions of the Contract and the Agreement.

1.4.3 Joint Account records shall be maintained by Operator in the Hebrew or English language and in Dollars and Shekels and in such other language and currency as may be required by the laws of the Country of Operations. Conversions of currency shall be recorded at the rate actually experienced in that conversion. Currency translations for expenditures and receipts shall be recorded in accordance with the representative rate of exchange last published by the bank of Israel before last Business Day of the preceding month and if no such rate was published by the Bank of Israel calculated at the arithmetic average of the buying and selling rates at the close of business on the last Business Day of the preceding month as provided by the Bank of Israel.

1.4.4 Any currency exchange gains or losses shall be credited or charged to the Joint Account, except as otherwise specified in this Accounting Procedure. Any such exchange gains or losses shall be separately identified as such.

1.4.5 This Accounting Procedure shall apply, mutatis mutandis, to Exclusive Operations in the same manner that it applies to Joint Operations; provided, however, that the charges and credits applicable to Consenting Parties shall be separately maintained. For the purpose of determining and calculating the remuneration of the Consenting Parties, including the insurance premiums for Exclusive Operations, the costs and expenditures shall be the costs and expenditures as incurred.

1.4.6 The Accruals Basis shall be used in preparing accounts concerning the Joint Operations. If a Cash Basis is used, Operator shall show accruals as memorandum items.

**1.5 Statements and Billings**

1.5.1 Unless otherwise agreed by the Parties, Operator shall submit monthly to each Party, on or before the 25<sup>th</sup> Day of each month, statements of the costs and expenditures incurred during the prior month, indicating by appropriate classification the nature thereof and the corresponding budget category, and the portion of such costs charged to each of the Parties.

These statements, as a minimum, shall contain the following information:

- (A) Advances received from each Party
- (B) the share of each Party in total expenditures,
- (C) the accrued expenditures,
- (D) the current account balance of each Party
- (E) a summary of costs, credits, and expenditures on a current month, year-to-date, and inception-to-date basis or other periodic basis, as agreed by Parties (such expenditures shall be grouped by the categories and line items designated in the approved Work Program and Budget submitted by Operator in accordance with Article 6.4 of the Agreement so as to facilitate comparison of actual expenditures against that Work Program and Budget), and
- (F) details of unusual charges and credits in excess of ten thousand Dollars (\$10,000).

1.5.2 Operator shall provide the Parties with annual financial statements (prepared in accordance with IFRS) within forty five (45) days after the end of each fiscal year, audited by an internationally recognized independent public accounting firm; and with unaudited, quarterly financial statements (prepared in accordance with generally accepted accounting practices used in the international petroleum industry and any applicable statutory obligations of the Country of Operations) within thirty (30) days after the end of each calendar quarter reviewed by an internationally recognized independent public accounting firm. The abovementioned accounting firm shall provide the Non-Operators' auditors all documents, including comfort letter, questionnaires, etc.. in accordance with accepted auditing standards. The cost of providing the financial statements shall be charged to the Joint Account.

1.5.3 Unless otherwise agreed by the Parties, Operator shall submit to each Party, on or before the 30<sup>th</sup> day after the end of each calendar quarter, statements of changes in Advances, expenditures and credits, made, incurred or due to each Party from the Joint Operations, including

- (A) Advances received from each Party during such calendar quarter and cumulatively from the beginning of the calendar year;
- (B) The share of each Party in total expenditures incurred during such calendar quarter and cumulatively from the beginning of the calendar year;
- (C) The current account balance of each Party as at the end of such calendar quarter; and
- (D) a summary of costs, credits, investments and expenditures incurred during such calendar quarter and cumulatively from the beginning of the calendar year and from inception, or such other periodic basis as agreed by Parties (such expenditures shall be sorted into items that in accordance to IFRS are to be capitalized and items that are included in the profits and losses).

1.5.4 Operator shall, upon request, furnish a description of the accounting classifications used by it.

1.5.5 Amounts included in the statement and billings shall be expressed in Dollars and in Shekels and reconciled to the currencies Advanced.

1.5.6 Each Party shall be responsible for preparing its own accounting and tax reports to meet the requirements of the Country of Operations and, to the extent that the information is reasonably available from the Joint Account records, Operator shall provide Non-Operators within thirty (30) Days from the end of each Calendar Quarter with the necessary information and statements (together with copies of supporting documents and invoices) to facilitate the discharge of such responsibility.

**1.6 Payments and Advances**

- 1.6.1 Upon approval of any Work Program and Budget, if Operator so requests, each Non-Operator shall Advance its share of estimated cash requirements for the succeeding month's operations ("Cash Call"). Each such Cash Call shall be equal to the Operator's estimate of the money to be spent in the currencies required to perform its duties under the approved Work Program and Budget during the month concerned. For informational purposes the Cash Call shall contain an estimate of the funds required for the next succeeding two (2) months detailed by the categories designated in the approved Work Program and Budget submitted by Operator in accordance with Article 6.4 of the Agreement.
- 1.6.2 Each such Cash Call, detailed by the categories designated in the approved Work Program and Budget submitted by Operator in accordance with Article 6.4 of the Agreement, shall be made in writing and delivered to all Non-Operators not less than fifteen (15) Days before the payment due date. The due date for payment of such Advances shall be set by Operator but shall be no sooner than the first Business Day of the month for which the Advances are required, All Advances shall be made without bank charges. Any charges related to receipt of Advances from a Non-Operator shall be borne by that Non-Operator.
- 1.6.3 Each Non-Operator shall wire transfer its share of the full amount of each such Cash Call to Operator on or before the due date, in the currencies requested or any other currencies acceptable to Operator, and to a bank designated by Operator. If currency provided by a Non- Operator is other than the requested currency, then the entire cost of converting to the requested currency shall be charged to that Non-Operator.
- 1.6.4 Notwithstanding the provisions of Section 1.6.2, should Operator be required to pay any sums of money for the Joint Operations which were unforeseen at the time of providing the Non- Operators with said estimates of its requirements, Operator may make a written request of the Non-Operators for special Advances covering the Non-Operators' share of such payments. Each such Non-Operator shall make its proportional special Advances within ten (10) Days after receipt of such notice.
- 1.6.5 If a Non-Operator's Advance exceeds its share of cash expenditures, the next succeeding Advance requirements, after such determination, shall be reduced accordingly. A Non- Operator may request in writing that its excess Advance be refunded, and Operator shall refund said excess Advance within ten (10) Days after receipt of such request.
- 1.6.6 If Non-Operator's Advances are less than its share of cash expenditures, the deficiency shall, at Operator's option, be added to any subsequent Advance requirements or be paid by Non- Operator within ten (10) Days following the receipt of Operator's billing to Non-Operator for such deficiency.
- 1.6.7 If, under the provisions of the Agreement, Operator is required to segregate funds received from the Parties, any interest received on such funds in the Joint Account shall be applied against the next succeeding cash call or, if directed by the Operating Committee, distributed quarterly. The interest thus received shall be allocated to the Parties on an equitable basis taking into consideration date of funding by each Party to the accounts in proportion to the total funding into the account. A monthly statement summarizing receipts, disbursements, transfers to each joint bank account and beginning and ending balances thereof shall be provided by Operator to the Parties. Any interest received by Operator from interest-bearing accounts containing commingled funds received from the Parties shall be credited to the Parties in accordance with the allocation procedure as set forth above.
- 1.6.8 If Operator does not request Non-Operators to advance their share of estimated cash requirements, each Non-Operator shall pay its share of cash expenditures within ten (10) Days following receipt of Operator's billing.
- 1.6.9 Payments of Advances or billings shall be made on or before the due date. If these payments are not received by the due date the unpaid balance shall bear and accrue interest from the due date until payment is received by Operator at the Agreed Interest Rate. For the purpose of determining the unpaid balance and interest owed, Operator shall translate to Dollars all amounts owed in other currencies using the currency exchange rate readily available to Operator at the close of the last Business Day prior to the due date for the unpaid balance as quoted by the applicable authority identified in Section 1.4.3 of Section I hereof.
- 1.6.10 Subject to governmental regulation, Operator shall have the right, at any time and from time to time, to convert the funds Advanced or any part thereof to other currencies to the extent that such currencies are then required for Joint Operations. The cost of any such conversion shall be charged to the Joint Account.

- 1.6.11 Operator shall endeavor to maintain funds held for the Joint Account in bank accounts at a level consistent with that required for the prudent conduct of Joint Operations.
- 1.6.12 If under the Agreement, Operator is required to segregate funds received from or for the Joint Account, the provisions under Section 1.6 for payments and advances by Non-Operators shall apply also to Operator.
- 1.7 **Adjustments** - Payments of any Advances or billings shall not prejudice the right of any Non-Operator to protest or question the correctness thereof; provided however that all billings and statements rendered to Non-Operators by Operator during any calendar year shall conclusively be presumed to be true and correct after twenty-four (24) months following the end of such Calendar Year, unless within the said twenty-four (24) month period a Non-Operator takes written exception thereto and makes claim on Operator for adjustment. Failure on the part of a Non-Operator to make claim on Operator for adjustment within such period shall establish the correctness thereof and preclude the filing of exceptions or making claims for adjustment thereto. No adjustment favorable to Operator shall be made unless it is made within the same prescribed period. The provisions of this paragraph 1.7 shall not prevent adjustments resulting from a physical inventory of Material as provided for in Section VI hereof. Operator shall be allowed to make adjustments to the Joint Account after such twenty- four (24) month period if these adjustments result from audit exceptions outside this Agreement, third party claims, or Government requirements. Any such adjustments shall be subject to audit within the time period specified in Section 1.8,1 below.
- 1.8 **Audits**
- 1.8.1 A Non-Operator, upon at least sixty (60) Days advance notice in writing to Operator and all other Non-Operators, shall have the right to audit the Joint Account and records of Operator relating to the accounting hereunder for any calendar year within the twenty-four (24) month period following the end of such calendar year. Non-Operators shall have reasonable access to Operator's personnel and to the facilities, warehouses, and offices directly or indirectly serving Joint Operations. The cost of each such audit shall be borne by Non-Operators conducting the audit. It is provided, however, that Non-Operators must take written exception to and make claim upon the Operator for all discrepancies disclosed by said audit within said twenty-four (24) month period. Where there are two or more Non-Operators, the Non- Operators shall make every reasonable effort to conduct joint or simultaneous audits in a manner which will result in a minimum of inconvenience to the Operator. Operator and Non- Operators shall make every effort to resolve any claim resulting from an audit within a reasonable period of time. Non-Operators may request information from the Operator prior to the commencement of the audit. Operator will provide the information in electronic format or hard copy documents, if electronic format is not available. Operator will provide the information requested within 30 Days before commencement of the audit but in no event sooner than 30 Days after the written request.
- 1.8.2 Operator shall provide information from its Affiliates reasonably necessary to support charges by those Affiliates to the Joint Account.
- 1.8.3 Except for charges under Section 2.7.1, the following provisions apply to all charges from Operator for its Affiliates:
- In addition to the information provided by the Operator under Section 1.8.2, and upon request by a Non-Operator, Operator will cause its Affiliate to allow the Non-Operator to audit the books and records of the Affiliate relating to the charges by the Affiliate to the Joint Account for the same Calendar Year as provided in Section 1.8.1 above. The audit may be conducted in the same maimer as the audit of the books and records of Operator.
- No amounts paid to an Affiliate of Operator, which the Non-Operator seeks to audit, may be charged to the Joint Account if the Affiliate of the Operator does not allow audit of such amounts as provided above.
- 1.8.4 Any information obtained by a Non-Operator under the provisions of this Section 1.8 which does not relate directly to the Joint Operations shall be kept confidential and shall not be disclosed to any party, except as would otherwise be permitted by this Agreement.
- 1.8.5 In the event that the Operator is required by law to employ a public accounting firm to audit the Joint Account and records of Operator relating to the accounting hereunder, the cost thereof shall be a charge against the Joint Account, and a copy of the audit shall be furnished to each Party.



- 1.8.6 At the conclusion of each audit, the Parties shall endeavor to settle outstanding matters expeditiously. To this end the Parties conducting the audit will make a reasonable effort to prepare and distribute a written report to the Operator and all the Parties who participated in the audit as soon as possible and in any event within 90 Days after the conclusion of each audit. The report shall include all claims, with supporting documentation, arising from such audit together with comments pertinent to the operation of the accounts and records. Operator shall make a reasonable effort to reply to the report in writing as soon as possible and in any event no later than 90 Days after receipt of the report. Should the Non-Operators consider that the report or reply requires further investigation of any item therein, the Non-Operators shall have the right to conduct further investigation in relation to such matter notwithstanding the provisions of Sections 1.7 and 1.8.1 that the period of 24 months may have expired. However, conducting such further investigation shall not extend the 24 month period for taking written exception to and making a claim upon the Operator for all discrepancies disclosed by said audit. Such further investigations shall be commenced within 30 Days and be concluded within 60 Days after the receipt of such report or reply, as the case may be.
- 1.8.7 All adjustments resulting from an audit agreed between the Operator and the Non-Operator conducting the audit shall be reflected promptly in the Joint Account by the Operator and reported to the Non-Operator(s). If any dispute shall arise in connection with an audit, it shall be reported to and discussed by the Operating Committee, and, unless otherwise agreed by the parties to the dispute, resolved in accordance with the provisions of Article 18 of the Agreement. If all the parties to the dispute so agree, the adjustment(s) may be referred to an independent expert agreed to by the parties to the dispute e.g. an independent accounting firm. At the election of the parties to the dispute, the decision of the expert will be binding upon such parties. Unless otherwise agreed, the cost of such expert will be shared equally by all parties to the dispute.
- 1.8.8 The provisions of this Section 1.8 apply to audits conducted under Article 4.11(D) of the Agreement except that the 60 Day advance notice and the advance information provisions of Section 1.8.1 shall not apply.
- 1.9 Allocations  
If it becomes necessary to allocate any costs or expenditures to or between Joint Operations and any other operations, such allocation shall be made on an equitable basis. Upon request, Operator shall furnish a description of its allocation procedures pertaining to these costs and expenditures and its rates for personnel and other charges, along with each proposed Work Program and Budget. Such allocation, basis shall be subject to audit under Section 1.8 below.

## SECTION II

### DIRECT CHARGES

Operator shall charge the Joint Account with all costs and expenditures incurred in connection with Joint Operations within the limits of approved Work Programs and Budgets or as otherwise specified in the Agreement. Charges for services normally provided by an operator such as those contemplated in Section 2.7.2 below which are provided by Operator's Affiliates shall reflect the cost to the Affiliate, excluding profit, for performing such services, except as otherwise provided in Section 2.6 and Section 2.7 hereof.

The costs and expenditures shall be recorded as required for the settlement of accounts between the Parties in connection with their rights and obligations under this Agreement and for purposes of complying with the tax laws of the Country of Operations and of such other countries to which any of the Parties may be subject. Without in any way limiting the generality of the foregoing, chargeable costs and expenditures shall include the following.

2.1 **Licenses, Contracts, Etc.** - All costs, if any attributable to the acquisition, maintenance, renewal or relinquishment of licenses, permits, contractual and/or surface rights acquired for Joint Operations and bonuses paid in accordance with the Contract when paid by Operator in accordance with the provisions of the Agreement.

#### **2.2 Salaries, Wages and Related Costs**

2.2.1 Salaries, wages and related costs include everything constituting the employees' total compensation, as well as the cost to Operator of holiday, vacation, sickness, disability benefits, living and housing allowances, travel time, bonuses, and other customary allowances applicable to the salaries and wages chargeable hereunder, as well as the costs to Operator for employee benefits, including but not limited to employee group life insurance, group medical insurance, hospitalization, retirement, severance payments required by the laws or regulations of the Country of Operations.

Approval of the Operating Committee shall be required to charge the Joint Account with any severance payments in excess of those provided by the laws or regulations of the Country of Operations and other benefit plans of a like nature applicable to labor costs of Operator.

All costs associated with organizational restructuring (e.g., separation benefits, relocation costs, asset disposition costs) of Operator or its Affiliates, other than those costs which are directly related to employees of Operator who are directly engaged in Joint Operations on a full time basis, will require the approval of the Parties to be chargeable to the Joint Account.

2.2.2 Any costs associated with Country of Operations benefit plans may be charged at a percentage rate to reflect payments or accruals made by Operator applicable to such employees. Such accruals for Country of Operations benefit plans shall not be paid by Non-Operators, unless otherwise approved by the Operating Committee, until the same are due and payable to the employee, upon withdrawal of a Party pursuant to the Agreement, or upon termination of the Agreement, whichever occurs first.

2.2.3 Expenditures or contributions made pursuant to assessments imposed by Governmental authority for payments with respect thereto or on account of such employees.

2.2.4 Salaries and wages charged in accordance with Operator's usual practice, when and as paid or accrued, or on a basis of the Operator's average cost per employee for each job category; and the rates to be charged shall be reviewed at least annually. In determining the average cost per employee for each job category, expatriate and national employee salaries and wages shall be calculated separately. During a given period of time it is understood that some costs for salaries and wages may be charged on an actual basis while the remaining costs for salaries and wages are charged at a rate based upon the above described average cost.

2.2.5 Reasonable expenses (including related travel costs) of those employees whose salaries and wages are chargeable to the Joint Account under Sections 2.2.1 and 2.2.2 of this Section II and for which expenses the employees are reimbursed under the usual practice of Operator.

2.2.6 If employees are engaged in other activities in addition to the Joint Operations, the cost of such employees shall be allocated on an equitable basis using accepted accounting practices.

#### **2.3 Employee Relocation Costs**

2.3.1 Except as provided in Section 2.3.3 below, Operator's cost of employee's relocation to or from the vicinity of the Contract Area from or to the location where the employees will reside or work, whether permanently or temporarily assigned to the Joint Operations. If such employee works on other activities in addition to Joint Operations, such relocation costs shall be allocated on an equitable basis.

- 2.3.2 Such relocation costs shall include transportation of the employees, his family, personal and household effects of the employee and his family, transit expenses, and all other related costs in accordance with Operator's usual practice.
- 2.3.3 Relocation costs to an assignment that is not with the Joint Operations shall not be chargeable to the Joint Account unless the place of the new assignment is the point of origin of the employee, or unless otherwise agreed by the Operating Committee.
- 2.4 **Offices, Camps, and Miscellaneous Facilities** - Cost of maintaining any offices, sub-offices, camps, warehouses, housing, and other facilities of the Operator and/or its Affiliates directly serving the Joint Operations. If such facilities serve operations in addition to the Joint Operations the costs shall be allocated to the properties served on an equitable basis.
- 2.5 **Materials** - Cost, net of discounts taken by Operator, of Materials purchased or furnished by Operator. Such costs shall include, but are not limited to, export broker's fees, transportation charges, loading and unloading fees, export and import duties and license fees associated with the procurement of Materials and in-transit losses, if any, not covered by insurance. So far as it is reasonably practical and consistent with efficient and economical operation, only such Materials shall be purchased for, and the cost thereof charged to, the Joint Account as may be required for immediate use.
- 2.6 Exclusively Owned Equipment and Facilities of Operator and Affiliates  
Charges for exclusively owned equipment, facilities, and utilities of Operator and its Affiliates at rates not to exceed the average commercial rates of non-affiliated third parties then prevailing for like equipment, facilities, and utilities for use in the area where the same are used hereunder. On request, Operator shall furnish Non-Operators with a list of rates and the basis of application. Such rates shall be revised from time to time if found to be either excessive of insufficient, but not more than once every six (6) months.
- 2.7 **Services**
- 2.7.1 The cost of services provided by third parties including Affiliates of Operator to perform services that are normally provided by third parties, other than those services covered by Section 2.7.2 hereof. Such charges for services by Operator's Affiliates shall not exceed those currently prevailing if performed by non-affiliated third parties, taking into account the quality and availability of services.
- 2.7.2 The cost of services performed by Operator's Affiliates technical and professional personnel. The individual rates shall include salaries and wages of such technical and professional personnel, lost time, Governmental assessments, employee benefits. Costs shall also include all support costs necessary for such technical and professional personnel to perform such services, such as, but not limited to, rent, utilities, support staff, drafting, telephone and other communications expenses, computer support, supplies, depreciation, and other reasonable expenses. Examples of such services include the following:
- Geologic Studies and Interpretation Seismic Data Processing
  - Well Log Analysis, Correlation and Interpretation Laboratory Services
  - Ecological and Environmental Engineering Decommissioning (Abandonment) and Reclamation Well Site Geology
  - Project Management and Engineering
  - Source Rock Analysis
  - Petrophysical Analysis
  - Geochemical Analysis
  - Drilling Supervision
  - Development Evaluation
  - Project Accounting and Professional Services
  - Other Data Processing
- 2.7.3 The cost of services performed with the approval of Operator by the technical and professional staffs of the Non-Operators and the Affiliates of the respective Non-Operators, including the cost to such Affiliates and Non-Operators of their respective secondees, shall be chargeable to the Joint Account. The individual rates shall include salaries and wages of such technical and professional personnel and secondees, lost time, governmental assessments, and employee benefits. Costs (other than for secondees) shall also include all support costs necessary for such technical and professional personnel to perform such services, such as, but not limited, to rent, utilities, support staff, drafting, telephone and other communication expenses, computer support, supplies, depreciation, and other reasonable expenses.

- 2.7.4 A Non-Operator shall bill Operator for direct costs of services and of secondees charged under the provisions of Section 2.7.3 on or before the last Day of each month for charges for the preceding month, to which charges Non-Operator shall not add an administrative overhead rate. Within 30 Days after receipt of a bill for such charges, Operator shall pay the amount due thereon.
- 2.7.5 The charges for services under Section 2.7.2 and Section 2.7.3 shall not exceed those currently prevailing if performed by non-affiliated third parties, considering the quality and availability of such services.
- 2.8 **Insurance** - Premiums paid for insurance required by law or the Agreement to be earned for the benefit of the Joint Operations.
- 2.9 **Damages and Losses to Property**
- 2.9.1 All costs and expenditures necessary to replace or repair damage or losses incurred by fire, flood, storm, theft, accident, or any other cause. Operator shall furnish Non-Operators with written notice of such damage or losses incurred in excess of fifty thousand Dollars (\$50,000) as soon as practicable after report of the same has been received by Operator, AH losses in excess of fifty thousand Dollars (\$50,000) shall be listed separately in the monthly statement of costs and expenditures.
- 2.9.2 Credits for settlements received from insurance carried for the benefit of Joint Operations and from others for losses of or damage to Joint Property or Materials. Each Party shall be credited with its Participating Interest share thereof except where such receipts are derived from insurance purchased by Operator for less than all the Parties in which event such proceeds shall be credited to those Parties for whom the insurance was purchased in the proportion of their respective contributions toward the insurance coverage.
- 2.9.3 Expenditures incurred in the settlement of all losses, claims, damages, judgments, and other expenses for the account of Joint Operations.
- 2.10 **Litigation and Legal Expenses** - The costs and expenses of litigation legal services necessary for the protection of the Joint Operations under this Agreement as follows:
- 2.10.1 Legal services, other than those provided by the Parties or their Affiliate employees, necessary or expedient for the protection of the Joint Operations, and all costs and expenses of litigation, arbitration or other alternative dispute resolution procedure, including reasonable attorney's fees and expenses, together with all judgments obtained against the Parties or any of them arising from the Joint Operations.
- 2.10.2 If the Operating Committee hereunder shall so agree, litigation, arbitration or other alternative dispute resolution procedures resulting from actions or claims affecting the Joint Operations hereunder may be handled by the legal staff of one or any of the Parties; and a charge commensurate with the reasonable costs of providing and furnishing such services rendered may be made by the Party providing such service to Operator for the Joint Account, but no such charges shall be made until approved by the Operating Committee.
- 2.11 **Taxes and Duties** - All taxes, duties, assessments and governmental charges, of every kind and nature, assessed or levied upon or in connection with the Joint Operations, other than any that are measured by or based upon the revenues, income and net worth of a Party.
- Operator and Non-Operators shall cooperate with each other in employing their best efforts in order to obtain an Israeli tax ruling to exempt Operator and Non-Operators and their respective Affiliates from Israeli taxation on their operations in or with respect to the Contract Area for the benefit of the Joint Account. Such Parties will take all reasonable measures which may be necessary or advisable to obtain said ruling or otherwise reduce Israeli tax liability on said operations provided always that Operator, Non-Operators and their respective Affiliates shall not suffer any adverse consequences from said measures.
- 2.12 **Ecological and Environment** - Costs incurred on the Joint Property as a result of statutory regulations for archaeological and geophysical surveys relative to identification and protection of cultural resources and/or other environmental or ecological surveys as may be required by any regulatory authority. Also, costs to provide or have available pollution containment and removal equipment plus costs of actual control, clean up and remediation resulting from responsibilities associated with Hydrocarbon contamination as required by all applicable laws and regulations.
- 2.13 **Decommissioning (Abandonment) and Reclamation** - Costs incurred for decommissioning (abandonment) and reclamation of the Joint Property, including costs required by governmental or other regulatory authority or by the Contract.
- 2.14 **Other Expenditures** - Any other costs and expenditures incurred by Operator for the necessary and proper conduct of the Joint Operations in accordance with approved Work Programs and Budgets and are not covered in this Section II or in Section III hereof.

SECTION III

INDIRECT CHARGES

3.1 **Purpose** - Operator shall charge the Joint Account monthly for the cost of indirect services and related office costs of Operator and its Affiliates not otherwise provided in this Accounting Procedure. Indirect costs chargeable under this Section III. represent the cost of general counseling and support services provided to Operator by its Affiliates. These costs are such that it is not practical to identify or associate them with specific projects but are for services which provide Operator with needed and necessary resources which Operator requires and provide a real benefit to Joint Operations. No cost or expenditure included under Section II above shall be included or duplicated under this Section III.3. The charges under Section 3 are not subject to audit under Sections 1.8.1 and 1.8.2 other than to verify that the overhead percentages are applied correctly to the expenditure basis.

3.2 **Amount** - The charge for the period beginning with the calendar year through the end of the period covered by Operator's invoice ("Year-to-Date") under Section 3.1 above shall be a percentage of the Year-to-Date expenditures, calculated on the following scale:-

Operator shall be entitled to receive compensation on a calendar month basis for indirect administration and overhead charges associated with exploration operations and appraisal operations at the following rates of all direct charges, as set out in section II hereof, incurred in the applicable calendar month in relation to the Contract Area:

Annual Expenditures

<b>Direct Charges</b>		<b>Percentage Rate</b>
\$0 to \$2 million of expenditures		4%
\$2 million to \$ 3.5 million of expenditures		3%
\$3.5 million to \$ 6 million of expenditures		2%
\$6 million to \$ 10 million of expenditures		1%
<b>over \$ 10 million</b>		<b>0.85%</b>

Notwithstanding the foregoing, the indirect rates and related calculation method for development operations and for operations, and dismantling for decommissioning of platforms and related facilities shall be agreed upon by the Operating Committee prior to the submission of the first annual budget for each of those phases of operations.

3.3 **Exclusions** - The expenditures used to calculate the monthly indirect charges on a percentage of direct charges basis shall not include indirect charges calculated as a percentage of the following direct expenditures: rentals on surface rights acquired and maintained for the Joint Account, guarantee deposits, pipeline tariffs, concession acquisition costs, bonuses paid in accordance with the Contract, royalties and taxes paid under the Contract, expenditures associated with major construction projects for which a separate indirect charge is agreed by the Parties, payments to third parties in settlement of claims, and other similar items.

Credits arising from any Government subsidy payments, disposition of material, and receipts from third parties for settlement of claims shall not be deducted from total expenditures in determining such indirect charges.

3 **Changes** The indirect charges provided for in this Section III may be amended periodically by mutual agreement between the Parties if, in practice, these charges are found to be insufficient or excessive.

SECTION IV

ACQUISITION OF MATERIALS

- 4.1 **Acquisitions** - Materials purchased for the Joint Account shall be charged at net cost paid by the Operator. The price of Materials purchased shall include, but shall not be limited to export broker's fees, insurance, transportation charges, loading and unloading fees, import duties, license fees, and demurrage (retention charges) associated with the procurement of Materials, and applicable taxes, less all discounts taken.
- 4.2 **Materials Furnished by Operator** - Materials required for Joint Operations shall be purchased for direct charge to the Joint Account whenever practicable, except the Operator may furnish such Materials from its stock under the following conditions:
- 4.2.1 New Materials (Condition \*1\*)** - New Materials transferred from the warehouse or other properties of Operator shall be priced at net cost determined in accordance with Section 4.1 above, as if Operator had purchased such new Material just prior to its transfer.
- Such net costs shall in no event exceed the then current market price.
- 4.2.2 Used Materials (Condition "2" and "3")**
- 4.2.2.1 Materials which are in sound and serviceable condition and suitable for use without repair or reconditioning shall be classed as Condition "2" and priced at seventy-five percent (75%) of such new purchase net cost at the time of transfer.
- 4.2.2.2 Materials not meeting the requirements of Section 4.2.2.1 above, but which can be made suitable for use after being repaired or reconditioned, shall be classed as Condition "3" and priced at fifty percent (50%) of such new purchase net cost at the time of transfer. The cost of reconditioning shall also be charged to the Joint Account provided the Condition "3" price, plus cost of reconditioning, does not exceed the Condition "2" price; and provided that Materials so classified meet the requirements for Condition "2" Materials upon being repaired or reconditioned.
- 4.2.2.3 Materials which cannot be classified as Condition "2" Condition "3", shall be priced at a value commensurate with its use.
- 4.2.2.4 Tanks, derricks, buildings, and other items of Materials involving erection costs, if transferred in knocked-down condition, shall be graded as to condition as provided in this Section 4.2.2 of Section IV, and priced on the basis of the knocked-down price of like new Materials.
- 4.2.2.5 Materials including drill pipe, casing and tubing, which are 110 longer useable for their original purpose but are useable for some other purpose, shall be graded as to condition as provided in the Section 4.2,2 of Section IV. Such Materials shall be priced on the basis of the current price of items normally used for such other purpose if sold to third parties.
- 4.3 **Premium Prices** - Whenever Materials are not readily obtainable at the prices specified in Section 4.1 and 4.2 of this Section IV because of national emergencies, strikes or other unusual causes over which Operator has no control, Operator may charge the Joint Account for the required Materials at Operator's actual cost incurred in procuring such Materials, in making them suitable for use, and moving them to the Contract Area, provided that notice in writing of the proposed charge, including a detailed description of the Materials required and the required delivery date, is furnished to Non-Operators at least twenty (20) Days (or such shorter period as may be specified by Operator) before the Materials are projected to be needed for operations and prior to billing Non-Operators for such Materials where the cost exceeds fifty thousand Dollars (\$50,000). Each Non-Operator shall have the right, by so electing and notifying Operator within ten (10) Days (or such shorter period as may be specified by Operator) after receiving notice from Operator, to furnish in kind all or part of its share of such Materials per the terms of the notice which are suitable for use and acceptable to Operator both as to quality and time of delivery. Such acceptance by Operator shall not to be unreasonably withheld. If Materials so furnished are deemed unsuitable for use by Operator, all costs incurred in disposing of such Materials or returning such Materials to the owner thereof shall be borne by the Non-Operator concerned. If a Non-Operator fails properly to submit an election notification within the designated period, Operator shall not be required to accept Materials furnished in kind by that Non-Operator. If Operator fails to submit proper notification prior to billing Non-Operators for such Material, Operator shall only be entitled to charge the Joint Account on the basis of the price allowed during a "normal" pricing period in effect at the time of movement of the Materials.
- 4.4 **Warranty of Materials Furnished by Operator** - Operator does not warrant the condition or fitness for the purpose intended of the Material furnished. In case defective Materials are furnished by Operator for the Joint Account, credit shall not be passed to the Joint Account until adjustment has been received by Operator from the manufacturers or their agents.

SECTION V

DISPOSAL OF MATERIALS

- 5.1 **Disposal** - Operator shall be under no obligation to purchase the interest of Non-Operators in new or used surplus Materials. Operator shall have the right to dispose of Materials but shall advise and secure prior agreement of the Operating Committee of any proposed disposition of Materials having an original cost to the Joint Account either individually or in the aggregate of fifty thousand Dollars (\$50,000) or more. When Joint Operations are relieved of Materials charged to the Joint Account, Operator shall advise each Non-Operator of the original cost of such Materials to the Joint Account so that the Parties may eliminate such costs from their asset records. Credits for Materials sold by Operator shall be made to the Joint Account in the month in which payment is received for such Materials. Any Materials sold or disposed of under this Section V shall be on an "as is, where is" basis without guarantees or warranties of any kind or nature. Costs and expenditures incurred by Operator in the disposition of Materials shall be charged to the Joint Account.
- 5.2 **Materials Purchased by a Party or its Affiliate** - Materials purchased from the Joint Property by a Party or an Affiliate thereof shall be credited by Operator to the Joint Account, with new Materials valued in the same manner as new Materials under Section 4.2.1 and used Materials valued in the same manner as used Materials under Section 4.2.2, unless otherwise agreed by the Operating Committee.
- 5.3 **Division In Kind** - Division of Materials in kind, if made between the Parties, shall be in proportion to their respective interests in such Materials. Each Party will thereupon be charged individually with the value (determined in accordance with the procedure set forth in Section 5.2 above) of the Materials received or receivable by it.
- 5.4 **Sales to Third Parties** - Materials purchased from the Joint Property by third parties shall be credited by Operator to the Joint Account at the net amount collected by Operator from the buyer. If the sales price is less than that determined in accordance with the procedure set forth in Section 5.2 above, then approval by the Operating Committee shall be required prior to the sale. Any claims by the buyer for defective Materials or otherwise shall be charged back to the Joint Account if and when paid by Operator.

SECTION VI

INVENTORIES

6.1 **Periodic Inventories - Notice and Representation** - At reasonable intervals, but at least annually, inventories shall be taken by Operator of all Materials on which detailed accounting records are normally maintained. The expense of conducting periodic inventories shall be charged to the Joint Account. Operator shall give Non-Operators written notice at least thirty (30) Days in advance of its intention to take inventory, and Non-Operators, at their sole cost and expense, shall each be entitled to have a representative present. The failure of any Non-Operator to be represented at such inventory shall bind such Non-Operator to accept the inventory taken by Operator, who shall in that event furnish each Non-Operator with a reconciliation of overages and shortages. Inventory adjustments to the Joint Account shall be made for overages and shortages. Any adjustment equivalent to ten thousand Dollars (\$10,000) or more shall be brought to the attention of the Operating Committee.

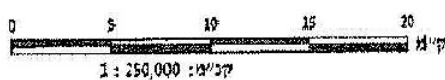
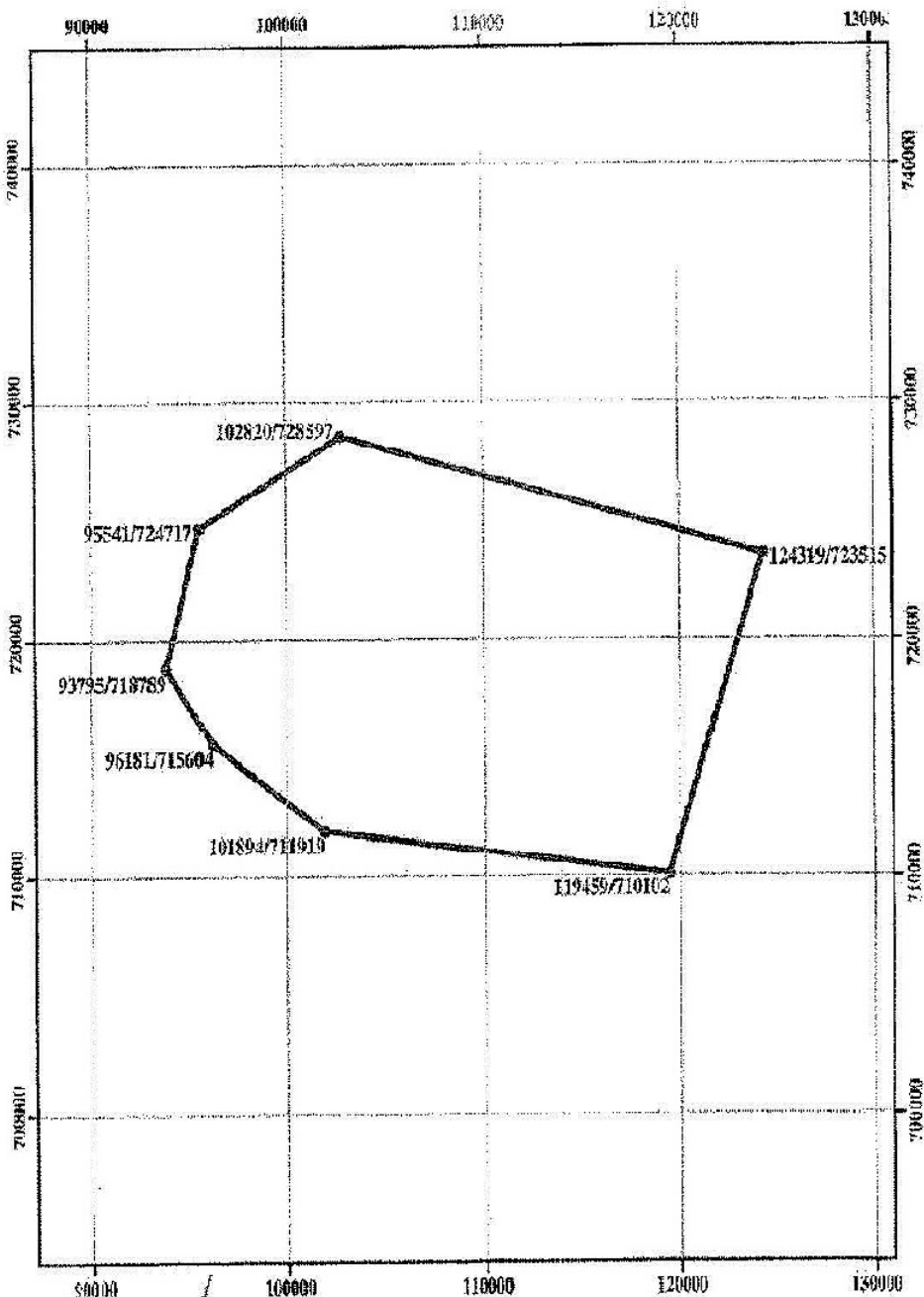
6.2 **Special Inventories** - Whenever there is a transfer or other change of interest in the Agreement, a special inventory may be taken by the Operator provided the seller and/or purchaser of such interest agrees to bear all of the expense thereof. In such cases, both the seller and the purchaser shall be entitled to be represented and shall be governed by the inventory so taken.



**EXHIBIT B**

Petromed Corporation Drilling Licenses #348 "Sarah"  
Pages 1 to 4  
Petromed Corporation Drilling Licenses #347 "Myra"  
Pages 5 to 8

רשיון /347 "מירה"  
כ- 400,000 דונם



ד"ר יעקב בימורן  
הממונה על ענייני הנפט

ירושלים, י"א בתמוז התשס"ח  
14 ביולי 2008



EXHIBIT C

**Pre-Agreement Joint Expenditures**

EXHIBIT C

**Pre-Agreement Joint Expenditures**

There are no pre-agreement joint expenditures.

**EXHIBIT D**

**Form of Overriding Royalty Agreement**

**EXHIBIT D**  
**OVERRIDING ROYALTY AGREEMENT**  
WELLBORE ONLY

This Overriding Royalty Agreement is made as of, 2010, between [aU license holders who are granting the ORK] (foregoing parties are collectively the "Grantor") and GeoGlobal Resources (India) Inc. (the "Grantee").

WHEREAS the Grantor holds 100% of all rights to the License, as defined below, subject to the terms and conditions of the License and the requirements of the Petroleum Law and the regulations issued pursuant thereto; and

WHEREAS the parties wish to create an overriding royalty burdening production of Petroleum, as defined below, from the Well, as defined below, situated on the Area covered by the License under the terms and conditions set forth herein;

NOW THEREFORE in consideration of the premises, covenants and agreements of the parties, the parties hereby covenant and agree as follows:

**1. Definitions** In this Agreement, unless the context otherwise requires:

- a. "Area" means the geographic area that is subject to the License from time to time;
- b. "License" mean Israeli Drilling License no. 347 (Myra) and any lease that may hereafter be issued by the Israeli government to Grantor covering the Well;
- c. "Petroleum" means any, oil, natural gas, natural gasoline, condensates, natural gas liquids and related fluid hydrocarbons whether liquid or gaseous, including those dissolved in and producible with any of the foregoing;
- d. "Well" means [describe well to be burdened].

2. **Grant of Overriding Royalty.** Grantor hereby irrevocably grants, assigns and sets over to Grantee an overriding royalty of 0.4% of all Petroleum that is produced, saved and marketed from the Well, limited to production of Petroleum from the wellbore of the Well and not including any production of Petroleum from any other well located within the Area attributable to Grantor's ownership of rights in any such well in the event of any unitization or pooling of Grantor's interests that may hereafter occur (the "Royalty"), free and clear of all costs of every kind and nature incurred in connection with exploration, production and delivery to shore of such Petroleum, but subject to its proportionate share of all taxes assessed in or measured by production. The Royalty is a royalty on the value of the production at the point where first metered on shore, free and clear of all costs expended to deliver the production to such onshore meter. The Grantor may use Petroleum produced from the Well in connection with operating, development or production operations with respect to the Well and the Grantee shall own no Royalty hereunder in the Petroleum so used or unavoidable lost; and no Royalty shall be paid upon Petroleum used in repressuring or recycling operations or pressure maintenance operations benefitting the Area or the License. The Royalty is payable out of and only out of Petroleum produced, saved and marketed, pursuant to terms and provisions of the License, and is expressly subject thereto and to any applicable law, regulation, order or other provision of governmental authority of the State of Israel having jurisdiction over the License.

3. **Term.** The Royalty shall continue until the Well is plugged and abandoned, at which time the Royalty shall terminate.

4. Right to Take in Kind. Grantee shall have the right to elect from time to time upon not less than one (1) months' prior written notice to Grantor to take its Royalty share of production in kind. Any such election may be changed from time to time, but Grantee shall not be entitled to make elections under this paragraph at intervals of less than six months. Grantee shall bear any expense attributable to the installation of separate facilities or otherwise necessitated by its election under this paragraph. If Grantee exercises its right to take Royalty production in kind, Grantor shall deliver such production to Grantee at the first onshore meter, and Grantee shall be solely responsible for arranging post-meter treating, transporting and marketing. If Grantee fails to make such arrangements or if Grantor has reasonable concerns in respect of the safety of the arrangements made by Grantee or regarding interference with Grantor's operations, then Grantor may suspend Grantee's right to take in kind until appropriate arrangements have been made and all safety and operational concerns have been resolved
5. Sale of Petroleum. Grantor, except during such period as Grantee exercises its election to take the royalty in kind, shall deliver to the purchasers of Grantor's Petroleum the Petroleum that is attributable to the Royalty. All such deliveries made by Grantor shall be on the same terms and conditions as are applicable to Grantor's share of such Petroleum.
6. Royalty Computation When Petroleum Sold.
- a. When Grantee does not take the Royalty in kind, the proceeds from sale of the Petroleum shall be the actual proceeds received by Grantor upon the first sale of each portion of the Petroleum under an arm's length contract. Grantor may have multiple sales in multiple markets during a month, and during such month the actual proceeds must be computed on the basis of each applicable sale in each market. Earlier sales to affiliates or to others in a manner that does not reflect arm's-length provisions will be disregarded, so that the actual proceeds received from the first sale under an arm's length contract will be deemed the actual proceeds of sale of the Petroleum being sold under that contract, even if those proceeds are received by an affiliate or related party. Grantee's share of the Petroleum shall not bear any treating, processing, liquefying, transporting, storing, marketing and other costs that are incurred between the wellhead and the first sale of such production.
- b. The parties intend that the foregoing subclause (a) be interpreted and applied so that the Royalty is computed on the value of the Petroleum when landed at the first onshore meter, determined by a net-back method from the point of sale under an arm's-length contract to such meter. If there is any ambiguity or uncertainty in the foregoing subclauses, then the parties intend that such ambiguity or uncertainty be resolved in a manner that most fairly and accurately results in a determination of the value of Petroleum production at the first onshore meter, so that the Royalty may be computed and paid on the basis of the value at the first onshore meter.
7. Books, Statements and Audits
- a. Grantor shall maintain and accurate records of all Petroleum produced, saved and marketed from the Area and of the monies received therefrom and shall furnish to Grantee with each payment made hereunder a statement summarizing the manner in which the Royalty amount was computed containing reasonable supporting detail.

- b. When Grantee does not take and separately dispose of its share of Petroleum, Grantor shall furnish to Grantee with each payment made hereunder a statement summarizing the manner in which the Royalty amount was computed. The first such payment and statement shall be submitted to Grantee by the last day of the month following the month in which proceeds from sales of the Petroleum are received by Grantee, and shall thereafter be submitted on a monthly basis, always on the basis of proceeds received during the preceding month.
- c. Grantee, upon reasonable advance notice to Grantor and during normal business hours, shall have the right to audit Grantor's accounts and records for any given calendar year at Grantor's office, insofar as they relate to any matter or item relating to this Agreement bearing on Royalty, within the 36 month period following the end of that calendar year. Any payment made or statement rendered by Grantor hereunder which is not disputed by Grantee on or before the last day of the 36<sup>th</sup> month following the end of that calendar year shall conclusively be deemed to be correct.
8. Unitization. Grantor is hereby given the right and power at any time and from time to time, to unitize the Area or any portion thereof with any other lands or any zone or formation underlying the same and Grantor agrees to act bona fide in the best interest of the parties effective such unitization. In the event of such unitization, the Grantee shall continue to be entitled to Royalty only from Petroleum produced from the Well at the 0.4% overriding percentage rate herein specified, and shall not be entitled to Royalty on any production of Petroleum from any other wells in the unitized area to which Grantor may be entitled by reason of its ownership of rights in the Well or the License.
9. Operations. While the quantity of Petroleum produced, the amount of post-production costs incurred, and the manner Petroleum are marketed directed impact the value of the Royalty, Grantee agrees that these matters and all other technical, commercial and other matters relating to the Well, Area and Petroleum are the sole prerogative and business of Grantor to be conducted or not conducted by Grantor in its sole discretion by any means, methods or manner whatsoever. Grantee shall not in any manner participate in, have any rights or interests in, or control regarding such business or activities. All decisions, elections and actions with respect to the Well, Area and Petroleum and the ownership, operation and business with respect thereto shall be at the sole discretion of Grantor, including, without limitation, decisions, elections and actions relating to the rate and conduct of exploration and development, if any; the release (whether voluntarily or in compliance with governmental requirements) of the Well or any interest therein; and the disposition and marketing of any Petroleum. Nothing herein contained shall impose upon Grantor any duty or obligation to develop or operate the Well for Petroleum other than in its sole discretion nor to maintain in effect the License by the payment of any funds or the performance of any other act.
10. No Partnership or Implied Covenant Duties. It is not the purpose or intention of this Agreement to create, and this Agreement shall not be construed as creating a joint venture, partnership, fiduciary relationship, association or other similar relationship between Grantor and Grantee. There are no deemed or implied covenants of exploration, development, protection against drainage or other matters (whether or not similar to the foregoing) in this Agreement.
- 11 • Notices. All notices authorized or required between the parties by any of the provision of this Agreement shall be in writing, in English, and delivered in person or by courier service or by any electronic means of transmitting written communications which provides written confirmation of complete transmission, and addressed to the appropriate party. Oral communication does not constitute notice for purposes of this Agreement, and e-mail addresses and telephone numbers for the parties are listed below as a matter of convenience only. A notice given under this Agreement shall be deemed delivered only when actually delivered to the address of the party, as shown below or as changed as provided by this paragraph:
- A party may change its address by giving written notice of its new address to the other parties.



12. Further Assurances. Each party shall do and perform all such acts and things and execute and deliver all such instruments, documents in writing, and give all such further assurances as may be necessary to give full effect to the provisions and intent of this Agreement.

13. Successor and Assigns. This Agreement shall be binding upon and benefit the parties and their respective successors and assigns; provided, however, that Grantee may not assign the Royalty or any interest therein to more than one entity or person, and any transfer of interest in the Royalty by Grantee or any successor or assign of Grantee to more than one entity or person may be disregarded by Grantor, and Grantor shall always have the right to pay or deliver, as applicable, the entirety of the Royalty to Grantee or its successor as agent on behalf of any other parties claiming entitlement to an interest in the Royalty. All elections to which Grantee is entitled under this Agreement can be made only by Grantee or a single successor and may not be subdivided or assigned in part to any party. No transfer of the Royalty or any interest therein by Grantee shall be binding upon Grantor until Grantee has delivered to Grantor a complete copy of the instrument of transfer of its rights under this Agreement. Grantor or any individual entity of the Grantor may, at any time, sell or otherwise dispose of all or any of its interests in the Well and/or License whether by sale, farmout, mortgage or otherwise subject in any such case at all times to this Overriding Royalty Agreement and the Royalty granted hereunder. It shall be a condition to any such disposition (whether by sale, farmout, mortgage or otherwise) that the transferee of the interest so disposed of shall deliver to Grantee a written irrevocable, valid, binding and enforceable assumption of the obligations of Grantor under this Agreement, in form and substance reasonably satisfactory to Grantee, insofar as and to the extent that they relate to such interest and accrue after the disposal, in which event Grantor shall be relieved of the obligations so assumed to the extent relating to production of Petroleum following the effective time of the transfer.

14. Governing Law. The laws of the State of Israel shall apply to and control any interpretation, construction, performance, or enforcement of this Agreement. The Parties agree that exclusive jurisdiction to resolve any dispute arising under this Agreement shall reside in the district courts of Tel Aviv, Israel, and all parties submit to the jurisdiction of said courts for such purpose.

[SIGNATURE PAGE IMMEDIATELY FOLLOWING]

**SIGNATURE PAGE OF ORR DATED  
2010**

IN WITNESS WHEREOF, the parties hereto have caused this Overriding Royalty Agreement to be duly executed as of the date first above written.

By:

Name:  
Title:

By:

Name:  
Title:

By:

Name:  
Title:

By:

Name:  
Title:

By:

Name:  
Title:

By:

Name:  
Title:



November 17, 2010

VIA FACSIMILE AND EDGAR

Anne Nguyen Parker  
Branch Chief  
US Securities and Exchange Commission  
450 Fifth Street, N. W.  
Washington, D.C. 20549-4628  
USA

Dear Anne Nguyen Parker:

RE: BONTAN CORPORATION INC. – Amendment # 4 to Registration Statement on Form F-1 (file # 333-164935)

We refer to your letter of October 15, 2010.

We have now filed Amendment # 4 to the Registration Statement on Form F-1 on EDGAR.

Our responses to your review comments are as follows in the same order:

1. Joint Operating Agreements for each Sarah and Myra licenses have been finalized with Geoglobal Resources (India) Inc. on October 6, 2010 and were signed by Geoglobal. However, we are still awaiting signatures of some of our joint venture partners which we hope to get before the end of October 31, 2010. We have not entered into any revised stockholders agreement. However, as indicated in the amendment # 4, we plan to pursue a revision within a month.
2. Information now included as footnote to the table in amendment # 4.
3. Now included in amendment # 4 as exhibit 10.10 and also referenced in the amendment.
4. Our financial capability requirement has now been met due to our agreement with Ofer Investments Ltd (Ofer) dated October 13, 2010. Ofer agreed to provide up to US\$ 28 million to cover our share of the exploration and drilling costs of initial two wells for a 50% equity interest in IPC Oil and Gas (Israel) Limited Partnership which was fully owned by IPC Cayman. We have corrected our comments under the risk factor to reflect this in amendment # 4. We have not revised our comments in the liquidity section since they reflected the situation at March 31, 2010 and June 30, 2010 and simply reproduction of what we issued previously.
5. Information now disclosed in amendment # 4.
6. Now explained in amendment # 4. Basically we agreed to have ITC's nominee represents us in the steering committee because we were given to understand that such representative would only be Mr. Howard Cooper or Mr. Igor. Both these persons have significant experience in handling oil and gas projects and were knowledgeable of the current Israeli Project.
7. We do not believe that IPC Cayman's claim of \$ 18 million was correct due to two reasons (1) \$ 10.2 million was raised and used to pay off the liability of WesternGeco by the new Israeli partners under the allocation of rights and settlement agreement dated March 25, 2010. We already raised \$ 7.5 million and spent on the Project as required, and (2) Raising of \$18 million was on a "best efforts" basis and not guaranteed or committed. Further, the Ofer agreement of October 13, 2010 referred to in amendment # 4 assures a further \$ 28 million towards our share of the exploration and drilling costs of initial two wells – all at the cost of significantly reducing our own working interest in the project.
8. Now revised in amendment # 4
9. Now revised in amendment # 4

Please contact the undersigned for any further information in the matter.

Sincerely

Kam Shah  
Chief Executive Officer

C.C. Jeffrey C Robins Esq, Messerli & Kramer P.A.

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