

ZION OIL & GAS INC
Form 10QSB/A
September 19, 2006

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-QSB/A

(Mark One)

First Amended Quarterly report pursuant to Section 13 or 15(d) of the Securities

Exchange Act of 1934

For the quarterly period ended March 31, 2006

OR

Transition report pursuant to Section 13 or 15(d) of the Securities

Exchange Act of 1934

Commission file number 333-131275

ZION OIL & GAS, INC.

(Name of Small Business Issuer as Specified in Its Charter)

Delaware

(State or other Jurisdiction
of Incorporation or Organization)

20-0065053

(I.R.S. Employer
Identification No.)

6510 Abrams Rd., Suite 300
Dallas, TX 75231

(Address of Principal Executive Offices)

(214) 221-4610

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(Issuer's Telephone Number, Including Area Code)

Check whether the issuer: (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

The Issuer had 8,031,288 shares of common stock outstanding as of September 1, 2006.

Transitional Small Business Disclosure Format (Check one): Yes No

EXPLANATORY NOTE

This is Amendment No. 1 to the Zion Oil & Gas, Inc. Quarterly Report on Form 10-QSB for the three months ended March 31, 2006, as originally filed on September 14, 2006. This Amendment #1 modifies and expands the disclosure relating to Item 3 of Part I-- Controls and Procedures, and provides more details about the restatement of prior financial statements in Item 5 of Part II-Other Information. There have also been a small number of minor clarifications to certain of the disclosures at Item 2 of Part I - Management's Discussion and Analysis or Plan of Operation at "Overview", "Going Concern Basis" and "Liquidity and Capital Resources". Minor revisions and adjustments were made to the "Financial Statements" in Item 1 of Part I to certain numbers in the comparative Statements of Operations and Statements of Cash Flows for the three month period ending March 31, 2005. Corrections were made to Notes 2, 3 and 6 of the Financial Statements to add information relating to the comparative fiscal period in 2005 (including details of the restatement of the

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financial statements for the three months ending March 31, 2005). Disclosure was added to note 6 about the intrinsic value of warrants and options exercised. Note 8 (Income Taxes) to the Financial Statements presented in the Quarterly Report filed on September 14, was deleted and certain technical changes in the presentation of the financial statements were made. We also deleted certain information not required in this form relating to Issued Accounting Standards. The Form 10-QSB we filed on September 14 was filed prior to our independent accountants having completed their quarterly procedures.

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UNAUDITED INTERIM FINANCIAL STATEMENTS

FOR

THE THREE MONTHS ENDING

MARCH 31, 2006

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ZION OIL & GAS, INC.

(A Development Stage Company)

BALANCE SHEETS (Unaudited)

March 31, 2006

December 31, 2005

As restated*

Current assets

Cash and cash equivalents

\$ 501,385

	\$ 1,141,029
Inventories	
	149,801
	149,801
Prepaid expenses and other	
	21,125
	25,396
Deferred offering costs	
	205,515
	126,030
Deferred financing costs	
	11,255
	19,695
Refundable value added tax	
	<u>11,469</u>
	<u>29,401</u>
Total current assets	
	<u>900,550</u>
	<u>1,491,352</u>
Unproved oil and gas properties, full cost method	
	<u>7,929,797</u>
	<u>7,692,500</u>
Property and equipment	
Net of accumulated depreciation of \$8,953 and \$5,843	
	<u>56,031</u>
	<u>48,852</u>

Other assets

Assets held for severance benefits

7,451

6,544

Total assets

\$ 8,893,829

\$ 9,239,248

LIABILITIES AND STOCKHOLDERS' EQUITY

Current liabilities

Notes payable to related parties

\$ 81,000

\$ 81,000

Accounts payable

124,811

619,257

Accrued liabilities

 224,341

 292,001

Total current liabilities

 430,152

 992,258

Notes payable to related parties less current maturities

30,500

31,000

Provision for severance pay

51,359

	48,318
Deferred officers compensation	
	1,138,383
	929,007
Stockholders' equity	
Common stock, par value \$.01; 20,000,000 shares authorized;	
March 31, 2006 - 7,777,288 shares; December 31, 2005 - 7,705,288 shares issued and outstanding	
	77,773
	77,053
Additional paid in capital	
	12,482,511
	11,991,988
Deficit accumulated in development stage	
	<u>(5,316,849)</u>
	<u>(4,830,376)</u>
Total stockholders' equity	
	<u>7,243,435</u>
	<u>7,238,665</u>
Total liabilities and stockholders equity	
	<u>\$ 8,893,829</u>
	<u>\$ 9,239,248</u>

*Restated (see Note 3)

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

STATEMENTS OF OPERATIONS (Unaudited)

	Three-month period ended <u>March 31, 2006</u> <u>As restated*</u>	Three-month period ended <u>March 31, 2005</u> <u>As restated*</u>	Period from April 6, 2000 (inception) to <u>March 31, 2006</u> <u>As restated*</u>
Revenue	\$ -	\$ -	\$ -
General and administrative expenses			
Legal and professional	142,101	103,035	2,136,896
Salaries	233,836	41,232	1,695,854
Other	<u>100,960</u>	<u>92,989</u>	<u>809,107</u>
	<u>476,897</u>	<u>237,256</u>	<u>4,641,857</u>
Loss from operations	<u>(476,897)</u>	<u>(237,256)</u>	<u>(4,641,857)</u>
Other income (expense)			
Termination of initial public offering	-	-	(507,380)
Interest expense, net	<u>(9,576)</u>	<u>(4,659)</u>	<u>(167,612)</u>
Loss before income taxes	(486,473)	(242,640)	(5,316,849)
Income tax	<u>-</u>	<u>-</u>	<u>-</u>
Net loss	<u>\$ (486,473)</u>	<u>\$ (242,640)</u>	<u>\$ (5,316,849)</u>
Net loss per share of common stock-			
	<u>\$ (0.06)</u>	<u>\$ (0.04)</u>	<u>\$ (1.30)</u>
Basic and diluted			
Weighted average shares outstanding - Basic and diluted	<u>7,729,744</u>	<u>6,558,288</u>	<u>4,085,803</u>

*Restated (see Note 3)

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

ZION OIL & GAS, INC.
(A Development Stage Company)
STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

	<u>Preferred Stock</u>		<u>Common Stock</u>		<u>Additional</u>	<u>Deficit</u>	
	<u>Shares</u>	<u>Amount</u>	<u>Shares</u>	<u>Amount</u>	<u>Paid-in</u>	<u>Accumulated</u>	
					<u>Capital</u>	<u>in</u>	<u>Total</u>
						<u>Development</u>	
						<u>Stage</u>	
Balances, April 6, 2000	-	\$ -	-	\$ -	\$ -	\$ -	\$ -
Issued for cash (\$0.001 per share)	-	-	2,400,000	240	2,160	-	2,400
Issuance of shares and warrants in a private offering which closed in January 2001 (\$1 per share)	-	-	100,000	10	99,990	-	100,000
Costs associated with the issuance of shares	-	-	-	-	(24,090)	-	(24,090)
Waived interest on conversion of debt	-	-	-	-	233	-	233
Value of warrants granted to employees	-	-	-	-	1,840	-	1,840
Net loss	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(5,597)</u>	<u>(5,597)</u>
Balances, December 31, 2000	-	-	2,500,000	250	80,133	(5,597)	74,786
Issuance of shares and warrants in a private offering which closed in January 2001 (\$1 per share)	-	-	135,000	13	134,987	-	135,000
Issuance of shares and warrants in a private offering which closed in September 2001							

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(\$1 per share)	-	-	125,000	12	124,988	-	125,000
Payment of accounts payable through issuance of shares and warrants	-	-	40,000	4	39,996	-	40,000
Payment of note payable through issuance of shares and warrants	-	-	25,000	3	24,997	-	25,000
Issuance of shares and warrants in a private offering which closed in November 2001							
(\$1 per share)	-	-	175,000	18	174,982	-	175,000
Costs associated with the issuance of shares	-	-	-	-	(85,461)	-	(85,461)
Waived interest on conversion of debt	-	-	-	-	843	-	843
Value of warrants granted to employees	-	-	-	-	37,503	-	37,503
Value of warrants granted to directors and consultants	-	-	-	-	3,128	-	3,128
Net loss	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(206,707)</u>	<u>(206,707)</u>
Balances, December 31, 2001	-	-	3,000,000	300	536,096	(212,304)	324,092

(Continued on following page)

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

ZION OIL & GAS, INC.
(A Development Stage Company)
STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
(Continued)

<u>Preferred Stock</u>	<u>Common Stock</u>	Additional Paid-in	Deficit Accumulated in Development
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	<u>Shares</u>	<u>Amount</u>	<u>Shares</u>	<u>Amount</u>	<u>Capital</u>	<u>Stage</u>	<u>Total</u>
Change in par value of common shares from \$0.0001 per share to \$0.01 per share	-	-	-	29,700	(29,700)	-	-
Issuance of shares and warrants in a private offering which closed in January 2002 (\$1 per share)	-	-	20,000	200	19,800	-	20,000
Issuance of shares and warrants in a private offering which closed in November 2002 (\$10 per share)	25,400	254	21,500	215	253,531	-	254,000
Payment of accounts payable through issuance of preferred shares and warrants	12,700	127	-	-	126,873	-	127,000
Payment of accounts payable through issuance of common shares and warrants	-	-	111,000	1,110	131,390	-	132,500
Payment of note payable through issuance of shares and warrants	5,000	50	-	-	49,950	-	50,000
Payment of accounts payable to employee through issuance of shares upon exercise of warrants	-	-	400,000	4,000	76,000	-	80,000
Costs associated with the issuance of shares	-	-	-	-	(159,449)	-	(159,449)
Waived interest on conversion of debt	-	-	-	-	2,963	-	2,963
Deferred financing costs on debt conversions/modifications	-	-	-	-	20,800	-	20,800
Value of warrants granted to employees	-	-	-	-	537	-	537
Value of warrants granted to							

directors and consultants	-	-	-	-	12,998	-	12,998
Net loss	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(403,114)</u>	<u>(403,114)</u>
Balances, December 31, 2002	43,100	431	3,552,500	35,525	1,041,789	(615,418)	462,327

(Continued on following page)

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

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ZION OIL & GAS, INC.
(A Development Stage Company)
STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
(Continued)

	<u>Preferred Stock</u>		<u>Common Stock</u>		<u>Additional</u>	<u>Deficit</u>	
	<u>Shares</u>	<u>Amount</u>	<u>Shares</u>	<u>Amount</u>	<u>Paid-in</u>	<u>in</u>	<u>Total</u>
					<u>Capital</u>	<u>Development</u>	
						<u>Stage</u>	
Issuance of shares in connection with executive employment	-	-	50,000	500	49,500	-	50,000
Issuance of shares on warrants exercise	-	-	165,000	1,650	31,350	-	33,000
Issuance of dividend shares to record holders as of December 31, 2002	4,310	43	-	-	(43)	-	-
Issuance of shares and warrants in a private offering which closed in February 2003 (\$10 per share) for cash consideration	10,500	105	-	-	104,895	-	105,000
for reduction of accounts payable	4,554	46	-	-	45,494	-	45,540
Issuance of shares and warrants as compensation for extension of \$100,000 line of credit	1,000	10	-	-	9,990	-	10,000
Payment of account payable through							

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issuance of shares and warrants	100	1	-	-	999	-	1,000
Conversion of preferred shares to common							
shares in reincorporation merger	(63,564)	(636)	762,768	7,628	(6,992)	-	-
Issuance of shares in a private offering which closed in July 2003 (\$3 per share)							
for cash consideration	-	-	33,000	330	98,670	-	99,000
for reduction of accounts payable	-	-	3,000	30	8,970	-	9,000
Issuance of shares upon exercise of options and warrants:							
for cash consideration	-	-	25,000	250	24,750	-	25,000
for reduction of accounts payable	-	-	124,083	1,241	142,217	-	143,458
Issuance of shares upon exercise of warrants for cash consideration	-	-	63,500	635	82,115	-	82,750
Payment of account payable through issuance of shares	-	-	80,000	800	139,200	-	140,000
Costs associated with the issuance of shares	-	-	-	-	(58,484)	-	(58,484)
Value of warrants granted to employees	-	-	-	-	47,008	-	47,008
Deferred financing costs on debt conversions/modifications	-	-	-	-	(9,812)	-	(9,812)
Net loss	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(873,310)</u>	<u>(873,310)</u>
Balances, December 31, 2003	-	-	4,858,851	48,589	1,751,616	(1,488,728)	311,477

(Continued on following page)

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

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(Continued)

	<u>Common Stock</u>		Additional	Deficit	
	<u>Shares</u>	<u>Amount</u>	Paid-in	Accumulated	
			Capital	in	
				Development	
				<u>Stage</u>	<u>Total</u>
Issuance of shares on warrants exercise	122,500	1,225	182,525	-	183,750
Issuance of shares and warrants in a private offering	251,250	2,512	1,002,488	-	1,005,000
Payment of officer salaries through issuance of shares and warrants	46,250	463	184,537	-	185,000
Payment of accounts payable to officers and consultants upon exercise of warrants	80,186	802	98,644	-	99,446
Payment of director honorariums through issuance of shares and warrants	11,250	112	44,888	-	45,000
Payment of account payable through issuance of shares and warrants	12,500	125	49,875	-	50,000
Payment of bridge loan through issuance of shares and warrants	125,000	1,250	498,750	-	500,000
Payment of bridge loan interest and commitment fee through issuance of shares and warrants	7,500	75	29,925	-	30,000
Payment of bridge loan finders fee through issuance of shares and warrants	2,500	25	7,475	-	7,500
Payment of service bonus through issuance of shares and warrants	20,000	200	19,800	-	20,000
Costs associated with the issuance of shares	-	-	(59,000)	-	(59,000)
Value of warrants granted to employees	-	-	40,625	-	40,625

Deferred financing costs on debt conversions/modifications	-	-	30,383	-	30,383
Net loss	<u>-</u>	<u>-</u>	<u>-</u>	<u>(1,736,934)</u>	<u>(1,736,934)</u>
Balances, December 31, 2004	5,537,787	55,378	3,882,531	(3,225,662)	712,247

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

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ZION OIL & GAS, INC.
(A Development Stage Company)
STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
(Continued)

	<u>Common Stock</u>		<u>Additional</u>	<u>Deficit</u>	
	<u>Shares</u>	<u>Amount</u>	<u>Paid-in</u>	<u>Accumulated</u>	
			<u>Capital</u>	<u>in</u>	
				<u>Development</u>	
				<u>Stage</u>	<u>Total</u>
Issuance of shares on warrants exercised:					
for cash	493,167	4,932	872,319	-	877,251
for payment of deferred officer salaries	17,334	173	20,827	-	21,000
for exchange of shares of common stock	120,000	1,200	(1,200)	-	-
Issuance of shares and warrants in a private offering that closed in March 2005:					
for cash	518,750	5,188	2,069,812	-	2,075,000
for payment of deferred officer salaries	10,000	100	39,900	-	40,000
for payment of accounts payable	6,250	62	24,938	-	25,000
Issuance of shares and warrants in a private offering that closed in June 2005:					
for cash	259,000	2,590	1,292,410	-	1,295,000
for payment of directors honoraria	14,000	140	69,860	-	70,000
for payment of accounts payable	3,000	30	14,970	-	15,000
Issuance of shares in a private offering that closed in October 2005:					

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for cash	584,000	5,840	2,914,160	-	2,920,000
for payment of deferred officer salaries	40,000	400	199,600	-	200,000
for payment of accounts payable	22,000	220	109,780	-	110,000
Issuance of shares in a private offering that closed in December 2005	80,000	800	439,200	-	440,000
Shares to be issued for services provided by a director	-	-	41,666	-	41,666
Value of warrants and options granted to employees	-	-	215,845	-	215,845
Value of warrants granted to directors and consultants	-	-	16,500	-	16,500
Deferred financing costs on debt conversions/modifications	-	-	43,968	-	43,968
Costs associated with the issuance of shares	-	-	(275,098)	-	(275,098)
Net loss	<u>-</u>	<u>-</u>	<u>-</u>	<u>(1,607,714)</u>	<u>(1,607,714)</u>
Balances, December 31, 2005	7,705,288	77,053	11,991,988	(4,830,376)	7,238,665

(Continued on following page)

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

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ZION OIL & GAS, INC.
(A Development Stage Company)
STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY (Unaudited)
(Continued)

	<u>Common Stock</u>		Additional	Deficit	
	<u>Shares</u>	<u>Amount</u>	Paid-in	Accumulated	
			Capital	in	
			<u>As restated*</u>	Development	
				Stage	
				<u>As restated*</u>	<u>Total</u>
					<u>As restated*</u>
Issuance of shares on warrants exercised:					
for cash	3,500	35	17,465	-	17,500

Issuance of shares and warrants in a private offering that closed in March 2006:					
for cash	66,000	660	362,340	-	363,000
for payment of accounts payable	2,500	25	13,725	-	13,750
Shares to be issued for services provided by a director	-	-	62,499	-	62,499
Value of options granted to employees	-	-	46,674	-	46,674
Costs associated with the issuance of shares	-	-	(12,180)	-	(12,180)
Net loss	<u>-</u>	<u>-</u>	<u>-</u>	<u>(486,473)</u>	<u>(486,473)</u>
Balances, March 31, 2006	<u>7,777,288</u>	<u>\$77,773</u>	<u>\$12,482,511</u>	<u>(\$5,316,849)</u>	<u>\$7,243,435</u>

*Restated (see Note 3)

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

ZION OIL & GAS, INC.
(A Development Stage Company)
STATEMENTS OF CASH FLOWS (Unaudited)

	Three-month period ended <u>March 31, 2006</u> <u>*As Restated</u>	Three-month period ended <u>March 31, 2005</u> <u>*As Restated</u>	Period from April 6, 2000 (inception) to <u>March 31, 2006</u> <u>*As Restated</u>
Cash flow from operating activities			
Net Loss	\$ (486,473)	\$ (242,640)	\$ (5,316,849)
Adjustments to reconcile net loss to net cash used in operating activities:			
Depreciation	3,110	38	8,953
Officer, director and other fees, paid via common stock	109,173	30,000	1,287,269
Interest paid through issuance of common stock	-	-	17,500
Write-off of costs associated with public offering	-	-	507,380
Changes in assets and liabilities, net:			

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Increase in inventories	-	-	(149,801)
Prepaid expenses and other	4,271	(27,786)	(21,125)
Increase in deferred offering costs	(79,485)	-	(205,515)
Refundable Value-Added tax	17,932	(121,559)	(11,469)
Severance pay	2,134	-	43,908
Accounts payable	(480,696)	35,913	729,779
Accrued liabilities	67,660	41,548	224,341
Increase in deferred officer's compensation	<u>209,376</u>	<u>-</u>	<u>1,138,383</u>
Net cash used in operating activities	<u>(768,318)</u>	<u>(284,486)</u>	<u>(1,747,246)</u>
Cash flows from investing activities			
Acquisition of property and equipment	(10,289)	(151,680)	(64,984)
Investment in oil and gas properties	<u>(237,297)</u>	<u>(607,802)</u>	<u>(7,928,526)</u>
Net cash used in investing activities	<u>(247,586)</u>	<u>(759,482)</u>	<u>(7,993,510)</u>
Cash flows from financing activities			
Deferred financing cost on debt conversions	8,440	4,659	78,123
Loan proceeds-related parties	-	-	258,620
Loan principal repayments-related party	(500)	(26,000)	(109,660)
Loan proceeds - other	-	-	500,000
Proceeds from sale of stock	380,500	2,478,886	10,289,651
Financing costs of issuing stock	<u>(12,180)</u>	<u>(52,195)</u>	<u>(774,593)</u>
Net cash provided by financing activities	<u>376,260</u>	<u>2,405,350</u>	<u>10,242,141</u>
Net increase (decrease) in cash	(639,644)	1,361,382	501,385
Cash - beginning of period	<u>1,141,029</u>	<u>468,409</u>	<u>-</u>
Cash - end of period	<u>\$ 501,385</u>	<u>\$ 1,829,791</u>	<u>\$ 501,385</u>

*Restated (see Note 3)

(Continued on following page)

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

	Three-month period ended <u>March 31, 2006</u> <u>As restated*</u>	Three-month period ended <u>March 31, 2005</u> <u>As restated*</u>	Period from April 6, 2000 (inception) to <u>March 31, 2006</u> <u>As restated*</u>
SUPPLEMENTAL INFORMATION			
Cash paid for interest	\$ 8,589	\$ 3,325	\$ 43,246
Cash paid for income taxes	-	-	-

ZION OIL & GAS, INC.
(A Development Stage Company)
NOTES TO FINANCIAL STATEMENTS (Unaudited)

1. NATURE OF OPERATIONS AND BASIS OF PRESENTATION

Nature of Operations

Effective July 9, 2003, Zion Oil & Gas, Inc., a Florida corporation ("Zion Florida") was merged into its wholly owned Delaware subsidiary, Zion Oil & Gas, Inc. (the Company), the purpose of which was solely to reincorporate from Florida to Delaware in anticipation of a public offering. Upon the reincorporation, all the outstanding shares of common stock in Zion Florida were converted into common stock of the Company on a one-to-one basis and all the outstanding shares of preferred stock in Zion Florida were converted into common stock of the Company at the ratio of twelve shares of common for each share of preferred stock. All of the outstanding warrants and options of Zion Florida were converted into equivalent warrants and options of the Company.

The Company holds a petroleum exploration license on approximately 98,100 acres of unproved properties in north-central Israel called the "Ma'anit-Joseph License", issued to the Company by the State of Israel. The term on the license expires April 30, 2007 and it contained a commitment to drill or reenter a well on or before April 30, 2005.

On April 10, 2005 the Company commenced the reentry of the Ma'anit #1 and deepening of the well. On July 19, 2005 the well reached a depth of 15,509 feet and testing and completion began thereafter. During drilling and completion operations, the well had numerous significant oil and gas shows in different zones. At present, completion operations on the Ma'anit #1 well have been temporarily suspended and the drilling rig has been released. On March 15, 2006 the terms of the license were amended to provide that the Company commence the drilling of a new well to a depth of at least 4,400 meters or reenter the Ma'anit #1 well on or before March 1, 2007. The Company's engineers are designing a comprehensive completion procedure using a smaller and less expensive completion rig for the purpose of reentering the Ma'anit #1 well.

Declaration of a commercial discovery on the Ma'anit-Joseph License prior to the end of the license term, as may in certain circumstances be extended, will entitle the Company to receive a 30-year lease (extendable on certain conditions for an additional 20 years) subject to compliance with a field development work program and production.

Effective August 1, 2005, the Company received formal notification and documentation from the Minister of National Infrastructures and the Petroleum Commissioner granting the Company's application for a Preliminary Permit with

Priority Rights for an area covering approximately 121,100 acres abutting on and immediately to the north of the Ma'anit-Joseph License. The permit is designated the "Asher" Permit and covers lands on Israel's coastal plain and Mt. Carmel range. The Asher Permit is for an 18-month period and is subject to a work program, with an estimated total cost as adjusted for the amended work program of \$265,000, which requires the Company to perform certain geological and geophysical work. Upon satisfactory performance in accordance with the work program, as may be amended, on May 16, 2006, the Company will have priority rights for the grant of an exploration license for a period of up to seven years for a portion of the Asher Permit area not to exceed 400,000 dunam (approximately 98,800 acres) subject to the fulfillment of the requirements of the Petroleum Law. Work on the program is in progress.

Operations in Israel are conducted through a branch office and the License and Permit are each held directly in the name of the Company. At present it is expected that all future income will be derived from Israeli operations.

Basis of Presentation

The unaudited interim financial statements have been prepared on a going concern basis, which contemplates realization of assets and liquidation of liabilities in the ordinary course of business. Since the Company is in the development stage, it has limited capital resources, no revenue, and a loss from operations. The appropriateness of using the going concern basis is dependent upon the Company's ability to obtain additional financing or equity capital to finance its current operations and, ultimately, to achieve profitable operations. The uncertainty of these conditions has created substantial doubt about the Company's ability to continue as a going concern. The unaudited interim financial statements do not include any adjustments that might result from the outcome of this uncertainty.

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ZION OIL & GAS, INC.
(A Development Stage Company)
NOTES TO FINANCIAL STATEMENTS (Unaudited)

1. NATURE OF OPERATIONS AND BASIS OF PRESENTATION (CONTINUED)

Basis of Presentation (Continued)

The accompanying unaudited interim financial statements were prepared in accordance with generally accepted accounting principles for the preparation of interim financial statements and, therefore, do not include all disclosures necessary for a complete presentation of financial condition, results of operations, and cash flows in conformity with generally accepted accounting principles used in annual financial statements. All adjustments, which are, in the opinion of management, of a normal recurring nature and are necessary for a fair presentation of the interim financial statements, have been included. Nevertheless, these financial statements should be read in conjunction with the financial statements and related notes included in the Company's annual financial statements for the year ended December 31, 2005. The results of operations for the period ended March 31, 2006 are not necessarily indicative of the results that may be expected for the entire fiscal year or any other interim period.

Management Presentation and Liquidity

On February 17, 2004, the registration statement with the Securities and Exchange Commission was declared effective to offer 7,000,000 shares of the Company's common stock to the public. The minimum offering requirement of \$6,500,000 was not subscribed by the offering termination date of August 30, 2004. As a result, no securities were sold to the public, all escrow subscription funds (approximately \$3.7 million) that had been received relating to the offering were sent back to the subscribers by the escrow agent, and the Company removed from registration the 7,000,000 shares of the Company's common stock. Since then Management raised capital through debt and private offerings and on January 25, 2006 filed a registration statement for a public offering with a lower minimum of

\$2,450,000. In the opinion of management, all adjustments considered necessary for a fair presentation of financial position, results of operations, and changes in financial position have been included.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Statements in United States Dollars

The currency of the primary economic environment in which the operations of the Company are conducted is the United States dollar ("dollar"). Therefore, the dollar has been determined to be the Company's functional currency. Non-dollar transactions and balances have been translated into dollars in accordance with the principles set forth in Statement of Financial Accounting Standards (SFAS) No. 52 "Foreign Currency Translation" (SFAS No. 52).

Transactions in foreign currency (primarily in New Israeli Shekels - "NIS") are recorded at the exchange rate as of the transaction date except for activities relating to balance sheet items which are recorded at the appropriate exchange rate of the corresponding balance sheet item. Monetary assets and liabilities denominated in foreign currency are translated on the basis of the representative rate of exchange at the balance sheet date. Non monetary assets and liabilities denominated in foreign currency are translated at historical exchange rates. All exchange gains and losses from remeasurement of monetary balance sheet items denominated in non-dollar currencies are reflected in the statement of operations as they arise.

Cash

The Company maintains its cash balance at two banks with one bank located in the United States and one bank located in Israel. For purposes of the statement of cash flows, the Company considers all highly liquid investments with an original maturity of three months or less to be cash equivalents.

Inventories

Inventories include equipment and materials to be used in future drilling and completion operations and are stated at the lower of cost or market value. Cost is determined by the weighted average method.

ZION OIL & GAS, INC.
(A Development Stage Company)
NOTES TO FINANCIAL STATEMENTS (Unaudited)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Oil and Gas Properties

The Company follows the full-cost method of accounting for oil and gas properties. Accordingly, all costs associated with acquisition, exploration and development of oil and gas reserves, including directly related overhead costs, are capitalized.

All capitalized costs of oil and gas properties, including the estimated future costs to develop proved reserves, are amortized on the unit-of-production method using estimates of proved reserves. Investments in unproved properties and major development projects are not amortized until proved reserves associated with the projects can be determined or until impairment occurs. If the results of an assessment indicate that the properties are impaired, the amount of the impairment is included in income from continuing operations before income taxes and the adjusted carrying amount of the unproved properties is amortized on the unit-of-production method.

Abandonment of properties are accounted for as adjustments to capitalized costs with no loss recognized. During the quarter ended March 31, 2006 and the year ended December 31, 2005 no unproved property was found to be impaired. The net capitalized costs are subject to a "ceiling test" which limits such costs to the aggregate of the estimated present value of future net revenues from proved reserves discounted at ten percent based on current economic and operating conditions, plus the lower of cost or fair market value of unproved properties. The recoverability of amounts capitalized for oil and gas properties is dependent upon the identification of economically recoverable reserves, together with obtaining the necessary financing to exploit such reserves and the achievement of profitable operations.

The company has no economically recoverable reserves and no amortization base. Unproved oil and gas properties consist of capitalized exploration costs (all of which are excluded from the amortization base) of \$237,297 and \$607,802 for the three month periods ended March 31, 2006 and 2005, respectively and \$7,929,797 from inception (April 6, 2000) to March 31, 2006.

Property and Equipment

Property and equipment other than oil and gas property and equipment is recorded at cost and depreciated over their estimated useful lives of three to fourteen years.

Costs Associated With Public Offering

Costs associated with each specific private or public offering are accumulated until either the closing of the offering or its abandonment. If the offering is abandoned, the costs are expensed in the period the offering is abandoned. If the offering is completed and funds are raised, the accumulated costs are recorded as a reduction to the paid-in capital attributable to the offering. Financing costs not attributable to any specific offering are charged to expense as incurred.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting year. Actual results could differ from those estimates.

Adoption of Recently Issued Accounting Standards

SFAS 123R - Share Based Payments: Prior to January 1, 2006, the Company applied the fair-value based method of accounting for all of its stock-based compensation plan in accordance with the provisions of Financial Accounting Standards Board's Statement No. 123, "Accounting for Stock-Based Compensation" ("Statement 123")

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Adoption of Recently Issued Accounting Standards (Continued)

SFAS 123R-Share Based Payments (Continued): The fair value of stock-based compensation granted to employees and directors prior to July 15, 2003, the date of the Company's first filing with the U.S. Securities and Exchange Commission, in connection with its IPO, was estimated on the date of grant using the minimum-value method as

permitted for private entities under Statement No. 123.

The fair value of stock-based compensation granted to employees and directors subsequent to July 15, 2003, is measured according to the Black Scholes option-pricing model and recognized over the requisite service period.

As of January 1, 2006, the Company adopted SFAS No. 123 (revised 2004) "*Share-Based Payments*" ("SFAS 123R") using the modified prospective method, which requires measurement of compensation cost for all stock-based awards based upon the fair value on date of grant and recognition of compensation over the service period for awards expected to vest. Under this method, the Company will recognize compensation cost for awards granted beginning January 1, 2006, based on the Black Scholes option-pricing model.

The value of stock options, as noted, is recognized as compensation expense on a straight-line basis, over the requisite service period of the entire award, net of estimated forfeitures. On adoption of the modified prospective method in adopting SFAS 123R, the Company did not need to adjust the corresponding amounts included in these financial statements.

The adoption of SFAS 123R has had no effect on the Company's balance sheet or results of operations.

SFAS 151 - Inventory Costs, an Amendment of Accounting Research Bulletin ("ARB") No. 43:

In November 2004, the FASB issued SFAS No. 151, "*Inventory Costs - an amendment of Accounting Research Bulletin No. 43, Chapter 4*" ("SFAS 151"). The amendments made by SFAS 151 clarify that abnormal amounts of idle facility expense, freight, handling costs and wasted materials (spoilage) should be recognized as current-period charges and require the allocation of fixed production overheads to inventory based on the normal capacity of the production facilities. The guidance is effective for inventory costs incurred during fiscal years beginning after June 15, 2005.

The adoption of this SFAS 151 has had no effect on the Company's balance sheet and results of operations.

SFAS 153 - Exchanges of Nonmonetary Assets, an Amendment of Accounting Principles Bulletin (APB) Opinion No. 29, "Accounting for Nonmonetary Transaction":

In December 2004, the FASB issued SFAS No. 153, "*Exchanges of Nonmonetary Assets - an amendment of Accounting Principles Bulletin (APB) Opinion No. 29, Accounting for Nonmonetary Transactions*" ("SFAS 153"). The guidance in APB Opinion No. 29 is based on the principle that exchanges of nonmonetary assets should be measured based on the fair value of the assets exchanged. The guidance in Opinion No. 29, however, included certain exceptions to that principle. SFAS 153 amends Opinion No. 29 to eliminate the exception for nonmonetary assets exchanges of similar productive assets and replaces it with a general exception for exchanges of nonmonetary assets that do not have commercial substance. A nonmonetary exchange has commercial substance if the future cash flows of the entity are expected to change significantly as a result of the exchange. SFAS 153 is effective for fiscal periods beginning after June 15, 2005 and shall be applied prospectively.

The adoption of SFAS 153 has had no effect on the Company's balance sheet or results of operations.

ZION OIL & GAS, INC.
(A Development Stage Company)
NOTES TO FINANCIAL STATEMENTS (Unaudited)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Adoption of Recently Issued Accounting Standards (Continued)

SFAS 154 - Accounting Changes and Errors Corrections:

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In May 2005, the FASB issued SFAS No. 154, "Accounting Changes and Errors Corrections" ("SFAS 154"). SFAS 154 replaces APB Opinion No. 20, "Accounting Changes", and FASB Statement No. 3, "Reporting Accounting Changes in Interim Financial Statements", although it carries forward some of their provisions. SFAS 154 requires retrospective application to prior periods' financial statements of changes in accounting principle, unless it is impracticable to determine either the period-specific effects or the cumulative effect of the change. A change in depreciation, amortization, or depletion method for long-lived, nonfinancial assets will be accounted for as a change in accounting estimate effected by a change in accounting principle. SFAS 154 is effective for changes in accounting principle made in fiscal years beginning after December 15, 2005.

The adoption of SFAS 154 has had no effect on the Company's balance sheet or results of operations.

3. RESTATEMENT OF PRIOR FINANCIAL STATEMENTS

The financial statements for the period ended March 31, 2006, for the period ended March 31, 2005, and for the period from inception (April 6, 2000) until March 31, 2006 have been restated to reflect additional expenses related to stock warrants issued to employees and non-employees during the above mentioned periods and compensation cost with respect to equity awards provided with new debt issuances and/or debt modification.

The following tables present the impact of the restatement on the Company's previously presented unaudited statements of operations for the three month periods ended March 31, 2006 and 2005, respectively, and the period from inception (April 6, 2000) to March 31, 2006 and on the balance sheet as of March 31, 2006.

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ZION OIL & GAS, INC.
(A Development Stage Company)
NOTES TO FINANCIAL STATEMENTS (Unaudited)

3. RESTATEMENT OF PRIOR FINANCIAL STATEMENTS (CONTINUED)

Statement of Operations

	Period ended March 31, 2005		
Revenues	\$ -	\$ -	\$ -
General and administrative expenses			
Legal and professional	103,035	-	103,035
Salaries	41,232	-	41,232
Other	<u>92,951</u>	<u>38</u>	<u>92,989</u>
	<u>237,218</u>	<u>38</u>	<u>237,256</u>
Loss from operations	(237,218)	(38)	(237,256)
Other income (expense)			
)			
Termination of initial			

public offering	-	-	-
Interest expense, net	<u>(725)</u>	<u>(4,659)</u>	<u>(5,384)</u>
Loss before income taxes	(237,943)	(4,697)	(242,640)
Income tax	<u>-</u>	<u>-</u>	<u>-</u>
Net loss	<u>\$(237,943)</u>	<u>\$(4,697)</u>	<u>\$(242,640)</u>
Net loss per share of common stock - basic and diluted	<u>\$ (0.04)</u>	<u>\$ -</u>	<u>\$ (0.04)</u>
Weighted-average shares outstanding - basic and diluted	<u>6,558,288</u>	<u>-</u>	<u>6,558,288</u>

(1)

Adjustments reflect additional expense related to stock warrants issued to employees and non-employees and compensation costs with respect to equity awards provided with new debt issuances and/or debt modifications and reclassification. See also restated Notes 5 and 6.

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ZION OIL & GAS, INC.
(A Development Stage Company)
NOTES TO FINANCIAL STATEMENTS (Unaudited)

3. RESTATEMENT OF PRIOR FINANCIAL STATEMENTS (CONTINUED)

Statement of Operations

	Period ended March 31, 2006			Inception (April 6, 2000) to March 31 2006		
	As previously reported	Adjustments (1)	As restated	As previously reported	Adjustments (1)	As restated
Revenues	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
General and administrative expenses						
Legal and professional	142,101	-	142,101	2,078,729	58,167	2,136,896
Salaries	187,162	46,674	233,836	1,351,759	344,095	1,695,854
Other	<u>100,960</u>	<u>-</u>	<u>100,960</u>	<u>809,107</u>	<u>-</u>	<u>809,107</u>
	<u>430,223</u>	<u>46,674</u>	<u>476,897</u>	<u>4,239,595</u>	<u>402,262</u>	<u>4,641,857</u>

Loss from operations	(430,223)	(46,674)	(476,897)	(4,239,595)	(402,262)	(4,641,857)
Other income (expense)						
Termination of initial public offering	-	-	-	(507,380)	-	(507,380)
Interest expense, net	<u>(1,134)</u>	<u>(8,440)</u>	<u>(9,574)</u>	<u>(89,487)</u>	<u>(78,123)</u>	<u>(167,610)</u>
Loss before income taxes	(431,357)	(55,114)	(486,471)	(4,836,462)	(480,385)	(5,316,847)
Income tax	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net loss	<u><u>\$ (431,357)</u></u>	<u><u>\$ (55,114)</u></u>	<u><u>\$ (486,471)</u></u>	<u><u>\$ (4,836,462)</u></u>	<u><u>\$ (480,385)</u></u>	<u><u>\$ (5,316,847)</u></u>
Net loss per share of common stock - basic and diluted	<u>\$ (0.06)</u>	<u>\$ -</u>	<u>\$ (0.06)</u>	<u>\$ (1.18)</u>	<u>\$ (0.12)</u>	<u>\$ (1.30)</u>
Weighted-average shares outstanding - basic and diluted	<u>7,729,744</u>	<u>-</u>	<u>7,729,744</u>	<u>4,085,803</u>	<u>-</u>	<u>4,085,803</u>

(1)

Adjustments reflect additional expense related to stock warrants issued to employees and non-employees and compensation costs with respect to equity awards provided with new debt issuances and/or debt modifications and reclassification. See also restated Notes 5 and 6.

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ZION OIL & GAS, INC.
(A Development Stage Company)
NOTES TO FINANCIAL STATEMENTS (Unaudited)

3. RESTATEMENT OF PRIOR FINANCIAL STATEMENTS (CONTINUED)

Balance sheet

_____ As of March 31, 2006 _____

As previously

reportedAdjustments

(1)

As restated

Current assets			
Cash and cash equivalents	\$ 501,385	\$ -	\$ 501,385
Inventories	149,801	-	149,801
Prepaid expenses and other	21,125	-	21,125
Deferred offering costs	205,515	-	205,515
Deferred financing costs	-	11,255	11,255
Refundable Value-Added Tax	<u>11,469</u>	<u>-</u>	<u>11,469</u>
Total current assets	889,295	11,255	900,550
Unproved oil and gas properties, full cost method	7,928,526	1,271	7,929,797
Property and equipment			
Net of accumulated depreciation	56,031	-	56,031
Other assets			
Assets held for severance benefits	<u>7,451</u>	<u>-</u>	<u>7,451</u>
Total assets	<u>\$ 8,881,303</u>	<u>\$ 12,526</u>	<u>\$ 8,893,829</u>
Liabilities and Stockholders' Equity			
Current liabilities			
Notes payable to related parties	\$ 81,000	\$ -	\$ 81,000
Accounts payable	124,811	-	124,811
Accrued liabilities	<u>224,341</u>	<u>-</u>	<u>224,341</u>
Total current liabilities	430,152	-	430,152
Notes payable to related parties less current maturities	30,500	-	30,500
Provision for severance pay	51,359	-	51,359
Deferred officer compensation	1,138,383	-	1,138,383
Stockholders' equity			
Common stock, par value \$.01; 20,000,000 shares authorized; 7,777,288 shares issued and outstanding	77,773	-	77,773
Additional paid-in capital	11,989,598	492,913	12,482,511
Deficit accumulated in development stage	<u>(4,836,462)</u>	<u>(480,387)</u>	<u>(5,316,849)</u>
Total stockholders' equity	<u>7,230,909</u>	<u>12,526</u>	<u>7,243,435</u>
Total liabilities and stockholders' equity	<u>\$ 8,881,303</u>	<u>\$ 12,526</u>	<u>\$ 8,893,829</u>

(1)

Adjustments reflect additional expense related to stock warrants issued to employees and non-employees and compensation costs with respect to equity awards provided with new debt issuances and/or debt modifications and reclassification. See also restated Notes 5 and 6.

ZION OIL & GAS, INC.
(A Development Stage Company)
NOTES TO FINANCIAL STATEMENTS (Unaudited)

4. PROVISION FOR SEVERANCE PAY

Israeli law generally requires payment of severance pay upon dismissal of an employee or upon termination of employment in certain other circumstances. The following principal plans relate to the employees in Israel:

- The liability in respect of certain of the company's employees is discharged in part by participating in a defined contribution pension plan and making regular deposits with recognized pension funds. The deposits are based on certain components of the salaries of the said employees. The custody and management of the amounts so deposited are independent of the company's control and accordingly such amounts funded (included in expenses on an accrual basis) and related liabilities are not reflected in the balance sheet.
- Part of the liability is discharged by deposits made with severance pay funds.
- The liability for severance pay is calculated on the basis of the latest salary paid to each employee multiplied by the number of years of employment. The liability is covered by the amounts deposited including accumulated income thereon as well as by the unfunded provision.
- The expenses in respect of severance pay for the three month period ended March 31, 2006 and for the year ended December 31, 2005 and the period from April 6, 2000 to March 31, 2006 amounted to \$2,134, \$7,096, \$43,908 respectively.
- Withdrawals from the funds may be made only upon termination of employment.
- As of March 31, 2006 and December 31, 2005, the Company has a provision for severance pay of \$51,359 and \$48,318, respectively. As of March 31, 2006 and December 31, 2005 the Company has \$7,451 and \$6,544 respectively, deposited in funds managed by major Israeli banks which are earmarked to cover severance pay liability. Such deposits are not considered to be "plan assets" and are therefore included in other assets.

5. UNPROVED OIL AND GAS PROPERTIES-FULL COST METHOD

Comprised as follows:

	As of March 31 <u>2006</u>	As of December 31 <u>2005</u>
	*As restated	
Drilling operations, completion costs and other related costs	\$ 6,774,056	\$ 6,642,101

Capitalized salary costs	555,732	512,109
Legal costs and license fees	341,312	284,186
Other costs	<u>258,697</u>	<u>254,104</u>
	<u>\$ 7,929,797</u>	<u>\$ 7,692,500</u>

*Restated (see Note 3)

6. STOCKHOLDERS' EQUITY

The Company has reserved 671,825 shares of common stock as of March 31, 2006 for the exercise of warrants and options. These warrants and options have been excluded from earnings per share calculations because they are anti-dilutive for all periods presented. These warrants and options could potentially dilute basic earnings per share in future years. The warrants and options exercise prices and expiration dates are as follows:

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ZION OIL & GAS, INC.
(A Development Stage Company)
NOTES TO FINANCIAL STATEMENTS (Unaudited)

6. STOCKHOLDERS' EQUITY (CONTINUED)

	Exercise Price <u>Per Share (\$)</u>	Number <u>of Shares</u>	Expiration <u> Date</u>
To non-employees	3.00	40,000	December 31, 2006
	5.00	10,000	December 31, 2008
To employees and directors	4.00	75,000	December 31, 2006
	5.00	85,000	December 31, 2008
To investors	5.00	442,200	December 31, 2006
	5.50	<u>19,625</u>	December 31, 2008
		<u>671,825</u>	

The warrant and option transactions since April 6, 2000 (inception) are shown in the table below:

Weighted

	Number of shares	average exercise price
Granted from April 6, 2000 (inception) to December 31, 2004 to:		
Employees, officers and directors	1,460,936	1.10
Others	816,667	2.06
Expired/canceled	(300,000)	1.00
Exercised	<u>(1,000,269)</u>	0.67
Outstanding, December 31, 2004	977,334	2.37
Granted to:		
Employees, consultants, officers and directors as part of compensation	120,000	4.79
Private placement investors	281,700	5.02
Expired/canceled	(40,333)	1.39
Exercised	<u>(670,501)</u>	1.58
Outstanding, December 31, 2005	668,200	4.78
Issued	7,125	5.50
Exercised	<u>(3,500)</u>	5.00
Outstanding, March 31, 2006	<u>671,825</u>	4.78
Exercisable, March 31, 2006	<u>671,825</u>	4.78

The total intrinsic value of warrants and options exercised during the three-month periods ended March 31, 2006 and 2005, and from April 6 2000 (inception) to March 31, 2006, was \$0, \$53273 and \$158,905, respectively.

ZION OIL & GAS, INC.
(A Development Stage Company)
NOTES TO FINANCIAL STATEMENTS (Unaudited)

6. STOCKHOLDERS' EQUITY (CONTINUED)

The following table summarizes information about stock warrants and options outstanding as of March 31, 2006:

Shares underlying outstanding <u>warrants and options (all fully vested)</u>			
Range of exercise <u>price (\$)</u>	Number <u>outstanding</u>	Weighted average remaining contractual <u>life (years)</u>	Weighted average exercise <u>price (\$)</u>
3.00	40,000	1.00	3.00
4.00	75,000	1.00	4.00
5.00	537,200	1.10	5.00
5.50	<u>19,625</u>	2.75	5.50
3.00 - 5.50	671,825		4.78

Fair Value of Warrants and Options**Granted to employees**

The following table sets forth information about the weighted-average fair value of warrants granted to employees and directors during the periods indicated, using the Black Scholes option-pricing model and the weighted-average assumptions used for such grants:

	to March 31, <u>2006</u> <u>As restated*</u>	Period from April 6, 2000 (inception) to March 31, <u>2006</u> <u>As restated*</u>
Weighted-average fair value of underlying stock at grant date (\$)	5.50	3.00 - 5.50
Dividend yields	-	-
Expected volatility	40.0%	28.2% - 40.0%
Risk-free interest rates	5.15%	2.1% - 5.15%
Expected lives	4.76 years	1.74 - 5.00 years
Average grant date fair market value-0.76		

*Restated (see Note 3)

Granted to non-employees

The following table sets forth information about the weighted-average fair value of warrants granted to non-employees during the periods indicated, using the Black Scholes option-pricing model and the weighted-average assumptions used for such grants:

Fair Value of Warrants and Options (Continued)

	Period from April 6, 2000 (inception) to March 31, <u>2006</u> <u>As restated*</u>
Weighted-average fair value of underlying stock at grant date (\$)	1.00 - 5.00
Dividend yields	-
Expected volatility	32.2% - 99.8%
Risk-free interest rates	2.8% - 4.42%
Contractual lives	0.56 - 3.17 years
Average grant date fair market value	0.68

*Restated (see Note 3)

The risk-free interest rate is based on the U.S. Treasury yield curve in effect at the time of grant for periods corresponding with the expected life of the options.

The expected life represents the weighted average period of time that options granted are expected to be outstanding. The expected life of the options granted to employees and directors during the first quarter of 2006 is calculated based on the Simplified Method as allowed under Staff Accounting Bulletin No. 107 (SAB 107), giving consideration to the contractual term of the options and their vesting schedules. The expected life of the option granted to non-employees equals their contractual term.

Due to the lack of sufficient history of the Company's own stock volatility, the Company estimates its own expected stock volatility based on the historic volatility for other oil exploration companies.

Private Placement Offerings

During 2000, John Brown purchased 2,400,000 shares at the then current par value (\$0.001 per share) on his behalf and on behalf of 25 other founding shareholders. Between January 1, 2001 and December 31, 2004, the Company raised \$3,125,540 in private placements from the sale (adjusted for the reincorporation merger on July 9, 2003) of 1,830,298 shares of common stock and: (i) warrants with an original expiration date of December 31, 2004 to purchase 275,833 shares of common stock at \$1.00 per share; (ii) warrants with an original expiration date of December 31, 2004 to purchase 411,770 shares of common stock at \$1.50 per share; and (iii) warrants with an original expiration date of December 31, 2006 to purchase 181,500 shares of common stock at \$5.00 per share. The December 31, 2004 warrant expiration date was extended to January 31, 2005, by which date the warrants were converted.

Between January 1, 2005 and March 31, 2005, the Company raised \$2,140,000 through the sale of 535,000 shares of common stock and warrants to purchase 214,000 shares of the Company's common stock in a private placement offering. The warrants are exercisable at \$5.00 per share, expire December 31, 2006 and are designated "E Warrants." Between April 22 and June 10, 2005, the Company raised \$1,380,000 through the sale of 276,000 shares of common stock and 55,200 E warrants. Between June 20, 2005 and October 24, 2005, the Company raised \$3,230,000 through the sale of 646,000 shares of common stock.

6. STOCKHOLDERS' EQUITY (CONTINUED)

Private Placement Offerings (Continued)

During December 2005 the Company raised \$390,000 from the exercise of warrants to purchase 130,000 shares of common stock. During December 2005, the Company raised \$440,000 from the sale of 80,000 shares of common stock and warrants to purchase 12,500 shares of common stock at \$5.50 per share at any time from July 1, 2007 (as may be deferred by the Company for up to six months) through December 31, 2008 such warrants being designated as "G warrants".

During the first quarter of 2006 the Company (i) raised \$374,000 from the sale of 68,000 shares of common stock and 7,125 G warrants; (ii) issued 500 shares of common stock for \$2,750 in services; and (iii) issued 3,500 shares of common stock for \$17,500 upon the exercise of E warrants.

Compensation Costs for Warrant and Option Issuances

The compensation cost of warrant and option issuances for the three month periods ended March 31, 2006 and 2005 and for the period from April 6, 2000 (inception) to March 31, 2006 amounted to \$46,674, \$0 and \$442,762 respectively.

As of March 31, 2006, there was \$217,734 of unrecognized compensation cost, related to nonvested stock options granted under the Company's various stock option plans. That cost is expected to be recognized as follows:

2005 Stock Option Plan

During 2005, a stock option plan (the "Plan") was adopted by the Company, pursuant to which 1,000,000 shares of common stock are reserved for issuance to officers, directors, employees and consultants. The Plan will be administered by the Board of Directors or one or more committees appointed by the board (the "Administrator").

The Plan contemplates the issuance of stock options by the Company both as a private company and as a publicly traded company and will be available to residents of the United States, the State of Israel and other jurisdictions as determined by the administrator. The award of stock options under the Plan will be made pursuant to an agreement between the Company and each grantee. The agreement will, among other provisions, specify the number of shares subject to the option, intended tax qualifications, the exercise price, any vesting provisions and the term of the stock option grant, all of which shall be determined on behalf of the Company by the Administrator. The Plan will remain in effect for a term of ten years unless terminated or extended according to its provisions. As of the date of authorization of these financial statements no awards have been made under the Plan. See Note 9.

7. RELATED PARTY TRANSACTIONS

Cimarron Resources, Inc.

Notes payable to related parties includes \$36,500 under a loan facility with Cimarron Resources, Inc. (Cimarron) a company owned by the CEO of the Company. Cimarron obtained the monies to lend to the Company through a loan facility with Bank One. The note accrues interest at Bank One's Prime Rate plus 2.5%. The terms of Cimarron's loan facility to Zion are a 100 month term loan repayable monthly commencing December 1, 2003 in \$500 increments,

with Cimarron having the option commencing January 15, 2005 to call the loan in whole or in \$5,000 increments on 30 days notice which call option has subsequently been deferred until July 31, 2007.

Rappaport Loan

Notes payable to related parties includes a \$75,000 note payable under a line of credit loan agreement with a shareholder of the Company. Any outstanding balance may be converted at the election of the lender to shares of common stock in increments of \$5,000 at \$4.00 per share. Outstanding balances will accrue interest at 10% per annum. At the direction of the shareholder, a commitment fee of \$10,000 was paid to two children of the shareholder in the form of 12,000 shares of common stock and warrants to purchase 5,000 shares of the Company's common stock.

Robert E. Render

During the three months ended March 31, 2006, Mr. Render provided \$7,500 of consulting services to the Company.

Richard J. Rinberg

In connection with arranging the "\$300,000 loans", Mr. Richard J. Rinberg, prior to becoming a director, received a \$7,500 fee paid in 2,500 shares of common stock.

During October 2005 Mr. Richard J. Rinberg was elected President of the Company and the board of directors approved an award to Mr. Rinberg of 200,000 shares of common stock valued at \$500,000 as compensation for the two year period beginning November 1, 2005, subject to restrictions and vesting requirements. The company received a valuation from a firm of external valuers supporting this valuation. The Rinberg shares are subject to repurchase by the Company at \$0.01 per share if Mr. Rinberg leaves his position with the Company, such repurchase rights being pro-rated over the 24-month period beginning November 1, 2005. The shares were issued in May 2006. See Note 9.

Other issuances

In respect of issuances to John Brown (related party) see Note 5.

8. COMMITMENTS AND CONTINGENCIES

Environmental Matters

The Company is engaged in oil and gas exploration and production and may become subject to certain liabilities as they relate to environmental cleanup of well sites or other environmental restoration procedures as they relate to the drilling of oil and gas wells in the operation thereof. Although environmental assessments are conducted on all purchased properties, in the Company's acquisition of existing or previously drilled well bores, the Company may not be aware of what environmental safeguards were taken at the time such wells were drilled or during such time the wells were operated.

Should it be determined that a liability exists with respect to any environmental clean up or restoration, the liability to cure such a violation could fall upon the Company. No claim has been made, nor is the Company aware of any contingent demands relating thereto. Liabilities for expenditures are recorded when environmental assessment and/or remediation is probable and the costs can be reasonably estimated.

ZION OIL & GAS, INC.
(A Development Stage Company)
NOTES TO FINANCIAL STATEMENTS (Unaudited)

8. COMMITMENTS AND CONTINGENCIES (CONTINUED)

Royalty Commitments

The Company is obligated, according to the Israeli Petroleum Law, 5712-1952 (the "Petroleum Law"), to pay royalties to the Government of Israel on the gross production of oil and gas from the oil and gas properties of the Company located in Israel (except those reserves serving to operate the wells and related equipment and facilities). The royalty rate stated in the Petroleum Law is 12.5% of the produced reserves. At March 31, 2006, the Company did not have any outstanding obligation in respect to royalty payments, since it is at the "exploration stage" and, to this date, no proved reserves have been found.

Long Term Incentive Plan

The Company has initiated the establishment of a long-term management incentive plan for key employees whereby a 1.5% overriding royalty or equivalent interest in the Ma'anit-Joseph license and such other oil and gas exploration and development rights as may in the future be acquired by the Company shall be assigned to key employees.

Charitable Trusts

The Company has initiated the establishment of two charitable trusts based in Israel and in the United States for the purpose of supporting charitable projects and other charities in Israel and the United States. A 3% overriding royalty or equivalent interest in the Ma'anit-Joseph License and such other oil and gas exploration and development rights as may in the future be acquired by the Company shall be assigned to each charitable organization (6% overriding interest in the aggregate).

9. SUBSEQUENT EVENTS

Following the balance sheet date, the Company (i) raised \$99,000 from the sale of 18,000 shares of common stock; (ii) issued 6,000 shares of common stock for \$30,000 upon the exercise of E warrants; (iii) issued 200,000 shares of common stock to a trust company for the benefit of Richard Rinberg; (iv) borrowed \$62,500 on one-year notes from five shareholders; (v) issued 30,000 shares of common stock for \$90,000 upon exercise of C warrants; and (vi) on July 5, 2006, options were awarded under the 2005 Stock Option Plan as follows: (a) to two directors for the purchase of 50,000 shares of common stock at \$5.00 per share through December 31, 2008 at a value of \$58,647; (b) to one employee for the purchase of 80,000 shares of common stock at \$5.00 per share through December 31, 2010 - these options will vest in three equal tranches of 26,667 shares each on January 1, 2007, on January 1, 2008 and on January 1, 2009 at a value of \$193,600 that will be charged according to the vesting periods, and the options may not be exercised prior to July 1, 2007 (subject to deferral by the Company for a period of up to six months); and (c) to one employee for the purchase of 40,000 shares of common stock at \$5.00 per share through December 31, 2010 - these options will vest in four equal tranches of four vesting periods of 10,000 shares each, on the grant date, on October 1, 2006, on October 1, 2007 and on October 1, 2008 at a value of \$96,800 that will be charged according to the vesting periods, the options may not be exercised prior to July 1, 2007 (subject to deferral by the Company for a period of up to six months).

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION**Introduction**

The following discussion and analysis should be read in conjunction with our accompanying financial statements and the notes to those financial statements included elsewhere in this Quarterly Report. The following discussion includes forward-looking statements that reflect our plans, estimates and beliefs and involve risks and uncertainties. Our actual results could differ materially from those discussed in these forward-looking statements. Factors that could cause or contribute to such differences include, but are not limited to, those discussed below and elsewhere in this Quarterly Report.

Overview

We are engaged in oil and natural gas exploration upon 219,000 acres of preliminary permit and exploration license areas in the State of Israel. During the six years between our formation and March 31, 2006, we have issued equity securities in the amount of \$12,560,284 and have incurred total liabilities of \$1,650,394 in order to operate our company and satisfy our work commitments under our agreements with the State of Israel. As of March 31, 2006, all of our officers and key employees have deferred the majority of their salaries and other compensation during this period. They have all exchanged portions of the deferred compensation from time to time for our equity securities, which (with four exceptions relating to employment stock options) have all been priced at the same price as the sales of our private equity capital.

On January 25, 2006, we filed a Registration Statement with the Securities and Exchange Commission on Form SB-2 and have since filed five amendments to that Statement for the registration of 2,672,000 shares of our common stock. This Registration Statement has not yet been declared effective by the Commission.

Neither our common stock nor our warrants are listed or traded on any stock exchange or organized market, and there is therefore no market for them.

Going Concern Basis

Our unaudited interim financial statements for the period ended March 31, 2006 have been prepared on a going concern basis, which contemplates realization of assets and liquidation of liabilities in the ordinary course of business. Since Zion is in the development stage, we have limited capital resources, insignificant revenue, and a loss from operations. The appropriateness of using the going concern basis is dependent upon our ability to obtain additional financing or equity capital and, ultimately, to achieve profitable operations. The uncertainty of these conditions raises substantial doubt about our ability to continue as a going concern. The unaudited financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Restatement of Prior Period Financial Statements

The financial statements for the periods ended March 31, 2006 and 2005 and for the period from inception (April 6, 2000) until March 31, 2006 and 2005 have been restated to reflect additional expenses related to stock warrants issued to employees and non-employees during the above mentioned periods and compensation cost with respect to equity awards provided with new debt issuances and/or debt modification.

Liquidity and Capital Resources

Working capital (current assets minus current liabilities) was \$470,398 and \$499,094 at March 31, 2006 and December 31, 2005, respectively.

Net cash provided by financing activities was \$376,260 and \$2,400,691 for the three months ended March 31, 2006 and 2005, respectively, of which \$368,320 in 2006 and \$2,426,691 in 2005 was from the sale of equity securities, net of equity sales costs. The remainder was provided by loans (less repayments of loans). Net cash used in investing activities was \$247,586 and \$759,482 for the three months ended March 31, 2006 and 2005, respectively, virtually all of which was used for capitalized exploration costs on the license.

On March 31, 2006, we had cash and cash equivalents in the amount of \$500,000 and accounts payable within the next 90 days of approximately \$125,000 for a net of approximately \$375,000. If we are not successful in raising approximately \$3,250,000 of additional funds during the next year, we will not have sufficient liquidity to meet our cash requirements for the next year and may be forced to seek buyers for portions of our petroleum interests.

Results of Operations

We have no revenue generating operations as we are still an exploration stage company; however, drilling operations on the Ma'anit #1 commenced on April 10, 2005 and the rig was released seven months later. Almost all of our net loss for the three months ended March 31, 2006, comes from general and administrative expenses. Such expenses totaled \$476,897, consisting of \$142,101 for legal and professional costs, \$233,836 for salaries, most of which is deferred compensation (a non-cash expense) of our directors, officers and key employees, and other costs in the amount of \$100,960.

ITEM 3. CONTROLS AND PROCEDURES

We maintain disclosure controls and procedures designed to ensure that information required to be disclosed in the reports that Zion files or submits under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time period specified in the rules and forms of the Securities and Exchange Commission. As of the end of the quarterly period covered by this report, our chief executive officer and our chief financial officer conducted an evaluation of the effectiveness of our disclosure controls and procedures. Based on this evaluation, our chief executive officer and our chief financial officer concluded that our disclosure controls and procedures were effective as of March 31, 2006.

In June 2006, during the completion of the audit for 2005, our chief executive officer, our chief financial officer and our audit committee concluded that we needed to restate certain of our financial statements to correct errors in the application of accounting principles with respect to the accounting for equity instruments issued to employees and non-employees: (i) for services rendered and (ii) in consideration for debt issuances and modifications, for the period from inception (April, 2000) until December 31, 2005. As a result, we restated our previously audited financial statements for the year ended December 31, 2004, our previously unaudited financial statements for the year ended December 31, 2005 and our unaudited financial statements for the quarter ended March 31, 2006 (both of which unaudited financial statements were filed in a Form SB-2/A dated May 24, 2006).

The restatements for 2004 and 2005 are described in more detail in Note 3 to the financial statements included in Form 10-KSB filed on September 14, 2006. The restatements for March 31, 2006 are described in more detail in Note 3 to the financial statements included in Item 1 of Part I above.

Controls over the application of accounting policies are within the scope of disclosure controls. Therefore, our chief executive officer and our chief financial officer have now concluded that there were material weaknesses in our

internal controls over financial reporting, as of March 31, 2006.

A material weakness in internal control over financial reporting is a control deficiency, or combination of control deficiencies, that results in more than a remote likelihood that a material misstatement of the annual or interim financial statements will not be prevented or detected. Our chief executive officer and our chief financial officer identified the following material weaknesses in internal control over financial reporting as of March 31, 2006:

- We did not have adequate financial personnel to identify and properly apply U.S. generally accepted accounting principles to equity instruments issued to employees and non-employees, and
- We did not maintain effective policies and procedures governing the financial close and reporting process. This deficiency resulted in a lack of management oversight and review procedures over preparation of our financial statements

We believe that the material weaknesses related to the issues described above are in the process of being remedied as a result of procedures that have been implemented subsequent to March 31, 2006, including participation of our new full-time chief financial officer in the preparation of our audit work papers during the period April through June 2006.

In connection with the filing of this Form 10-QSB/A, our chief executive officer and our chief financial officer have re-evaluated the effectiveness of our disclosure controls and procedures as of March 31, 2006. Because of the material weakness discussed above, our chief executive officer and our chief financial officer have now concluded that our disclosure controls and procedures were not effective as of March 31, 2006.

There were no changes in our internal controls over financial reporting that materially affected, or are reasonably likely to materially affect the Company's internal control over financial reporting during the quarter ended March 31, 2006.

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PART II--OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS.

None.

ITEM 2. CHANGES IN SECURITIES

Recent Sales of Unregistered Securities (as of March 31, 2006)

1. Exercise of Outstanding Warrants.

During the three months ended March 31, 2006, two of our shareholders exercised their rights under currently outstanding warrants to purchase 3,500 shares of common stock for cash consideration of \$17,500. The sales of these securities were made in reliance upon Section 4(2) of the Securities Act, which provides exemptions for transactions not involving a public offering. All purchasers were existing stockholders of Zion and the shares purchased were purchased by way of warrants held by the stockholders that were acquired in the connection with their prior purchase or purchases of common stock. The certificates evidencing the securities purchased bear legends stating that the shares are not to be offered, sold or transferred other than pursuant to an effective registration statement under the Securities Act or an exemption from such registration requirements.

2.

Issuance of Common Stock and Warrants to U.S. Residents. On January 14, 2006, we sold 48,000 shares of our common stock and "G Warrants" to purchase 3,125 shares of common stock to nine investors for a total consideration of \$264,000. Of the total consideration, \$253,000 was paid in cash by eight investors and \$11,000 was paid by a cancellation of outstanding indebtedness owed by us to one of the investors. The G Warrants are exercisable at \$5.50 per share commencing July 1, 2007 (as may be extended for up to six months by Zion) through December 31, 2008. None of the G Warrants have been exercised. The sales of these securities were made in reliance upon Section 4(2) of the Securities Act, which provides exemptions for transactions not involving a public offering. We determined that the purchasers of securities described above were sophisticated investors who had the financial ability to assume the risk of their total investment, acquired them for their own account and not with a view to any distribution thereof to the public. The certificates evidencing all the securities above bear legends stating that the shares are not to be offered, sold or transferred other than pursuant to an effective registration statement under the Securities Act or an exemption from such registration requirements.

3.

Issuance of Common Stock and Warrants to Non-U.S. Residents. On January 14, 2006, we sold 20,000 shares of our common stock and G Warrants to purchase 4,000 shares of common stock to one investor for a total consideration of \$110,000 in cash. The G Warrants are exercisable at \$5.50 per share commencing July 1, 2007 (as may be extended for up to six months by Zion) through December 31, 2008. None of the G Warrants have been exercised. The sales of these securities were made in reliance upon Regulation S promulgated pursuant to the Securities Act, which provides an exemption for offers deemed to occur outside of the United States. The investor was a non-U.S. resident. We determined that the purchaser of securities described above was a sophisticated investor who had the financial ability to assume the risk of his total investment, acquired them for his own account and not with a view to any distribution thereof to the public. The certificates evidencing all the securities above bear legends stating that the shares are not to be offered, sold or transferred other than pursuant to Regulation S, an effective registration statement under the Securities Act, or an exemption from such registration requirements.

4. Stock for Services.

On January 14, 2006, we issued 500 shares of common stock valued at \$2,750 to our Israeli controller for accounting services rendered. The sales of these securities was made in reliance upon Regulation S promulgated pursuant to the Securities Act, which provides an exemption for offers deemed to occur outside of the United States. We determined that the purchaser of securities described above was a sophisticated non-U.S. resident who had the financial ability to assume the risk of his total investment, acquired them for his own account and not with a view to any distribution thereof to the public. The certificates evidencing all the securities above bear legends stating that the shares are not to be offered, sold or transferred other than pursuant to Regulation S, an effective registration statement under the Securities Act, or an exemption from such registration requirements.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES.

None.

ITEM 4.

SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.

None

ITEM 5. OTHER INFORMATION.

Registration Statement for an Initial Public Offering

On January 26, 2006, Zion filed a registration statement on Form SB-2 with the Securities and Exchange Commission ("SEC") for the offering and sale on a best efforts basis through Network 1 Financial Securities, Inc. ("Network 1") and other brokers dealers with which Network 1 (collectively, the "Network Group") of up to 2,000,000 shares of Zion's common stock ("Shares") for \$7.00 per share. The registration statement has been subsequently amended five times and provides that, unless a minimum of 350,000 Shares are sold within 90 days of the effective date of the offering (which period may be extended subject to certain conditions for additional periods of up to 120 days), the offering will terminate. The Registration Statement includes 150,000 Shares to be gifted by executive officers of Zion and up to 521,200 Shares underlying certain outstanding warrants previously issued by Zion.

Non-Reliance on Previously Issued Financial Statements or Related Audit Reports

At the beginning of June 2006, it became apparent, pursuant to initial audit work on our 2005 financial statements by our independent accountants, KPMG-Somekh Chaikin, and their informing our previous independent accountants Lane Gorman Trubitt, L.L.P. who advised us accordingly, that we could not rely on our audited financial statements for the year ended December 31, 2004 and for the period from inception to that date or on our previously issued unaudited financial statements for the year ended December 31, 2005 and for the period ended March 31, 2006. We were informed that issues arose with respect to accounting for and disclosure of expenses related to stock warrants issued to employees and non-employees and compensation costs with respect to equity awards provided with new debt issuances and/or debt modifications. These issues were discussed by our chief executive officer, chief financial officer and chairman of our audit committee with our current and prior independent accountants. Following these discussions and a review of the issues raised by our management in consultation with our audit committee, our financial statements for the years ended December 31, 2005 (previously unaudited) and 2004 and for the period from inception (April 6, 2000) until December 31, 2004, and our unaudited statements for the period ended March 31, 2006, have been restated because we determined that we had not correctly recorded at fair value equity instruments issued to employees and non-employees for services rendered and in consideration for debt issuances and modifications for the period from inception until December 31, 2005 or for the period from January 1 through March 31, 2006. The net effect of the restatement increases: (i) total assets as of December 31, 2005 and 2004, respectively, by \$20,966 (0.23%) and \$10,589 (0.55%); (ii) net loss for the period from inception (April 6, 2000) until December 31, 2005 and 2004, respectively, by \$425,271 (9.65%) and \$175,835 (5.77%); (iii) additional paid-in-capital as of December 31, 2005 and 2004, respectively, by \$446,237 (3.87%) and \$186,424 (5.04%); and (iv) total stockholders' equity as of December 31, 2005 and 2004, respectively, by \$20,966 (0.29%) and \$10,589 (0.15%). For the period ended March 31, 2006, the net effect of the restatement increases: (i) total assets as of March 31, 2006 by \$12,526 (0.14%); (ii) net loss for the period from inception (April 6, 2000) until March 31, 2006 by \$480,387 (9.93%); (iii) additional paid-in-capital as of March 31, 2006 by \$492,913 (4.11%); and (iv) total stockholders' equity as of March 31, 2006 by \$12,526 (0.17%).

Revision of First Quarter Financial Statements Filed in Form 10-QSB on September 14, 2006.

The financial statements included in Item 1 of Part I of our Form 10-QSB for the quarterly period ending March 31, 2006, (which was filed on September 14, 2006) contain certain minor errors in the Statements of Operations and Statements of Cash Flows for the comparative period ending March 31, 2005. As a result of the correcting these errors, the net loss for the quarter ended March 31, 2005 was increased by \$4,697 (1.97%). Corrections were made to Notes 2 (at Oil and Gas Properties), 3 (Restatement of Prior Financial Statements) and 6 (at Compensation Costs for Warrant and Options Issuance) of the Financial Statements to add information relating the comparative fiscal period in 2005 (including details of the restatement of the financial statements for the three months ending March 31, 2005). Disclosure was added to Note 6 about the intrinsic value of warrants and options exercised. Note 8 (Income Taxes) to the Financial Statements presented in the Quarterly Report filed on September 14, was deleted. We also deleted

certain information not required in this form relating to Issued Accounting Standards.

ITEM 6. EXHIBITS

Exhibit Index

- 31.1 Certification of Chief Executive Officer pursuant to Rule 13a-14(a)/15d-14(a) under the Exchange Act
- 31.2 Certification of the Principal Financial Officer pursuant to Rule 13a-14(a)/15d-14(a) under the Exchange Act
- 32.1 Section 1350 Certification of Chief Executive Officer
- 32.2 Section 1350 Certification of Principal Financial Officer

SIGNATURES

In accordance with Section 13 or 15(d) of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized. In accordance with the Exchange Act, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

ZION OIL & GAS, INC.

(Registrant)

By: /s/ Eugene A. Soltero
Eugene A. Soltero
Chief Executive Officer
(Principal Executive Officer)

By: /s/David Patir
David Patir
Senior Vice-President
(Principal Financial and
Accounting Officer)

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Date: September 19, 2006

Date: September 19, 2006

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