

CEO REPORT TO THE 2011 ANNUAL MEETING

Ladies and Gentlemen...

Zion Oil & Gas was founded in the year 2000 and today's meeting is the 5th Annual Meeting of Zion Oil & Gas as a publicly traded corporation.

When Zion's Founder and Chairman, John Brown, established Zion Oil & Gas, the goal was to find and recover oil and gas in Israel, for the benefit of Israel.

That goal remains unchanged - our task is to find and recover oil and gas in Israel.

Recent years have brought great change to the oil and gas industry in Israel - most of it very positive.

The world-class offshore gas discoveries within the last three years have changed the mindset of many regarding the oil & gas industry in Israel.

At Zion, we are constantly working at increasing our knowledge of the geology in our exploration areas and becoming ever more professional regarding our work. That increase in knowledge and striving for professional excellence inevitably increases our probability of success in discovering hydrocarbons onshore Israel.

Unlike the situation a few years ago, Israel is now an attractive proposition for oil & gas industry service providers. They now want to do business in Israel.

They sat up and listened in 2009 when the offshore gas discoveries were announced. They sat up and listened again, in 2010, when the United States Geological Survey estimated a mean of **1.7 Billion barrels** of recoverable oil and **122 Trillion cubic feet** of recoverable gas in the Levant Basin.

Much of Israel is within the Levant Basin and Zion's exploration areas fall within the Levant Basin. So, we are optimistic that we will achieve our goal.

Zion's Founder and Chairman, John Brown, provides our inspiration and we, the management and staff, provide the perspiration, as we implement our business plan, on a daily basis.

Oil and gas exploration is a 24-hour-a-day, non-stop dynamic business and requires a high level of sustained commitment. Especially during active drilling operations, as we have been, during the past 10 months.

Because of those demands and in order to maintain a high level of excellence, it is to be expected that we will have dynamic change, both in systems and staffing.

Change is an opportunity to improve and upgrade our team and during the past year, Zion has benefitted from the appointment of some exceptional people.

In July 2010, **Marc Singer** joined our Board. Marc founded a Wealth Management company in the USA and is also President of a US based broker-dealer. He holds a Masters of Business Administration is also a Certified Financial Planner. His financial management skills are of great service to our Board.

In September 2010, **Victor Carrillo** joined our Board. Victor is a petroleum geologist and geophysicist, attorney, former Judge and until January Of 2011 served as Chairman of the Railroad Commission of Texas. (That's the senior oil & gas regulator in Texas.) He has over 20 years of experience in the oil and gas industry, including exploration and production. He holds a law degree, a Masters degree in geology and an honorary doctorate degree. Victor's wide ranging skill-set is a great asset for Zion.

In January 2011, **Robert Rander** joined our Board. Bob previously served Zion as a director for ~ 5 years, from 2004 to 2009. At Zion's 2009 Annual Meeting of Stockholders Bob did not stand for re-election but we were happy to welcome Bob back to our Board earlier this year. He brings with him great experience.

In November 2010, **Martin Van Brauman** was appointed **Secretary and Treasurer**. Martin previously served as Zion's Chief Financial Officer from July 2007 to June 2009 and also as a director from August 2008 to June 2009. We were happy to welcome Martin back to Zion. Martin is also the Managing Director for both our Swiss and Israeli Foundations.

In April 2011, we appointed **Ilan Sheena** as our new Chief Financial Officer. Ilan originally joined Zion in 2009. He is an accounting professional with international experience. Ilan has a degree in Accounting and Economics from Tel Aviv University and, after qualifying as a CPA and working for three years with KPMG Somekh Chaikin in Israel, he spent four years in Australia. Ilan's particular skill-set is almost perfect for Zion.

In February 2011, **Victor Carrillo** was appointed Zion's Executive Vice President. Victor continued to serve on Zion's Board but, beginning in February, he has been working on a full time basis on Zion's oil and gas exploration and corporate activities.

Across the board, we have excellent internal staff and excellent external service providers. They all demonstrate both their commitment and their professional skills every day. I pay tribute to everyone who works for or with Zion.

I also want to thank the members of Zion's Board for their counsel and support. As always, Zion's Board committees function efficiently and effectively. The members of our Board are a key asset of Zion.

For all of us at Zion, John Brown provides a strong and guiding vision, based

on deep faith and integrity. John encourages all of us that, although the task is great, we can meet the challenge. I want to thank John for his steadfast leadership of Zion's Board, his devotion to Zion's success and his unwavering belief that we will overcome every challenge.

With regard to our business, here are some of the highlights since last year's Annual Meeting.

In **July 2010**, we completed a rights offering, raising over \$12 Million.

Late in **August 2010**, we began drilling operations on the Ma'anit-Joseph #3 well, within the Joseph License.

In **December 2010**, we completed a rights offering, raising over \$18 Million.

In **April 2011**, we were awarded a new petroleum exploration license on land within Zion's previous (and now expired) Issachar-Zebulun Permit area. We named the new license the **Jordan Valley License**.

The difference between a Permit and a License is that with a Permit you can investigate the hydrocarbon potential (including shooting field seismic), but you cannot drill a well; with a License you may drill one or more wells.

Just **last week**, we requested the grant of a new petroleum exploration permit area, adjacent to Zion's Joseph License area - named by us the **Asher-Joseph Permit**.

So, in addition to the exploration areas we currently hold, we have three applications for new exploration areas pending before the Israeli Petroleum Commissioner's Office: the **Asher-Joseph Permit**, the **Zebulun Permit** and the **Dead Sea License**.

Last week also saw the milestone of us reaching our target depth of approximately 19,357 feet (5,900 meters) in drilling the Ma'anit-Joseph #3 well into the Permian geologic layer in Northern Israel. After reaching the target depth, we logged the well.

Bill Ottaviani, Zion's President and Chief Operating Officer will soon present his Operations Report to you, but I would like to comment regarding the logging operations.

At the end of last week, we lowered various logging tools into the wellbore of the Ma'anit-Joseph #3 well, to collect data and enable us to learn more regarding the well's hydrocarbon potential.

That data was then sent to a consultant in the USA and also taken to our offices in Dallas and Israel. The interpretation of the logging has been taking place, simultaneously, at our consultant in the USA and at Zion's offices. Due to the volume and technical nature of the information gathered, the data interpretation does take

some time, so we cannot comment today regarding the outcome of the logging. However, as soon as we can, we will announce our assessment of the logging results and how we plan to proceed.

For the future, we have a good size of petroleum exploration areas in Israel and will continue our work on them. We will also seek to expand our exploration areas. We still wish to establish Zion Drilling with a partner to ensure that we have an appropriate drilling rig which to implement our multi-well drilling program in Israel.

To you, our stockholders, I again promise that we will do our best to use the money entrusted to us carefully and wisely. Oil & Gas exploration is a very expensive business, but that is not an excuse to spend money without receiving good value in return. Zion's Management has a significant stake in Zion stock, so your interests, as shareholders, and ours, as people who work for Zion on a daily basis, are aligned.

Our task, as I noted at the beginning of this report, is to find and recover oil and gas onshore Israel, so I will now hand over the microphone for two further reports:

Bill Ottaviani, Zion's President and Chief Operating Officer will present his report and update you regarding our operations during the past twelve months...and then...

Victor Carrillo, Zion's Executive Vice President will present an overview of oil & gas in Israel.

On behalf of all Zion's management and staff...

Thank you for supporting Zion Oil & Gas

Richard Rinberg
CEO

June 21, 2011