

CEO REPORT TO THE 2010 ANNUAL MEETING

Ladies and Gentlemen...

This year marks the 10th anniversary of the initial incorporation of Zion Oil & Gas and today's meeting is the 4th Annual Meeting of Zion Oil & Gas as a publicly traded corporation.

Having mentioned Zion's 10th anniversary, I'll note that, in approximately ten weeks, we plan to 'spud' (that is, start drilling) the Ma'anit-Joseph #3 well... onshore Israel, into the Permian geological layer, approximately 18,000 feet deep, under the Land of Israel.

When Zion's Founder and Chairman, John Brown, established Zion Oil & Gas, in April 2000, the goal was to find and recover oil and gas in Israel, for the benefit of Israel.

That goal remains unchanged and, as we move forward, we are constantly gathering more information about the geology of our exploration areas. That increase in knowledge will inevitably increase our probability for success in discovering hydrocarbons onshore Israel.

We are by no means alone in our belief that there are significant oil and gas discoveries to be made in Israel. In April 2010, the United States Geological Survey issued a report with the title:

"Assessment of Undiscovered Oil and Gas Resources of the Levant Basin Province, Eastern Mediterranean"

The report estimates a mean of **1.7 Billion barrels** of recoverable oil and **122 Trillion cubic feet** of recoverable gas in the Levant Basin. At current day prices that amounts to approximately \$ 650 Billion.

Earlier this month, Israel's business press reported that the estimated natural gas reserves in the Tamar offshore license represent approximately 35 years of Israel's natural gas needs at projected 2012 demand rates and also that initial seismic analysis indicated that the Leviathan prospect, offshore Israel, is estimated at double the size of the Tamar discovery.

Clearly the prediction of some of Israel's geological reports is beginning to unfold before our very eyes. For example:

(i) Almost 50 years ago, in 1962, Lewis Weeks, a former Exxon Chief Geologist, said in a report prepared for Israel's Ministry of Development, "The potential ultimate oil resources of Israel is estimated at 500 million to 2 Billion barrels of primary recovery (i.e. oil), not including natural gas, which may equal 50% and upwards of the oil."

(ii) and some 30 years ago, James Wilson, former Shell Chief Geologist, in a report prepared for the Israel National Oil Company, said, "... in my opinion the volume of oil and gas equivalent would not exceed 2 Billion barrels."

So, April's report by the United States Geological Survey on the Levant Basin is certainly in keeping with previous reports.

As all of Zion's exploration areas fall within the Levant Basin... we are very optimistic regarding our petroleum exploration areas, onshore Israel.

As I commented last year, Zion's Founder and Chairman, John Brown, provides our inspiration and we, the management and staff, provide the implementation... of the 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 commitment over a multi-year period.

Because of the high work-related demands placed on all of us and in order to maintain a level of excellence, it is to be expected that we will have regular change, both in systems and staffing, at all levels of our business.

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

Bill Ottaviani was appointed as Zion's President and Chief Operating Officer in February 2010 and became a Board member in April 2010. Bill is a Petroleum Engineer who spent 25 years working for Chevron in various countries around the world. He has a proven industry track record and is a first class oil and gas professional. Bill has the experience, the ability and the specific skill-set to help Zion implement its multi-well strategy and achieve operational success.

After this report, Bill will present his report on Operations.

In November 2009, **Ilan Sheena** was appointed as Zion's Vice President of Finance at our Caesarea branch. Ilan is a certified public accountant in Israel with broad local and international experience. After qualifying as a C.P.A. and working for three years with KPMG Somekh Chaikin in Israel, he spent four years in Sydney, Australia.

In March 2010, **Patti Beals** was appointed Zion's Vice President of Corporate Compliance, Finance and Training in our Dallas office. Patti has a college degree in Business Administration, twenty years of experience in accounting management and business development and a deep understanding of Sarbanes Oxley compliance matters.

We have talented internal staff and exceptional external service providers who demonstrate both commitment and professional skill 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 eight person 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.

Since last year's Annual Meeting, much has happened. Here are some of the highlights:

In **June 2009** we were awarded a preliminary petroleum exploration permit with priority rights on approximately 165,000 acres onshore Israel. The permit area is adjacent to and to the east of Zion's Asher-Menashe license area and is in the area that was formerly within Issachar's and Zebulun's ancient biblical tribal areas, so we named the permit area the 'Issachar-Zebulun Permit Area'.

Also in **June 2009** we completed a rights offering. 4.2 million shares of common stock were offered at a subscription price of \$5.00 per share. The offering raised \$ 21 million and was over-subscribed; we refunded over \$ 1 million to subscribers.

In **September 2009** we switched the listing of our common stock and common stock purchase warrants from the NYSE Amex to the NASDAQ Global Market and a Zion team rang the opening bell at the NASDAQ in New York City.

In **October 2009** we commenced drilling operations on our Elijah #3 well and also commenced a new common stock rights offering, offering 3.6 million shares of Zion's common stock at a subscription price of \$5.00 per share.

The rights offering terminated on November 30th and in **December 2009** we announced that we had received subscriptions for over \$37 million, significantly greater than the maximum available of \$18 million.

By **January 2010**, we had drilled the Elijah #3 to a depth of approximately 10,940 feet and were still in the Asher Volcanic Complex. Unfortunately, the drill string became stuck in the hole and the fishing operations were not successful.

As someone once said: *'There is no such thing as a sure thing in the energy exploration business'*.

So, in **February 2010**, we mobilized the drilling rig and moved it, to resume production testing operations on our Ma'anit-Rehoboth #2 well.

Also in **February 2010** we presented at the NASDAQ and Oppenheimer 14th annual Israeli Equities Conference in New York.

In **April 2010**, we completed production testing on the Ma'anit-Rehoboth #2 well. Although the initial swabbing operations had produced small quantities of crude oil, we concluded that commercial quantities of hydrocarbons were not present in the well. So, we temporarily suspended the well, as it may have further utility as a potential offset well to our next well.

It is important to note that, to date, we have not yet managed to reach the Permian geologic layer, even though it has been one of our main goals from the earliest days of Zion. But we are as determined as ever to reach that goal, hopefully, in our next well, the planned Ma'anit-Joseph #3 well.

Also in **April 2010**, we signed a Memorandum of Understanding (MoU) with Aladdin Middle East Ltd (AME) outlining our plan to establish a subsidiary, "Zion Drilling, Inc.", in order to purchase and operate AME's 2,000 horsepower drilling rig (currently located in Israel).

We announced a new rights offering on the Record Date of May 6, 2010, and stockholders were issued, at no charge, one subscription right for every two shares of stock owned. Each subscription right entitles the holder to purchase one share of Zion stock at a price of \$5.00, irrespective of the market price.

The maximum proceeds under the new rights offering is \$ 50 million.

Depending on the results, we plan to use the proceeds from the rights offering: (a) to purchase a 51% interest in a new company (Zion Drilling, Inc. that will own a 2,000 horsepower drilling rig), (b) to drill further 'deep' exploration wells on Zion's licenses in Israel (in continuation of Zion's oil and gas exploration efforts) and (c) for general corporate purposes.

In **May 2010**, a number of significant events happened:

(i) Zion was awarded a one-year extension on each of its petroleum exploration licenses, the Joseph License and the Asher-Menashe License.

(ii) we signed an extension to our drilling contract with Aladdin Middle East Ltd. They will serve as the drilling contractor for the Ma'anit-Joseph #3 well.

(iii) we signed an agreement with Kibbutz Ma'anit, the leaseholder of the land containing Zion's planned next well, the Ma'anit-Joseph #3 well.

With regard to this month, as I speak, we have people out in our exploration areas acquiring field seismic and we are planning and preparing for the spudding of the Ma'anit-Joseph #3 well, estimated to be in August 2010. We are also looking forward to learning the outcome of our current rights offering. The offering will terminate on June 30, 2010, and we will announce the outcome early in July.

To you, our stockholders, I again promise that we will do our best to use the money entrusted to us carefully and wisely. 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 in Israel, so I will now ask Bill Ottaviani, Zion's President and Chief Operating Officer to present his report to you and update you regarding our operations targeted at recovering hydrocarbons onshore Israel.

Thank you.

Richard Rinberg - June 14, 2010