ZION OIL & GAS INC
Form 10KSB/A
July 27, 2006

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-KSB/A

THIRD AMENDED AND RESTATED ANNUAL REPORT

PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE FISCAL YEAR ENDED DECEMBER 31, 2004

COMMISSION FILE NUMBER 333-107042

ZION OIL & GAS, INC.

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

Delaware	20-0065053
(State or other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)
6510 Abrams Rd., Suite 300 Dallas, TX	O5231
(Address of Principal Executive Offices)	(Zip Code)

(214) 221-4610

(Issuer's Telephone Number, Including Area Code)

Securities registered under Section 12 (b) of the Exchange Act: None

Securities registered under Section 12 (g) of the Exchange Act:

Common Stock, par value $0.01 per share **[none]**

(Title of Class) (Name of each exchange on which registered)

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 _X_

Check if there is no disclosure of delinquent filers in response to Item 405 of Regulation S-B contained in this form, and no disclosure will be contained, to the best of the Issuer's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-KSB or any amendment to this Form 10-KSB. **[X]**

The Issuer's revenues for the fiscal year ended December 31, 2004 were $0. The Issuer had 6,558,288 shares of common stock outstanding as of April 14, 2005. The aggregate market value of the voting and non-voting common stock held by non-affiliates of the Issuer, computed by reference to the average bid and asked prices of such common stock as of April 14, 2005, was $0, as no public market currently exists.

DOCUMENTS INCORPORATED BY REFERENCE

The following document is incorporated by reference into Items 1 and 2 of Part I and Items 9, 10 and 12 of Part III: Prospectus dated February 17, 2004 for the sale of a maximum of 7,000,000 shares of common stock incorporated as Part I of Amendment #4 to Form SB-2 Registration Statement filed with the SEC on February 12, 2004 (the "Registration Statement"), pursuant to Regulation ST (insofar as it supercedes Rule 424(b)) of the Securities Act of 1933, as amended (the "Securities Act"), and hereinafter referred to as the "Prospectus."

The following document is incorporated by reference into Item 1 of Part I and Items 9, 10 and 12 of Part III: Form 8-K filed on November 19, 2004.

The following document is incorporated by reference into Item 1 of Part I and Item 9 of Part III: Form 8-K filed on January 5, 2005.

Transitional Small Business Disclosure Format (Check one): Yes__ No _X_

EXPLANATORY NOTE

The financial statements for the years ended December 31, 2004 and 2003, and for the period from inception until December 31, 2004 have been restated because, in the course of preparing our financial statements for the year ended December 31, 2005, 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, 2004. The net effect of the restatement increases (i) total assets as of December 31, 2004 and 2003 by $10,589 (0.55%) and $1,271 (0.11%);(ii) net loss for the period from inception (April 6, 2000) until December 31, 2004 and 2003, respectively, by $175,835 (5.77%) and $114,145 (8.30%) respectively; (iii) additional paid-in-capital as of December 31, 2004 and 2003 by $186,424 (or 5.04%) and $115,416 (or 7.05%) respectively; and total stockholders' equity as of December 31, 2004 and 2003, respectively by $10,589 (1.51%)and $1,271 (0.41%).

J004 ANNUAL REPORT (S.E.C. FORM 10-KSB)

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Securities and Exchange Commission
Item Number and Description

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FORWARD LOOKING STATEMENTS

All statements, other than statements of historical fact included in this Annual Report on Form 10-KSB (herein, "Annual Report") regarding our strategy, future operations, financial position, estimated revenues and losses, projected costs, prospects, plans and objectives of management are forward-looking statements. When used in this Annual Report, the words "may", "should", "could", "believe", "anticipate", "intend", "estimate", "expect", "project" and similar expressions (or the negatives thereof) are intended to identify forward-looking statements, although not all forward-looking statements contain such identifying words. All forward-looking statements speak only as of the date of this Annual Report. You should not place undue reliance on these forward-looking statements. Although we believe that our plans, intentions and expectations reflected in or suggested by the forward-looking statements we make in this Annual Report are reasonable, we can give no assurance that these plans, intentions or expectations will be achieved. We disclose important factors that could cause our actual results to differ materially from our expectations under "Risk Factors," in the Prospectus, "Management's Discussion and Analysis of Financial Condition and Results of Operations" and elsewhere in this Annual Report. These cautionary statements qualify all forward-looking statements attributable to us or persons acting on our behalf.

Unless the context otherwise requires, references in this Annual Report to "Zion," "we," "us," "our" or "ours" refer to Zion Oil & Gas, Inc.

References to the "Prospectus" refer to the Prospectus of Zion as defined at "Documents Incorporated by Reference" on the cover page of this Annual Report.

PART I

ITEM 1. DESCRIPTION OF BUSINESS

Incorporated by reference to the following sections of the Prospectus:

"BUSINESS AND PROPERTIES:"--

"Background:" - Unchanged

"Israel's Petroleum Law" - Unchanged except for the following: The Petroleum Rights Fees as stated in

New Israeli Shekels described are also effective on January 1, 2005 and the US Dollar values therein

stated should be recalculated at the Representative Rate of US $1.00 equals NIS 4.395 as published

by the Bank of Israel on April 15, 2005.

"Proposed Changes in the Petroleum Law" - Unchanged, except that the bill submitted in conjunction with

the 2003 budget proposal and rejected in committee at that time hasn't been resubmitted since.

"Petroleum Taxation" - Unchanged except for the following: The Corporate Tax rate on taxable

income from Israeli sources was a flat rate of 35% in 2004, with a scheduled reduction to 34% in 2005.

"Proposed Changes in Petroleum Taxation" - Unchanged, except for the following: The Petroleum Rights

Fees as stated in New Israeli Shekels described are also effective on January 1, 2005 and the US Dollar values therein stated should be recalculated at the Representative Rate of US $1.00 equals NIS 4.395 as published by the Bank of Israel on April 15, 2005.

"Employees" - Unchanged except for the following: The sentence and chart outlining anticipated

staffing based on the now terminated offering should be deleted. In Dallas, Texas, USA we

currently have five (5) employees (two (2) of whom are temporarily assigned to the Israeli Branch)

and one (1) consultant on a full time basis (temporarily assigned to the Israeli Branch) and three

(3) consultants on a part time basis. In Los Angeles, California, USA we currently have two (2)

employees on a part time basis. In Tel Aviv, Israel we have one (1) employee on a full time basis,

one (1) on a part time basis and four (4) consultants on a part time basis.

"Summary of Material Corporate Events" - Unchanged except for the addition of the following:

As a result of our failure to raise the specified minimum amount of investment, we abandoned

our initial public offering as of August 30, 2004. We commenced a private placement of Company

securities on September 30, 2004 and terminated it on March 31, 2005. See ITEM 5 "Recent Sales of Unregistered Securities."

Incorporated by reference to Section 5 "Corporate Governance and Management" of the Form 8-K filed on November 19, 2004.

Incorporated by reference to Form 8-K filed on January 5, 2005, in connection with the resignation of Ralph

F. DeVore as a Director of the Company.

"PLAN OF OPERATION AND MANAGEMENT'S DISCUSSION" -

"Markets" - Unchanged, except that the price per million BTU for which we believe we will be able to sell

our natural gas is estimated to be $2.85.

"Charitable Trusts" - Unchanged

ITEM 2. DESCRIPTION OF PROPERTY

Incorporated by reference to the following section of the Prospectus:

"BUSINESS AND PROPERTIES" -

"Properties" - Unchanged except for the following: We reached an agreement with the Kibbutz Ma'anit

with respect to the rental through August 31, 2005 (the period estimated as necessary for the drilling

of the Ma'anit #1 well) of surface rights to the drill site. The rent has been paid in full. A drilling

contract was negotiated and signed between the Company and Lapidoth Israel Oil Prospectors Corp. on

December 29, 2004, rig-up began on or about March 20, 2005 and the re-entry and deepening of the Ma'anit

#1 was commenced on April 10, 2005. With the commencement of the drilling operations on the Ma'anit #1,

the Commissioner of Petroleum Affairs extended the Ma'anit -Joseph License through April 30, 2007,

subject to the submission of a satisfactory plan for a continuation of exploration in the License area within

four (4) months after completion of the drilling and testing of the Ma'anit #1 well. Formal permits for the

use of the drilling location and drilling operations from the Israel Lands Authority and the Haifa Regional

Planning Commission have not yet been issued, although all necessary documentation has been submitted

and oral confirmations received from the authorities to the effect that the required permits will be issued.

"Israel's Petroleum Law" - Unchanged except for the following: The Petroleum Rights Fees as stated in New

Israeli Shekels described are also effective on January 1, 2005.

"Requirements and entitlements of holders of petroleum rights" - Unchanged

ITEM 3. LEGAL PROCEEDINGS

We are not party to any legal proceedings.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matter was submitted to a vote of security holders, through solicitation of proxies or otherwise, during the period from October 1, 2004, through December 31, 2004.

PART II

ITEM 5. MARKET FOR THE COMPANY'S COMMON STOCK AND RELATED STOCKHOLDER MATTERS

Market for the Common Stock

We commenced our initial public offering on February 17, 2004 and when the minimum amount ($6,500,000) was not subscribed by August 30, 2004, we terminated the offering as of that date. All investor funds had been held in a third-party escrow account and were subsequently returned to the investors with interest. Our common stock and warrants are not listed or traded on any stock exchange or organized market, and there is therefore no market for them.

Holders

As of April 14, 2005, there were 338 record holders of our common stock.

Dividends

We have never paid dividends on our common stock and do not plan to pay dividends on the common stock in the foreseeable future. Whether dividends will be paid in the future will be in the discretion of our board of directors and will depend on various factors, including our earnings and financial condition and other factors our board of directors considers relevant. We currently intend to retain earnings to develop and expand our business.

Recent Sales of Unregistered Securities (as of March 31, 2005)

As of March 31, 2005, the Company completed a private placement commenced on September 30, 2004 in which 988,750 shares of our common stock and "E" Warrants to purchase 395,500 shares of common stock were sold to ninety-two (92) investors for a total consideration of $3,955,000. Of the total consideration, $3,092,501 was paid in cash by eighty-four (84) investors, thirty-eight (38) of whom were "accredited" investors in the amount of $1,455,000, thirty-four (34) were "non-accredited" investors in the amount of $1,237,000, and eleven (11) were not residents of the

United States in the amount of $400,501. The remaining consideration of $862,499 was paid by cancellation or reduction of

outstanding indebtedness owed by us to thirteen (13) investors (of whom three were also cash investors and all of whom were either "accredited" or non-US residents), ten (10) of whom were directors and/or officers of the Company in the amount of $575,833, and four (4) of whom were not directors or officers of the Company in the amount of $286,666. The "E" Warrants are exercisable at $5.00 per share through December 31, 2006, and none of the Warrants have been exercised. The sales of these securities to residents of the United States were made in reliance upon Section 4(2) of the Securities Act and Regulation D promulgated pursuant thereto, which provide exemptions for transactions not involving a public offering. The sales of these securities to non-residents of the United States were made in reliance upon Regulation S promulgated pursuant to the Securities Act, which provides an exemption for offers deemed to occur outside the United States. 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.

Exercise of Outstanding Warrants

On December 30, 2004, the Company extended by thirty-one (31) days the last day on which its unexercised "A" Warrants and "B" Warrants could be exercised from December 31, 2004 to January 31, 2005. During January 2005, 358,167 shares of our common stock were issued pursuant to warrants expiring on January 31, 2005 for cash payment in the amount of $461,500, and 7,334 shares of our common stock were issued pursuant to warrants expiring on January 31, 2005, for debt reduction in the total amount of $11,001. 160,000 shares were issued pursuant to exercise of "A" Warrants to purchase shares at $1.00 per share in exchange for 40,000 of shares of our common stock. On January 31, 2005, "A" Warrants to purchase 8,833 shares of our stock expired without being exercised, and "B" Warrants to purchase 31,500 shares of our stock expired without being exercised.

The sales of securities above 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 creditors or stockholders of Zion, and the shares were purchased by way of warrants held by the creditors and/or stockholders that were acquired in the connection with their prior loan to the Company or purchase or purchases of common or preferred 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.

Issuer Repurchases

We did not make any repurchases of our equity securities during the quarter ending December 31, 2004.

ITEM 6. 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 Annual 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 Annual Report and the Prospectus.

Overview

We are engaged in oil and natural gas exploration upon a single license area in the State of Israel. During the four (4) years and nine months between our formation and December 31, 2004, we raised private equity capital in the amount of $3,911,420 and incurred an accumulated liability of $1,213,116 in order to satisfy our work commitments under our agreements with the State of Israel. Over time, 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 three exceptions relating to employment stock options) have all been priced at the same price as the sales of our private equity capital. The amounts due directors and officers as of December 31, 2004 is $642,189, which amounts to 62% of our outstanding accounts payable and accrued liabilities on that date, as described in "Executive Officer Compensation" on page 10 below.

Our exploration efforts have resulted in approval of our first two drilling locations, with the first drilling location being the Ma'anit #1 well. We reached an agreement with Kibbutz Ma'anit for the lease through August 31, 2005 (the period estimated as necessary for the drilling and testing of the Ma'anit #1 well) of the surface rights to the drill site. The rent has been paid in full. A drilling contract was negotiated and signed between the Company and Lapidoth Israel Oil Prospectors Corp. on December 29, 2004, mobilization of the rig began on or about March 15, 2005, and the re-entry and deepening of the Ma'anit #1 was commenced on April 10, 2005. With the commencement of the drilling operations on the Ma'anit #1, by letter dated April 10, 2005, the Commissioner of Petroleum Affairs extended the Ma'anit-Joseph License through April 30, 2007, subject to the submission of a satisfactory plan for a continuation of exploration in the License area within four (4) months after completion of the drilling of the Ma'anit #1 well. Formal permits for the use of the drilling location and drilling operations from the Israel Lands Authority and the Haifa Regional Planning Commission have not yet been issued, although all necessary documentation has been submitted and oral confirmations received from the relevant authorities to the effect that the required permits will be issued.

Going Concern Basis

Our 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 Zion is in the development stage, we have limited capital resources, insignificant revenue to date 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 in the past has created doubt about our ability to continue as a going concern. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Liquidity and Capital Resources

Working capital (current assets minus current liabilities) was ($667,084) and ($695,110) at December 31, 2004 and 2003, respectively. The negative working capital is primarily attributable to substantial amounts of deferred compensation for officers, directors and key employees, all of whom are also shareholders of Zion.

Net cash provided by financing activities was $1,400,355 and $337,844 for the years ended December 31, 2004 and 2003, respectively, of which $500,000 in 2004 was in the form of loans from two (2) persons who later became directors and two (2) associates of one (1) of those persons. All $500,000 has since been retired by exchanging the debt for shares of stock and warrants to purchase stock in the Company. The remainder of the net cash provided was from the sale of equity securities, including the exercise of outstanding warrants. Net cash used for investments was $604,965 and $108,970 for the years ended December 31, 2004 and 2003, respectively, of which approximately 98% in 2004 and 94% in 2003 were used for capitalized exploration costs on the license.

Looking forward to 2005, we began the year with a cash balance of $468,409 versus $13,264 in 2004. We also began 2005 with a drilling contract signed with Lapidoth Israel Oil Prospectors Corp. on December 29, 2004, and paid the $60,000 deposit required at signing. Subsequently, we paid an additional $40,000 deposit to Lapidoth, deposited $200,000 into a segregated drilling account (from which $100,000 was paid to Lapidoth upon rig mobilization) and made an additional $840,000 deposit into the segregated drilling account on April 10, 2005 (the date drilling of the Ma'anit #1 commenced) all as required by the drilling contract. We have also paid the $249,898 premium for Control of Well and related insurance coverage, as well as approximately $300,000 for completion items (casing, wellhead, etc.). On the date of filing hereof, we have a cash balance of approximately $500,000 and we have cash receivables in the nature of Israeli Value Added Tax refunds of approximately $180,000.

With the cash on hand, virtually no third-party debt, prospective debt financing and additional sales of equity securities, we anticipate we will have sufficient liquidity to meet our foreseeable needs.

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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. Almost all of our net loss for the year ended December 31, 2004, comes from general and administrative expenses and the cost for the termination of Zion's initial public offering on August 30, 2004. General and administrative expenses totaled $1,172,135, consisting of $431,457 for legal and professional costs, $492,774 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 $247,904. The allocated cost for the termination of our initial public offering was $507,380.

Critical Accounting Policies

In response to the SEC's Release No. 33-8040 "CAUTIONARY ADVICE REGARDING DISCLOSURE AND CRITICAL ACCOUNTING POLICIES", we have identified the accounting principles which we believe are most critical to the reported financial status by considering accounting policies that involve the most complex of subjective decisions or assessment.

We follow 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.

We record an investment impairment charge when we believe an investment has experienced a decline in value that is other than temporary. Future adverse changes in market conditions or poor operating results of underlying investments could result in losses or an inability to recover the carrying value of the investment that may not be reflected in an investment's current carrying value, thereby possibly requiring an impairment charge in the future.

Although our properties are in Israel and our principal operations are also expected to be there, we report all our transactions in United States Dollars. Certain of the dollar amounts in the financial statements may represent the dollar equivalent of other currencies, including the New Israeli Shekel ("NIS"), and may not be exchangeable for dollars.

We record a valuation allowance to reduce our deferred tax assets to the amount that is more likely than not to be realized. While we have considered future taxable income and ongoing prudent and feasible tax planning

strategies in assessing the need for the valuation allowance, in the event that we were to determine that it would be able to realize our deferred tax assets in the future in excess of the net recorded amount, an adjustment to the deferred tax asset would increase net income in the period such determination was made.

We do not participate in, nor have we created, any off-balance sheet special purpose entities or other off-balance sheet financing. In addition, we do not enter into any derivative financial instruments.

We record a liability for asset retirement obligation at fair value in the period in which it is incurred and a corresponding increase in the carrying amount of the related long live assets.

Recently Issued Accounting Pronouncements

In December 2004, the FASB issued FASB Statement No. 123R, "Share-Based Payment" (FAS 123R), which requires that compensation costs relating to share-based payments be recognized in the Company's financial statements. The Company currently accounts for those payments under the recognition and measurement principles of FASB Statement No. 123, "Accounting for Stock-Based Compensation." The Company believes FAS 123R will have not have a material effect on the Company's financial statements.

In December 2004, the FASB issued FASB Statement No. 153, "Exchanges of Nonmonetary Assets, - an Amendment of APB Opinion No. 29," (FAS 153), which is effective for the Company for asset-exchange transactions beginning July 1, 2005. Under APB 29, assets received in certain types of nonmonetary exchanges were permitted to be recorded at the carrying value of the assets that were exchanged (i.e. recorded on a carryover basis). As amended by FAS 153, assets received in some circumstances will have to be recorded instead at their fair values. The Company believes the FAS 153 will have no impact on the Company's financial statements.

Restatement of Prior Financial Statements

The financial statements for the years ended December 31, 2004 and 2003, and for the period from inception until December 31, 2004 have been restated because, in the course of preparing our financial statements for the year ended December 31, 2005, 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, 2004. The net effect of the restatement increases (i) total assets as of December 31, 2004 and 2003 by $10,589 (0.55%) and $1,271 (0.11%);(ii) net loss for the period from inception (April 6, 2000) until December 31, 2004 and 2003, respectively, by $175,835 (5.77%) and $114,145 (8.30%) respectively; (iii) additional paid-in-capital as of December 31, 2004 and 2003 by $186,424 (or 5.04%) and $115,416 (or 7.05%) respectively; and total stockholders' equity as of December 31, 2004 and 2003, respectively by $10,589 (1.51%)and $1,271 (0.41%).

ITEM 7. FINANCIAL STATEMENTS

The financial statements required by this item are included at page F-1 below.

ITEM 8. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 8A. CONTROLS AND PROCEDURES

We maintain controls and procedures designed to ensure that information required to be disclosed in the reports that we file or submit under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission. Based upon their evaluation of those controls and procedures as of the end of the period covered by this Annual Report, our Chief Executive Officer and our principal financial officer concluded that our disclosure controls and procedures were effective to timely report such information and to ensure that such required information is accumulated and communicated to our management, including our chief executive officer and chief financial officer, to allow timely decisions regarding required disclosure.

We made no changes in our internal controls over financial reporting that occurred during the quarter ending December 31, 2004 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART III

ITEM 9. DIRECTORS, EXECUTIVE OFFICERS, PROMOTERS AND CONTROL PERSONS; COMPLIANCE WITH SECTION 16(a) OF THE SECURITIES EXCHANGE ACT OF 1934.

Executive Officers and Directors

Incorporated by reference to the following section of the Prospectus:

"MANAGEMENT" - Unchanged except for the following: (i) Ralph F. DeVore resigned as a Director on December 30, 2004; (ii) the age of each person listed has advanced by one (1) year; (iii) at the Annual Meeting of the Board of Directors on September 28, 2004, John Brown did not stand for re-election as Chief Executive Officer, and was re-elected as Chairman of the Board; (iv) at the same Meeting, Gene Soltero relinquished the office of Chief Operating Officer, he was re-elected as President and

was elected to the additional position of Chief Executive Officer; (v) all references to the Company's initial public offering should be deleted; (vi) at the same Meeting, the Bylaws of the Company were amended to increase the number of Directors from nine (9) to eleven (11) and redefine the

responsibilities
of the Chairman to clarify that an officer other than the Chairman could serve as the Company's Chief
Executive Officer; and (vii) the elections of Robert Render, Richard Rinberg and James Barron
as Directors as set forth below.

Incorporated by reference to Form 8-K dated November 19, 2004, Item 5.03 with respect to amendments
of the Company's bylaws.

Incorporated by reference to Form 8-K, dated November 19, 2004, Item 5.02, sub-part (3) with respect
to the appointment of Robert Render as a new Director, and sub-part (4) with respect to the appointment
of Richard Rinberg as a new Director.

Incorporated by reference to Form 8-K dated January 5, 2005 with respect to the resignation of Ralph
F. DeVore as a Director.

At a Board meeting in Tel Aviv, Israel on April 3, 2005, Dr. James Barron was elected as a
Director of the Company. Dr. Barron is an orthodontist, living and practicing orthodontics in Temple,
Texas. Upon his appointment as a Director, Dr. Barron was awarded warrants to purchase 25,000 shares
of common stock of the Company exercisable at $4.00 per share at any time through December 31, 2006.
As a non-management Director, Dr. Barron will receive a $1,000 per month honorarium.

Information Regarding the Board of Directors and Committees

Our Board of Directors is divided into three (3) classes of Directors, with each class (except for the initial classes) elected to a three (3) year term every third year and holding office until their successors are elected and qualified. The class whose term of office will expire at our 2005 Annual Meeting of Shareholders consists of Eugene A. Soltero, Eitan Lubitch and Paul Oroian. The class whose term of office will expire at our 2006 Annual Meeting of Shareholders consists of John M. Brown, Z. Sheldon Fink, James A. Barron and Robert Render. The class whose term of office will expire at our 2007 Annual Meeting of Shareholders consists of Philip Mandelker, Glen H. Perry, Kent S. Siegel and Richard Rinberg.

As described below, our Board of Directors has established four (4) committees: an audit committee, a compensation committee, a nominating committee and a corporate governance committee. Members of the Committees are appointed annually by the Board of Directors to serve at the discretion of the Board until their successors are appointed or the earlier of their resignation or removal.

Of the eleven (11) current members of our Board of Directors six (6) meet the criteria of independence set by the Sarbanes-Oxley Act of 2002 and SEC regulations for audit committee membership ("SEC independence criteria"). These are Eitan Lubitch, Z. Sheldon Fink, Paul Oroian, Kent Siegel, Richard Rinberg and James Barron, five (5) of whom also meet the criteria of independence set by the NASD for membership on the board of a NASDAQ market listed company ("NASD independence criteria").

Audit Committee and Audit Committee Financial Expert

Incorporated by reference to the following sections of the Prospectus: "MANAGEMENT - Audit Committee", said section being unchanged. On February 24, 2004, our board of directors resolved to expand the responsibilities of the Audit Committee to include those of the Qualified Legal Compliance Committee established by the Board. On the same day our Board of Directors adopted an Audit Committee Charter. A copy of the Audit Committee Charter is available on our website at www.zionoil.com/company/corpgov.html.

Procedures for Security Holder Nominations to Board of Directors

On February 24, 2004, our board of directors adopted a charter for our Nominating Committee. See the following section of the Prospectus: "MANAGEMENT - Nominating Committee" which is incorporated herein by reference, said section being unchanged except as follows: (i) effective September 28, 2004, and with the appointment of Eugene A. Soltero as the Chief Executive Officer, Mr. Brown currently serves only as Chairman of the Company; and (ii) with his appointment as Director on November 4, 2004, Richard Rinberg was also appointed to serve on the Nominating Committee. As Annex B to the Nominating Committee Charter, our board adopted a set of procedures for shareholder nominations to our board. A copy of the Nominating Committee Charter, including Annex B - Shareholder Nominee Procedures, is available on our website at www.zionoil.com/company/corpgov.html.

Compliance with Section 16(a) of the Exchange Act

Until our securities are listed on a national exchange, neither Zion nor our directors, officers or beneficial owners of more than 10% of any class of Zion's equity securities are subject to reporting requirements under Section 16(a) of the Exchange Act.

Code of Ethics

We have adopted a Code of Business Conduct and Ethics applicable to each of our directors, officers and employees, including our principal executive officer, principal financial officer, principal accounting officer or controller or persons performing similar functions. A copy of our Code of Business Conduct and Ethics is available on our website at www.zionoil.com/company/corpgov.html. We intend to disclose any amendment to a provision of, and the grant of any waiver of from a provision of, our Code of Business Conduct and Ethics that applies or relates to our principal executive officer, principal financial officer, principal accounting officer or controller or persons performing similar functions by posting such information on our website at www.zionoil.com/company/corpgov.html.

ITEM 10. EXECUTIVE COMPENSATION

Director Compensation

Directors who are not Company employees or officers receive $1,000 per month. Directors who are Company officers receive no extra compensation for service on the board.

Executive Officer Compensation

The following table provides the compensation of our executive officers, direct or indirect, for services rendered in all capacities for the fiscal years ended December 31, 2004, 2003, 2002 and 2001 and the period from April 6, 2000 through December 31, 2000, of which all has been paid except approximately $2,042 to Mr. Brown, $247,536 to Mr. Soltero, $134,251 to Mr. Perry and $206,360 to Mr. Mandelker. This table does not include Mr. Avery, our vice president of finance, a corporate officer, but not an executive officer and to whom we owe $52,000 of deferred compensation.

SUMMARY COMPENSATION TABLE

					Long Term Compensation			
	Annual Compensation				Awards		Payouts	
Name and Principal Position	Year	Salary ($)	Bonus ($)	Other Annual Compensation ($)	Restricted Stock Award(s) ($)	Securities Underlying Options/SARs (#)	LTIP Payouts ($)	All Other Compensation ($)
	2000	-	-	-	-	-	-	-
John Brown	2001	7,500	-	-	-	-	-	-
Chairman	2002	30,000	-	-	-	-	-	-
	2003	60,000	80,000	10,000	-	-	-	-
	2004	120,000	-	-	-	-	-	-
	2000	-	-	-	-	-	-	-
Eugene Soltero	2001	25,000	-	-	-	310,000	-	-
President &	2002	60,000	80,000	-	-	100,000	-	-
CEO	2003	120,000	-	-	-	-	-	-
(1)	2004	212,500	-	-	-	-	-	-
	2000	10,000	-	-	-	-	-	-
Glen Perry	2001	60,000	-	-	-	-	-	-
Executive VP	2002	60,000	-	-	-	-	-	-
	2003	120,000	-	-	-	-	-	-
	2004	200,000	-	-	-	-	-	-
	2000	25,000	-	-	-	-	-	-
Philip	2001	63,750	-	-	-	-	-	-
Mandelker	2002	75,000	-	-	-	-	-	-
General Counsel,	2003	114,000	-	-	-	-	-	-
Secretary (2)	2004	200,000	-	-	-	-	-	-

(1) Incorporated by reference to Form 8-K filed on November 19, 2004, Item 5.02, sub-part 2, with respect to the compensation of Eugene A. Soltero being increased from $200,000 to $250,000 annually effective October 1, 2004, upon Mr. Soltero's election to the additional position of Chief Executive Officer at the September 28, 2004 Annual Meeting of the Board of Directors.

(2) The law firm with which Mr. Mandelker is "Of Counsel" received during 2004, $25,500 in fees from the Company for providing Mr. Mandelker with office and secretarial services.

The executive employment agreements have been approved by our board of directors and have been signed as of January 1, 2004, upon which date Messrs. Brown, Soltero and Perry became employees of Zion. Mr. Mandelker continues as a consultant on retainer. Incorporated by reference to Prospectus - Executive Employment Arrangements and Letters of Intent.

ITEM 11. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The following table provides information regarding beneficial ownership of our common stock as of April 14, 2005 by:

- each person who beneficially owns more than 5% of all outstanding shares of common stock,
- each of our directors and executive officers individually, and
- all of our directors and executive officers as a group.

Except as otherwise indicated, to our knowledge, all persons listed below have sole voting power and investment power and record and beneficial ownership of their shares, except to the extent that authority is shared by spouses under applicable law. Except as noted below, all persons listed have an address in care of our principal executive offices.

The information contained in this table reflects "beneficial ownership" as defined in Rule 13d-3 of the Exchange Act. In computing the number of shares beneficially owned by a person and the percentage ownership of that person, shares of common stock subject to options and warrants held by that person (and/or pursuant to proxies held by that person) that were exercisable on April 14, 2005 or became exercisable within 60 days following that date are considered outstanding. However, such shares are not considered outstanding for the purpose of computing the percentage ownership of any other person. Percentage of ownership is based on 6,568,288 shares of common stock outstanding as of April 14, 2005. As of April 14, 2005, we had 338 holders of record of our common stock.

The address of John Brown, Eugene Soltero, Glen Perry, Paul Oroian, Kent S. Siegel, Robert Render and Dr. James (Andy) Barron is 6510 Abrams Rd., Suite 300, Dallas, TX 75231. The address of Philip Mandelker, Z. Sheldon Fink, Eitan Lubitch and Richard Rinberg is 9 Yair Stern St., Herzliya, 46412 Israel.

Name	Amount and Nature of Beneficial Ownership		Percentage of Outstanding Common Stock
John M. Brown	3,257,000	(1)	49.5%
Ralph DeVore	738,147	(2)	11.2%
Philip Mandelker	508,783	(3)	7.7%
Eugene A. Soltero	496,208		7.5%

Glen Perry	471,000	(4)	7.2%
Robert Render	146,500	(5)	2.2%
Richard Rinberg	141,000	(6)	2.1%
James Barron	129,000	(7)	2.0%
Kent S. Siegel	32,875	(8)	0.5%
Eitan Lubitch	30,250	(9)	0.5%
Z. Sheldon Fink	28,500	(10)	0.4%
Paul Oroian	28,500	(10)	0.4%
All directors and executive officers as a group (11 persons)	4,138,399	(11)	60.7%

(1) Includes (a) 100,000 shares of common stock owned by Mr. Brown's wife; (b) 2,665,500 shares of common stock owned
by others for which Mr. Brown holds voting proxies, including the 100,000 shares owned by his wife; and (c) warrants to
purchase 16,000 shares.

(2) Includes 522,531 shares of common stock owned by others for which Mr. DeVore holds voting proxies.

(3) Includes warrants to purchase 1,500 shares of common stock until December 31, 2006 at an average price of $5.00 per share
and 400,000 shares of common stock owned by a trust for Mr. Mandelker and his family.

(4) Includes warrants to purchase 5,000 shares of common stock until December 31, 2006 at an average price of $5.00 per share.

(5) Includes warrants to purchase 85,000 shares of common stock until December 31, 2006 at an average price of $3.76 per share.

(6) Includes warrants to purchase 46,000 shares of common stock until December 31, 2006 at an average price of $4.02 per share.

(7) Includes (a) 45,000 shares held by trusts for Dr. Barron's children and (b) warrants to purchase 35,000 shares of common stock
until December 31, 2006 at an average price of $3.57 per share.

(8) Includes (a) warrant to purchase 25,000 shares of common stock until December 31, 2005 at $3.00 per share, (b) warrant to
purchase 1,000 shares of common stock until December 31, 2006 at $5.00 per share, and (c) the following securities held by
Mr. Siegel

(9) Includes (a) warrant to purchase 25,000 shares of common stock until December 31, 2005 at $3.00 per share and (b) warrant
to purchase 1,500 shares of common stock until December 31, 2006 at $5.00 per share.

(10) Includes (a) warrant to purchase 25,000 shares of common stock until December 31, 2005 at $3.00 per share and (b) warrant
to purchase 1,000 shares of common stock until December 31, 2006 at $5.00 per share.

(11) Includes (a) warrants to purchase 100,000 shares of common stock at $3.00 per share until December 31, 2005, (b) warrants to
purchase 75,000 shares of common stock at $4.00 per share until December 31, 2006, and (c) warrants to

purchase 102,000
shares of common stock at $5.00 per share until December 31, 2006.

Changes in Control

We are not aware of any arrangement that may result in a change of control of Zion.

ITEM 12. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Incorporated by reference to the following section of the Prospectus: "CERTAIN RELATIONSHIPS AND RELATED PARTY TRANSACTIONS", said section being unchanged except as follows: (i) the appointment of Karen Soltero (daughter of the president of the Company) to a management position as described in Form 8-K filed on November 19, 2004, Item 5.02, sub-part 2, which is incorporated herein by reference, subject to the increase in April 2005 of Ms. Soltero's annual salary to $60,000; (ii) the $100,000 loan facility (the outstanding balance on April 15, 2005 being $75,000) advanced by Ms. Irith Rappaport, a shareholder of Zion has been renewed and extended to June 30, 2005 and the Lender granted an option to convert the loan into common shares at a price of $4.00 per share, with a warrant attached to purchase one share of common stock at $5.00 per share until December 31, 2005 for each $10.00 of loan converted into common shares; (iii) the relationship of Robert Render as a lender to the Company, as well as a consultant, director and shareholder of the Company, all as described in Form 8-K filed on November 19, 2004, Item 5.02, sub-part 3, which is incorporated herein by reference; (iv) the relationship of Richard Rinberg as a lender to the Company, as well as a director and shareholder of the Company, all as described in Form 8-K filed on November 19, 2004, Item 5.02, sub-part 4, which is incorporated herein by reference; (v) with the signing of employment agreements effective January 1, 2004, John Brown, Eugene A. Soltero and Glen H. Perry are no longer paid as consultants to the Company, but as employees as described at Item 10. EXECUTIVE COMPENSATION above; and (vi) the Board of Directors was expanded from nine (9) to eleven (11) members at the Annual Meeting of the Board of Directors on September 28, 2004; and currently a majority (6) of the Directors meet the independence criteria of the SEC and five meet the independence criteria of the NASD.

ITEM 13. EXHIBITS AND REPORTS ON FORM 8-K.

Reports on Form 8-K

A report on Form 8-K was filed on November 19, 2004. The events reported were:

Item 1.01:	Extension of Work Program Schedule and Conditional Extension of License.
Item 3.02:	Unregistered Sales of Equity Securities.
Item 5.02:	Departure of Principal Officer; Election of Directors; Appointment of Principal Officer
Item 5.03:	Amendments to Bylaws

A report on Form 8-K was filed on January 5, 2005. The events reported were:

Item 1.01:	Entry into a Material Definition Agreement - Drilling Contract.
Item 3.02:	Unregistered Sales of Equity Securities.
Item 3.03:	Material Modifications of Rights of Security Holders
Item 5.02:	Resignation of Director.

Exhibit Index

3.1		Amended and Restated Certificate of Incorporation of Zion Oil & Gas, Inc. (incorporated by reference to Exhibit 3.1 to the Registration Statement.)
3.2		Amended and Restated Bylaws of Zion Oil & Gas, Inc. (incorporated by reference to Exhibit 3.1 to the Form 8-K filed on November 19, 2004.)
9.1		Stockholders' and Voting Agreement (with John M. Brown) (incorporated by reference to Exhibit 9.1 to the Registration Statement.)
9.2		Stockholders' and Voting Agreement (with Ralph DeVore) (incorporated by reference to Exhibit 9.2 to the Registration Statement.)
10.1	(i)	Ma'anit Joseph License (incorporated by reference to Exhibit 10.1 to the Registration Statement.)
	(ii)	Extension of Ma'anit Joseph License dated April 10, 2005.
10.2	(i)	Employment Agreement dated as of January 1, 2004, between Zion Oil & Gas, Inc. and John M. Brown (incorporated by reference to Exhibit 10.2 to the Registration Statement.)
	(ii)	Employment Agreement dated as of January 1, 2004, between Zion Oil & Gas, Inc. and Eugene A. Soltero (incorporated by reference to Exhibit 10.2 of the Registration Statement.)

	(iii)	Letter Amendment dated as of October 1, 2004 between Zion Oil & Gas, Inc. and Eugene A. Soltero
	(iv)	Employment Agreement dated as of January 1, 2004, between Zion Oil & Gas, Inc. and Glen H. Perry (incorporated by reference to Exhibit 10.2 of the Registration Statement.)
	(v)	Retention Agreement dated as of January 1, 2004, between Zion Oil & Gas, Inc. and Philip L. Mandelker (incorporated by reference to Exhibit 10.2 of the Registration Statement.)
10.3	(i)	Loan Agreement dated as of Feb. 25, 2003, between Zion Oil & Gas, Inc. and Irith Rappaport (incorporated by reference to Exhibit 10.3 of the Registration Statement.)
	(ii)	Non-Negotiable Promissory Note dated Feb. 25, 2003 from Zion Oil & Gas, Inc. to Irith Rappaport (incorporated by reference to Exhibit 10.3 of the Registration Statement.)
	(iii)	Letter Amendment dated Feb. 1, 2004 to the Loan Agreement dated 25 February 2003. (incorporated by reference to Exhibit 10.3 of the Registration Statement.)
	(iv)	Extension of Loan Agreement from Dec. 31, 2004 to June 30, 2005

24.1	Power of Attorney
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

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

Lane Gorman Trubitt, L.L.P. served as our independent accountants for the years ended December 31, 2003 and 2004. Principal accounting fees for professional services rendered for us by Lane Gorman Trubitt, L.L.P. for the years ended December 31, 2003 and 2004 are summarized as follows:

	2003	2004
Audit (1)	$ 24,449.00	$ 25,262.00
Audit Related (2)	2,660.00	4,959.25
Tax (3)	2,500.00	2,730.00
All other	140.00	0.00
Total	$29,749.00	$32,951.25

(1) Reflects fees for professional services rendered in connection with audits and quarterly reviews of financial statements of Zion and review of and preparation of consents for the Prospectus and statutory and regulatory filings. It does not reflect additional fees of $7,750 for 2003 and $7,750 for 2004 billed by KPMG - Somekh Chaikin, certified accountants, for audits of our Israeli operations.

(2) Reflects fees, if any, for assurance and consulting services to our financial statements and reviews of our quarterly statements.

(3) Reflects fees for services for tax compliance for the preparation of our U.S. tax returns. It does not reflect additional fees of $1,000 for 2003 and $1,000 for 2004 billed by KPMG - Somekh Chaikin, certified accountants, for services in connection with the preparation of our Israeli tax returns.

Audit Committee Pre-Approval Policies and Procedures

Our Audit Committee considers and pre-approves any audit and non-audit engagement or relationship between Zion and any independent accountant. The Audit Committee has delegated to the Chairman of the Committee the authority to pre-approve all audit or non-audit services to be provided by an independent accountant if presented to the full Committee at its next meeting. In accordance with these procedures, the engagement of Lane Gorman Trubitt, L.L.P. to conduct the audit of our 2004 financial statements, was pre-approved by the Chairman of our Committee and approved by the Audit Committee. Lane Gorman Trubitt, L.L.P. has provided non-audit services to us in the amount of $2,640 during 2003 and $2,730 during 2004.

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	By:	/s/ David Patir
	Eugene A. Soltero		David Patir, Senior Vice-President
	Chief Executive Officer (Principal Executive Officer)		(Principal Financial and Accounting Officer)
Date:	July 26, 2006	Date:	July 26, 2006

In accordance with the requirements of the Securities Exchange Act of 1934, as amended, this report has been signed below by the following persons in the capacities and on the dates indicated:

/s/ John M. Brown	Chairman of the Board	July 26, 2006
John M. Brown		
/s/ E. A. Soltero	Chief Executive Officer and Director	July 26, 2006
Eugene A. Soltero		
*	President and Director	July 26, 2006
Richard Rinberg		
*	Executive Vice President and Director	July 26, 2006
Glen H. Perry		
*	General Counsel, Secretary and Director	July 26, 2006
Philip Mandelker		

*______________________________	Director	July 26, 2006
Robert Render		
*______________________________	Director	July 26, 2006
Yehezkel Druckman		
*______________________________	Director	July 26, 2006
Forrest A. Garb		
*______________________________	Director	July 26, 2006
Paul Oroian		
*______________________________	Director	July 26, 2006
Kent S. Siegel		
*______________________________	Director	July 26, 2006
James (Andy) Barron		

* By: /s/ E. A. Soltero

Eugene A. Soltero, Attorney-in-Fact

ZION OIL & GAS, INC.

FINANCIAL STATEMENTS

AND REPORT OF INDEPENDENT

REGISTERED PUBLIC ACCOUNTING FIRM

DECEMBER 31, 2004 AND 2003

INDEX TO FINANCIAL STATEMENTS

Report of Independent Registered Public Accounting Firm

Board of Directors and Stockholders
Zion Oil & Gas, Inc.

We have audited the accompanying balance sheet of Zion Oil & Gas, Inc. (a development stage company) as of December 31, 2004 and 2003, and the related statements of operations, changes in stockholders' equity, and cash flows for the years then ended and cumulative amounts from April 6, 2000 (inception) to December 31, 2004. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Zion Oil & Gas, Inc. as of December 31, 2004 and 2003, and the results of its operations and its cash flows for the years then ended and cumulative amounts since inception to December 31, 2004, in conformity with accounting principles generally accepted in the United States of America.

As described in Note 3 to the financial statements, the financial statements as of and for the years ended December 31, 2004 and 2003 and cumulative amounts since inception to December 31, 2004 have been restated.

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 1 to the financial statements, the Company is in its development stage and has insignificant operating revenue. In addition, the Company has limited capital resources and has initiated a new phase of activity, all of which raise substantial doubt about its ability to continue as a going concern. Management's plans in regard to these matters are also discussed in Note 1. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Dallas, Texas
April 15, 2005, except for note 3
as to which the date is July 26, 2006

ZION OIL & GAS, INC.
(A Development Stage Company)
BALANCE SHEETS
December 31,

ASSETS

	2004 As restated*	2003 As restated*
CURRENT ASSETS		
Cash and cash equivalents	$ 468,409	$ 13,264
Prepaid expenses and other	18,284	2,067
Deferred financing costs	9,318	-
Refundable value-added tax	14,036	18
Total current assets	510,047	15,349
UNPROVED OIL AND GAS PROPERTIES	1,396,209	797,734
PROPERTY AND EQUIPMENT		
net of accumulated depreciation of $485 and $405	14,439	8,029
OTHER ASSETS		
Cost associated with public offering	-	251,420
Assets held for severance benefits	4,668	4,237

Total other assets	4,668	255,657
Total assets	$ 1,925,363	$ 1,076,769
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Notes payable to related parties	$ 144,000	$ 95,000
Accounts payable	1,009,402	609,387
Accrued liabilities	23,729	6,072
Total current liabilities	1,177, 131	710,459
NOTES PAYABLE TO RELATED PARTIES, LESS CURRENT MATURITIES	-	43,500
PROVISION FOR SEVERANCE PAY, NET	35,985	11,333
STOCKHOLDERS' EQUITY		
Common stock, par value $.01; 20,000,000 shares authorized; 2004 5,537,787 shares; 2003 4,858,851 shares issued and outstanding	55,378	48,589
Additional paid-in capital	3,882,531	1,751,616
Deficit accumulated in development stage	(3,225,662)	(1,488,728)
Total stockholders' equity	712,247	311,477
Total liabilities and stockholders' equity	$ 1,925,363	$ 1,076,769

*Restated (see Note 3)

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

ZION OIL & GAS, INC.

(A Development Stage Company)

STATEMENTS OF OPERATIONS

	Year Ended December 31, 2004	Year Ended December 31, 2003	Period from April 6, 2000 (inception) to December 31, 2004

	As restated*	As restated*	As restated*
REVENUE	$ -	$ -	$ -
GENERAL AND ADMINISTRATIVE EXPENSES			
Legal and Professional	431,457	593,957	1,505,611
Salaries	492,774	118,883	657,054
Other	247,904	131,837	461,842
Total	1,172,135	844,677	2,624,057
Loss from operations	(1,172,135)	(844,677)	(2,624,057)
OTHER INCOME (EXPENSE)			
Termination of initial public offering	(507,380)	-	(507,380)
Interest expense	(57,419)	(28,633)	(93,775)
Loss before income tax	(1,736,934)	(873,310)	(3,225,662)
Income taxes	-	-	-
NET LOSS	$ (1,736,934)	$ (873,310)	$ (3,225,662)
NET LOSS PER SHARE OF COMMON STOCK - BASIC AND DILUTED	$ (0.35)	$ (0.21)	$ (.0.97)
WEIGHTED-AVERAGE SHARES OUTSTANDING - BASIC AND DILUTED	4,985,392	4,216,921	3,328,719

*Restated (see Note 3)

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

ZION OIL & GAS, INC.

(A Development Stage Company)

STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

Period from April 6, 2000 (inception) to December 31, 2004

	Preferred Stock		Common Stock		Additional Paid-in	Deficit Accumulated in Development	
	Shares	Amount	Shares	Amount	Capital	Stage	Total
					As restated*	As restated*	As restated*

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	-	-	-	-	-	(5,597)	(5,597)
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 ($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 ganted to directors and consultants	-	-	-	-	3,128	-	3,128
Net loss	-	-	-	-	-	(206,707)	(206,707)

ZION OIL & GAS, INC.

(A Development Stage Company)

STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

Period from April 6, 2000 (inception) to December 31, 2004

(Continued)

	Preferred Stock		Common Stock		Additional Paid-in	Deficit Accumulated in Development	
	Shares	Amount	Shares	Amount	Capital	Stage	Total
					As restated*	As restated*	As restated*
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 account 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, net	-	-	-	-	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	-	-	-	-	-	(403,114)	(377,706)
Balances, December 31, 2002	43,100	431	3,552,500	35,525	1,041,789	(615,418)	462,327

(Continued on following page)

*Restated (see Note 3)

The accompanying notes are an integral part of these statements.

ZION OIL & GAS, INC.

(A Development Stage Company)

STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

Period from April 6, 2000 (inception) to December 31, 2004

(Continued)

	Preferred Stock		Common Stock		Additional Paid-in	Deficit Accumulated in Development	
	Shares	Amount	Shares	Amount	Capital	Stage	Total
					As restated*	As restated*	As restated*
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	100	1	-	-	999	-	1,000

issuance of shares and warrants							
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, net	-	-	-	-	(9,812)	-	(9,812)
Net loss	-	-	-	-	-	(873,310)	(873,310)
Balances, December 31, 2003	-	-	4,858,851	48,589	1,751,616	(1,488,728)	311,477

(Continued on following page)

*Restated (see Note 3)

The accompanying notes are an integral part of these statements.

ZION OIL & GAS, INC.
(A Development Stage Company)
STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
Period from April 6, 2000 (inception) to December 31, 2004
(Continued)

	Preferred Stock		Common Stock		Additional Paid-in	Deficit Accumulated in Development	
	Shares	Amount	Shares	Amount	Capital	Stage	Total
					As restated*	As restated*	As restated*
Issuance of shares on warrants exercise	-	-	122,500	1,225	182,525 182,525	-	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	-	-	7,500	75	29,925	-	30,000

through issuance of shares and warrants							
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, net	-	-	-	-	30,383	-	30,383
Net loss	-	$ -	-	$ -	$ -	$(1,736,934)	$(1,736,934)
Balances, December 31, 2004	-	$ -	5,537,787	$ 55,378	$ 3,882,531	$(3,225,662)	$ 712,247

*Restated (see Note 3)

The accompanying notes are an integral part of these statements.

ZION OIL & GAS, INC.

(A Development Stage Company)

STATEMENTS OF CASH FLOWS

	Year Ended December 31, 2004 As restated*	Year Ended December 31, 2003 As restated*	Period from April 6, 2000 (inception) to December 31, 2004 As restated*
CASH FLOWS FROM OPERATING ACTIVITIES			
Net loss	$ (1,736,934)	$ (873,310)	$ (3,225,662)
Adjustments to reconcile net loss to net cash			

used in operating activities			
Depreciation	80	69	485
Officer, director and other fees, paid via common stock	410,071	107,008	573,085
Interest paid through issuance of common stock	17,500	-	17,500
Write-off of costs associated with public offering	507,380	-	507,380
Change in assets and liabilities, net:			
Prepaid expenses and other	(16,217)	-	(18,284)
Refundable value-added tax	(14,018)	5,024	(14,036)
Severance pay	24,221	6,325	31,317
Accounts payable	450,015	501,066	1,450,620
Accrued liabilities	17,657	6,072	23,729
Net cash used in operating activities	(340,245)	(247,746)	(653,866)
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of property and equipment	(6,490)	(7,042)	(14,924)
Investment in oil and gas properties	(598,475)	(101,928)	(1,394,938)
Net cash used in investing activities	(604,965)	(108,970)	(1,409,862)
CASH FLOWS FROM FINANCING ACTIVITIES			
Deferred financing costs on debt conversions	21,065	10,988	36,092
Loan proceeds - related party	11,000	106,192	258,620
Loan principal repayments - related party	(5,500)	(18,282)	(77,160)
Loan proceeds - other	500,000	-	500,000
Proceeds from sale of stock	1,188,750	326,750	2,301,900
Financing costs of issuing stock	(314,960)	(87,804)	(487,315)
Net cash provided by financing activities	1,400,355	337,844	2,532,137
NET INCREASE (DECREASE) IN CASH	455,145	(18,872)	468,409
Cash - Beginning of period	13,264	32,136	-
Cash - End of period	$ 468,409	$ 13,264	$ 468,409

(Continued on following page)

* Restated (see Note 3)

The accompanying notes are an integral part of these statements.

ZION OIL & GAS, INC.

(A Development Stage Company)

STATEMENTS OF CASH FLOWS
(Continued)

	Year Ended December 31, 2004 As restated*	Year Ended December 31, 2003 As restated*	Period from April 6, 2000 (inception) to December 31, 2004 As restated*
SUPPLEMENTAL INFORMATION			
Cash paid for interest	$ 16,050	$ 13,502	$ 30,331
Cash paid for income taxes	-	-	-
Payment of accounts payable through issuance of preferred and common stock	50,000	356,998	786,498
Payment of note payable through issuance of common stock	500,000	-	575,000
Payment of accounts payable through issuance of note payable	-	-	34,678
Financing costs paid through issuance of common stock	-	-	25,000
Increase in accounts payable for financing costs	-	222,100	381,549
Waived interest on conversion of debt	-	-	4,039
Value of warrants granted to employees	40,625	47,008	127,513
Value of warrants granted to directors and consultants	-	-	16,126

*Restated (see Note 3)

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

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Zion Oil & Gas, Inc.
(A Development Stage Company)
NOTES TO FINANCIAL STATEMENTS

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 the 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 95,800 acres of unproved properties in north-central Israel called the "Ma'anit-Joseph License", issued to the Company by the state of Israel. The primary term on the license expires April 30, 2005 and it contains a commitment to start the drilling or re-entry of a well on or before the later of (a) March 1, 2005 or (b) forty-five (45) days following the receipt of notice of rig availability from the drilling contractor. Re-entry of the Ma'anit #1 well began on April 10, 2005. Because re-entry of the well commenced prior to April 30, 2005, the Company became entitled to receive, and effective April 10, 2005 has received, an extension of the License through April 30, 2007, subject to completion of the drilling and testing of the Ma'anit well and submission of a satisfactory plan for continuation of exploration in the License Area. On December 29, 2004, the Company signed a drilling contract with Lapidoth Israel Oil Prospectors Corp., Ltd. (the "Drilling Contract") which provides for commencement of the re-entry and deepening of the Ma'anit #1 well to a depth of between 4,000 and 5,000 meters on the later of (a) March 15, 2005 or (b) forty-five (45) days following release of the rig from its current project. The Drilling Contract was submitted to the Israeli Petroleum Commissioner (the "Commissioner") and found to be in compliance with the terms of the License. Operations in Israel are conducted through a branch office and the License is held directly in the name of the Company.

Basis of Presentation

The 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, insignificant 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 and, ultimately, to achieve profitable operations. The uncertainty of these conditions in the past has created doubt about the Company's ability to continue as a going concern. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Management Presentation

On February 11, 2004, the Company filed a registration statement with the Securities and Exchange Commission 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) which 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. Management plans to continue to raise capital through debt and private offerings, and intends during 2005 to file a registration statement for a public offering, without minimum. Management intends to continue to use the proceeds from debt and/or equity sales to explore for and develop oil and gas reserves in Israel. The Company believes that these actions will enable the Company to carry out its business plan and to achieve profitable operations.

Zion Oil & Gas, Inc.
(A Development Stage Company)
NOTES TO FINANCIAL STATEMENTS

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 Company uses the dollar as its functional and reporting currency. Certain of the dollar amounts in the financial statements may represent the dollar equivalent of other currencies, including the New Israeli Shekel ("NIS"), and may not be exchangeable for dollars.

Cash

The Company maintains its cash balance at two banks with one bank located in the United States and one bank located in Israel. The account at the bank located in the United States is insured by the Federal Deposit Insurance Corporation up to $100,000. The Company has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash and cash equivalents.

For purposes of the statement of cash flows, the Company considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents.

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. All costs included are reviewed to determine if impairment has occurred. The amount of any impairment is transferred to the capitalized costs being amortized or a charge is made against earnings for those operations where a reserve base has not yet been established.

Abandonments of properties are accounted for as adjustments to capitalized costs with no loss recognized. During the years ending December 31, 2004 and 2003, 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 $598,475, $101,928 and $359,030 for the years ended December 31, 2004, 2003 and 2002, respectively, and $336,776 for the period from April 6, 2000 (inception) through December 31, 2001.

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 five to ten years using accelerated methods. Depreciation charged to expense amounted to $80 and $69 for the years ended December 31, 2004 and 2003, respectively, and $485 for the period April 6, 2000 (inception) to December 31, 2004.

Zion Oil & Gas, Inc.
(A Development Stage Company)
NOTES TO FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Long-Lived Assets

Long-lived assets, other than oil and gas properties, are periodically reviewed for impairment based on an assessment of future operations. The Company records impairment losses on long-lived assets used in operations when indicators of impairment are present and the undiscounted cash flows estimated to be generated by those assets are less than the assets'carrying amount. Measurement of an impairment loss is based on the fair market value of the asset. Impairment for oil and gas properties is computed in the manner described above under "Oil and Gas Properties."

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 a reduction to the paid-in capital attributable to the offering. As of December 31, 2003, $251,420 of equity offering costs were attributable to the public offering of common stock pursuant to a registration statement filed with the Securities and Exchange Commission on February 11, 2004. On August 31, 2004 the Company charged to expense $507,380 associated with the registration statement filed with the Securities and Exchange Commission on February 11, 2004 which was terminated. Included as a reduction to paid-in capital during 2004 and 2003 is $59,000 and $58,484 associated with private offerings of common stock.

Income Taxes

Income taxes are provided for the tax effects of transactions reported in the financial statements and consist of taxes currently due, if any, plus net deferred taxes related primarily to differences between the bases of assets and liabilities for financial and income tax reporting. Deferred tax assets and liabilities represent the future tax return consequences of those differences, which will either be taxable or deductible when the assets and liabilities are recovered or settled. Deferred tax assets include recognition of operating losses that are available to offset future taxable income and tax credits that are available to offset future income taxes. Valuation allowances are recognized to limit recognition of deferred tax assets where appropriate. Such allowances may be reversed when circumstances provide evidence that the deferred tax assets will more likely than not be realized.

Revenue Recognition

Revenue is accrued and recognized in the month the oil and gas is produced and sold. Reimbursement of costs from well operations is netted against the related oil and gas production expenses.

Stock-Based Compensation

The Company applies the fair-value based method of accounting for all of its stock-based compensation plans in accordance with the provisions of Financial Accounting Standards Board's Statement No. 123, "Accounting for Stock-Based Compensation" ("Statement 123").

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 and Scholes option pricing model and recognized over the requisite service period.

Zion Oil & Gas, Inc.
(A Development Stage Company)
NOTES TO FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Stock-Based Compensation - Non-employees

Non-employee grants have been treated in accordance with the provisions of SFAS 123 and EITF 96-18. Compensation costs of fully-vested non-forfeitable equity instruments have been reflected at their fair value on the date of grant.

New Accounting Standards

SFAS 123R - Share-Based Payments:

In December 2004, the FASB issued FASB Statement No. 123R, *Share-Based Payment* (FAS 123R), which requires entities to measure the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award and recognize the cost over the period during which an employee is required to provide services in exchange for the award. The Company currently accounts for those payments under the recognition and measurement principles of FASB Statement No. 123, *Accounting for Stock-Based Compensation.* The adoption of FAS 123R will not have a material effect on the Company.

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 FASB Statement No. 153, *Exchanges of Nonmonetary Assets, - an Amendment of APB Opinion No. 29*, (FAS 153), which is effective for the Company for asset-exchange transactions beginning July 1, 2005. Under APB 29, assets received in certain types of nonmonetary exchanges were permitted to be recorded at the carrying value of the assets that were exchanged (i.e. recorded on a carryover basis). As amended by FAS 153, assets received in some circumstances will have to be recorded instead at their fair values. The Company believes the FAS 153 will have no material impact on the Company's financial statements.

Use of Estimates

The preparation of the Company's financial statements in conformity with generally accepted accounting principles requires the Company to make estimates and assumptions that affect the amounts reported in these financial statements and accompanying notes. Actual results could differ from those estimates.

3. RESTATEMENT OF PRIOR FINANCIAL STATEMENTS

The financial statements for the years ended December 31, 2004 and 2003 and for the period from inception (April 6, 2000) until December 31, 2004 have been restated to reflect additional expenses related to stock warrants issued to 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 table presents the impact of the financial statements adjustments on the Company's previously announced statements of operations for the years ended December 31, 2004 and 2003 and/or the period from inception (April 6, 2000) until December 31, 2004 and on the balance sheet as of December 31, 2003.

3. RESTATEMENT OF PRIOR FINANCIAL STATEMENTS (CONTINUED)

Statements of Operations

	Year ended December 31, 2003		
	As previously reported	Adjustments (1)	As restated
Revenues	$ -	$ -	$ -
General and administrative expenses			
Legal and professional	585,825	8,132	593,957
Salaries	80,007	38,876	118,883
Other	131,837	-	131,837
	797,669	47,008	844,677
Loss from operations	(797,669)	(47,008)	(844,677)
Other income (expense)			
Interest expense, net	(17,645)	(10,988)	(28,633)

Loss before income taxes	(815,314)	(57,996)	(873,310)
Income tax	-	-	-
Net loss	$ (815,314)	$ (57,996)	$ (873,310)
Net loss per share of common stock			
Basic and diluted	$ (0.19)	$ (0.02)	$ (0.21)
Weighted-average shares			
outstanding - basic and diluted	$ 4,216,921	$ -	$ 4,216,921

Zion Oil & Gas, Inc.
(A Development Stage Company)
NOTES TO FINANCIAL STATEMENTS

3. RESTATEMENT OF PRIOR FINANCIAL STATEMENTS (CONTINUED)

Statements of Operations

	Year ended December 31, 2004			Inception (April 6, 2000) until December 31 2004		
	As previously reported	Adjustments (1)	As restated	As previously reported	Adjustments (1)	As restated
Revenues	$ -	$ -	$ -	$ -	$ -	
General and						
administrative						

expenses					
Legal and professional	431,457	-	431,457	1,447,443	58,168
Salaries	452,149	40,625	492,774	575,479	81,575
Other	247,904	-	247,904	461,842	-
	1,131,510	40,625	1,172,135	2,484,764	139,743
Loss from operations	(1,131,510)	(40,625)	(1,172,135)	(2,484,764)	(139,743)
Other income (expense)					
Termination of initial public offering	(507,380)	-	(507,380)	(507,380)	-
Interest expense, net	(36,354)	(21,065)	(57,419)	(57,683)	(36,092)
Loss before income taxes	(1,675,244)	(61,690)	(1,736,934)	(3,049,827)	(175,835)
Income tax	-	-	-	-	-
Net loss	$ (1,675,244)	$ (61,690)	$ (1,736,934)	$ (3,049,827)	$ (175,835)
Net loss per share of common stock - basic					

and diluted	$ (0.34)	$ -	$ (0.35)	$ (0.92)	$ (0.05)	$
Weighted-average shares						
outstanding - basic and						
diluted	4,985,392	-	4,985,392	3,328,719	-	

Zion Oil & Gas, Inc.
(A Development Stage Company)
NOTES TO FINANCIAL STATEMENTS

3. RESTATEMENT OF PRIOR FINANCIAL STATEMENTS (CONTINUED)

Balance Sheets

	As of December 31, 2003		
	As previously reported	**Adjustments** (1)	As restated
Current assets			
Cash and cash equivalents	$ 13,264	$ -	$ 13,264
Prepaid expenses and other	2,067	-	2,067
Deferred financing costs on debt conversions	-	-	-
Refundable Value-Added Tax	18	-	18
Total current assets	15,349	-	15,349
Unproved oil and gas properties, full cost method	796,463	1,271	797,734
Property and equipment			
Net of accumulated depreciation	8,029	-	8,029

Other assets			
Costs associated with public offering	251,420	-	251,420
Assets held for severance benefits	4,237	-	4,237
Total other assets	255,657	-	255,657
Total assets	$ 1,075,498	$ 1,271	$ 1,076,769
Liabilities and Stockholders' Equity			
Current liabilities			
Notes payable to related parties	$ 95,000	$ -	$ 95,000
Accounts payable	609,387	-	609,387
Accrued liabilities	6,072	-	6,072
Total current liabilities	710,459	-	710,459
Notes payable to related parties,			
Less current maturities	43,500	-	43,500
Provision for severance pay	11,333	-	11,333
Stockholders' equity			
Common stock, par value $.01; 20,000,000 shares			
authorized; 4,858,851 shares issued and outstanding	48,589	-	48,589
Additional paid-in capital	1,636,200	115,416	1,751,616

Deficit accumulated in development stage	(1,374,583)	(114,145)	(1,488,728)
Total stockholders' equity	310,206	1,271	311,477
Total liabilities and stockholders' equity	$ 1,075,498	$ 1,271	$ 1,076,769

Zion Oil & Gas, Inc.
(A Development Stage Company)
NOTES TO FINANCIAL STATEMENTS

3. RESTATEMENT OF PRIOR FINANCIAL STATEMENTS (CONTINUED)

Balance Sheets

	As of December 31, 2004		
	As previously reported	**Adjustments** (1)	As restated
Current assets			
Cash and cash equivalents	$ 468,409	$ -	$ 468,409
Prepaid expenses and other	18,284	-	18,284
Deferred financing costs on debt conversions	-	9,318	9,318
Refundable Value-Added Tax	14,036	-	14,036
Total current assets	500,729	-	510,047
Unproved oil and gas properties, full cost method	1,394,938	1,271	1,396,209
Property and equipment			
Net of accumulated depreciation	14,439	-	14,439
Other assets			
Assets held for severance benefits	4,668	-	4,668

Total other assets	4,668	-	4,668
Total assets	$ 1,914,774	$ 10,589	$ 1,925,363
Liabilities and Stockholders' Equity			
Current liabilities			
Notes payable to related parties	$ 144,000	$ -	$ 144,000
Accounts payable	1,009,402	-	1,009,402
Accrued liabilities	23,729	-	23,729
Total current liabilities	1,177,131	-	1,177,131
Provision for severance pay	35,985	-	35,985
Stockholders' equity			
Common stock, par value $.01; 20,000,000 shares			
authorized; 5,537,787 shares issued and outstanding	55,378	-	55,378
Additional paid-in capital	3,696,107	186,424	3,882,531
Deficit accumulated in development stage	(3,049,827)	(175,835)	(3,225,662)
Total stockholders' equity	701,658	10,589	712,247
Total liabilities and stockholders' equity	$ 1,914,774	$ 10,589	$ 1,925,363

(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. See also restated Notes 5 and 7.

Zion Oil & Gas, Inc.
(A Development Stage Company)
NOTES TO FINANCIAL STATEMENTS

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:

a.

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.

b.

Part of the liability is discharged by deposits made with severance pay funds.

c.

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.

d.

The expenses in respect of severance pay for the years ended December 31, 2004 and 2003 and the period from April 6, 2000 to December 31, 2004 amounted to $16,888, $6,325 and $31,317, respectively.

e.

Withdrawals from the funds may be made only upon termination of employment.

f.

As of December 31, 2004 and 2003, the Company has a provision for severance pay of 35,985 and 11,333, respectively. As of December 31, 2004 and 2003 the Company has $4,668 and $4,237 respectively, deposited in funds managed by major Israeli banks which are earmarked to cover severance pay liability. Such deposits are not considred to be "plan assets" and are therefore included in other assets.

5. STOCKHOLDERS' EQUITY

The Company has reserved 977,334 shares of common stock as of December 31, 2004 for the exercise of warrants. These warrants have been excluded from earnings per share calculations because they are anti-dilutive at December 31, 2004 and 2003. These warrants could potentially dilute basic earnings per share in future years. The warrants exercise prices and expiration dates are as follows:

Exercise Price	Number of Shares	Expiration Date
$ 1.00	378,834	January 31, 2005
1.50	197,000	January 31, 2005
3.00	130,000	December 31, 2005
3.00	40,000	December 31, 2006
4.00	50,000	December 31, 2006
5.00	181,500	December 31, 2006
	977,334	

5. STOCKHOLDERS' EQUITY (CONTINUED)

	Number of Shares	Weighted Average Exercise Price
Outstanding, January 1, 2003	890,333	$ 1.08
Granted to:		
Employees, officers and directors	325,270	1.66
Others	65,500	1.50
Expired/canceled	-	-
Exercised	(382,583)	.76
Outstanding, December 31, 2003	898,520	1.42
Granted to:		
Employees, officers and directors	90,000	4.72
Others	211,500	4.22
Expired/canceled	-	-
Exercised	(222,686)	1.36
Outstanding, December 31, 2004	977,334	2.34

In connection with the recapitalization merger on July 9, 2003, all outstanding options were converted to warrants. If not previously exercised, of those warrants from the recapitalization merger outstanding at December 31, 2004, warrants to purchase 575,834 shares of common stock will expire on January 31, 2005.

Fair Value of Warrants

The Company applies the fair-value based method of accounting for all of its stock-based compensation plans in accordance with the provisions of Financial Accounting Standards Board's Statement No. 123, "Accounting for Stock-Based Compensation" ("Statement 123").

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 and Scholes option pricing model and recognized over the requisite service period.

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

5. STOCKHOLDERS' EQUITY (CONTINUED)

	2004
	As restated *
Fair value of underlying stock at grant date ($)	4.00
Dividend yields	-
Expected volatility	28.2% - 29.5%
Risk-free interest rates	3.5%
Expected lives	2.16 - 2.25 years
Average grant date fair market value	0.81

* Restated (see Note 3)

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

	2004
	As restated *
Range of fair value of underlying stock at grant date ($)	3.00 - 4.00
Dividend yields	-

Expected volatility	32.2% - 43.8%
Risk-free interest rates	3.5%
Expected lives	0.56 - 2.50 years
Average grant date fair market value	0.65

* Restated (see Note 3)

6. RELATED PARTY TRANSACTIONS

Included in accounts payable at December 31, 2004 and 2003 are payables to officers and directors of the Company totaling $642,189 and $248,162, respectively for salaries, consulting services, bonuses and reimbursement of expenses.

Costs allocated to financing costs of $0 and $55,500 were paid to officers and directors of the Company and are netted against additional paid-in capital as of December 31, 2004 and 2003, respectively. Additionally, costs allocated to public offering costs of $0 and $176,558 were paid to officers and directors of the Company as of December 31, 2004 and 2003, respectively.

Included in general and administrative expenses at December 31, 2004 and 2003 are fees and expenses totaling $212,960 and $270,968, respectively, paid to officers and directors for professional, legal, and accounting fees, meals, travel and miscellaneous expense reimbursement.

Notes payable to related parties includes $44,000 under a loan facility with Cimarron Resources, Inc. (Cimarron), a company owned by the President 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 (4.25% at December 31, 2004) 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.

6. RELATED PARTY TRANSACTIONS (continued)

Notes payable to related parties includes a $100,000 note payable under a line of credit loan agreement with a shareholder of the Company in the maximum amount of $100,000 to be repaid out of the first $200,000 in receipts from a public offering, or on June 30, 2005, which ever occurs first. Any outstanding balance may be converted at the election of the lender to shares of common stock 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.

On June 30, 2004 and August 25 and 31, 2004, pursuant to a loan agreement dated June 30, 2004, the Robert E. Render Trust (the "Render Trust") a trust controlled by Mr. Robert Render (who was, on September 28, 2004, elected a director of the Company) loaned the Company $100,000, $80,000 and $20,000 respectively ($200,000 in the aggregate)(each such loan, a "Render Loan" and collectively the "Render Loans"). Each Render Loan bore interest at the rate of 10% annually and was due March 2, 2005, subject to Mr. Render's right to convert each Render Loan into a five year amortized term loan. In connection with each Render Loan, the Company granted the Render Trust a warrant to purchase respectively 20,000, 16,000 and 4,000 (40,000 in the aggregate) shares of common stock of the Company at $3.00 per share exercisable at any time between January 1 and December 31, 2006. On September 30, 2004, the Render Trust forgave all of the Render Loans in consideration for 50,000 shares of common stock of the Company and warrants to purchase 20,000 shares of common stock of the Company at $5.00 per share, exercisable at any time through December 31, 2006.

At December 31, 2004, each of the notes payable to related parties have options by the maker to accelerate. As such, they are shown as current liabilities in the financial statements. Absent the acceleration options in the notes payable, principal payments to related parties are scheduled as follows for each of the future years ending December 31,:

2005	$103,882
2006	3,989
2007	4,203
2008	4,430
2009	4,668
2010	22,828
	$144,000

7. INCOME TAXES

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities at December 31, 2004 and 2003 are presented below:

7. INCOME TAXES (CONTINUED)

	December 31, 2004 As restated*	December 31, 2003 As restated*
Deferred tax assets:		
Net operating loss carry forwards	$ 1,529,371	$ 878,665
Other	671	408

Total gross deferred tax assets	1,530,042	879,073
Deferred tax liabilities:		
Property and equipment	(3,068)	(2,127)
Unproved oil & gas properties	(502,578)	(286,727)
Total gross deferred liabilities	(505,646)	(288,854)
Less valuation allowance	(1,024,396)	(590,219)
Net deferred tax assets	$ -	$ -

*Restated (see Note 3)

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible and tax carryforwards are utilizable. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income, and tax planning strategies in making this assessment. The Company has had no taxable income since inception. Based upon the level of historical taxable income and projections for future taxable income over the periods in which the deferred tax assets are deductible, management believes it is more likely than not that the Company will not realize the benefits of these deductible differences and tax carryforwards.

At December 31, 2004, the Company has available net operating loss carryforwards of approximately $2,600,000 to reduce future U. S. taxable income. These carryforwards expire from 2020 to 2025.

Income earned from activities in Israel is subject to regular Israeli tax rates. For Israeli tax purposes, exploration costs on unproved properties are expenses. Losses can be carried forward indefinitely, linked to the increase in the Israeli Consumer Price Index. At December 31, 2004, the Company has available net operating loss carryfowards of approximately $1,600,000 to reduce future Israeli taxable income.

Reconciliation between the theoretical tax on pre-tax reported income (loss) and the tax expense:

7. INCOME TAXES (CONTINUED)

	For the year ended December 31	
	2004	2003
	As restated **	As restated **
U.S. pre-tax loss as reported	(1,615,891)	(783,148)
	(121,043)	(90,162)

Israeli pre-tax loss as reported		
U.S. and Israeli pre-tax loss as reported	$(1,736,934)	$ (873,310)
U.S. statutory tax rate	34%	34%
Theoretical tax on above amount per tax rate		
applicable to the company	$ (590,557)	$ (296,925)
Increase (decrease) in tax liability resulting from:		
Change in tax rates	-	-
Permanent differences	825	1,372
Foreign tax rate differential	4,756	-
Change in valuation allowance	622,811	326,795
Other differences*	(37,835)	(31,242)
Tax expenses per statement of income	$ -	$ -

* Including differences between the definition of capital and non-monetary assets for tax purposes.

** Restated (see Note 3).

8. LOAN TRANSACTIONS

On February 28, 2004, the Company entered into three $100,000 loan agreements out of $500,000 authorized by the board of directors. The loans were due on or before the 30th day following the initial closing of the then open initial public offering or February 28, 2005, whichever occurred first. The loans bore interest at 10% and in connection with each of the loans, the Company granted each lender a warrant to purchase 10,000 shares of the Company's common stock at $3.00 per share. The warrants expire on December 31, 2005. In connection with the placement of the loan, the Company paid a finder's fee in the amount of 2,500 shares of restricted common stock valued at $7,500. On

September 30, 2004, each of the three lenders forgave its loan in full in consideration for 25,000 shares of common stock of the Company and warrants to purchase 10,000 shares of common stock of the Company at $5.00 per share, exercisable at any time through December 31, 2006. On November 4, 2004, one of the lenders, Mr. Rinberg, was appointed a director of the Company.

9. 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 and 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 liability, which it may have, as it relates to any environmental clean up, restoration or the violation of any rules or regulations relating thereto. Liabilities for expenditures are recorded when environmental assessment and/or remediation is probable and the costs can be reasonably estimated.

9. 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 oil and gas produced 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 as mentioned above.

The Company has initiated the establishment of a Key Employee Royalty Pool whereby a 1 1/2% 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.

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).

At December 31, 2004, the Company does 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.

Drilling Commitment

On December 29, 2004, the Company signed a drilling contract with Lapidoth Israel Oil Prospectors Corp., Ltd. The contract calls for a daily rate of $14,000 to be paid by the Company as well as a $100,000 mobilization and $100,000 demobilization fee. Of these sums, $60,000 relating to mobilization was paid on signing of the contract. On February 15, 2005 an additional $40,000 relating to the demobilization fee was required and paid. On March 7, 2005, $200,000 was deposited in a Company account managed by a trustee in respect to this contract, $100,000 of which related to the mobilization fee which was paid to contractor on mobilization of the rig on March 20, 2005. An additional $840,000 was deposited in the same account on April 10, 2005, to cover the daily rate of the contract for the first 60 drilling days.

Lease Commitment

The Company is obligated under an operating lease for office space through 2008. Management expects that, in the normal course of business, leases that expire will be renewed by other leases; thus it is anticipated that future minimum lease commitments will not be less than the amount shown for the year ending December 31, 2004. Rent expense for all operating leases was approximately $36,664 and $13,277, net of month-to-month sublease income of $21,840 and $7,464 for 2004 and 2003, respectively. The future minimum lease payments are as follows:

2005	$ 49,244
2006	49,560
2007	51,138
2008	42,615
	$ 192,557

Zion Oil & Gas, Inc.
(A Development Stage Company)
NOTES TO FINANCIAL STATEMENTS

10. SUBSEQUENT EVENTS

Exercise of Warrants

In January 2005, warrants to purchase 358,167 shares of the Company's common stock were exercised raising a total of $461,500. Warrants to purchase 7,334 shares of the Company's common stock were exercised to reduce debt and accounts payable totaling $11,001. Warrants to purchase 160,000 shares of the Company's common stock at $1.00 per share were exercised by the delivery and cancellation of 40,000 shares of the Company's common stock pursuant to an agreement between the Company and its vice-president of finance.

Private Placement Offering

As of March 31, 2005, the Company completed a private placement commenced on September 30, 2004 in which 988,750 shares of our common stock and "E" Warrants to purchase 395,500 shares of common stock were sold to ninety-two (92) investors for a total consideration of $3,955,000. Of the total consideration, $3,092,501 was paid in cash by eighty-four (84) investors, thirty-eight (38) of whom were "accredited" investors in the amount of $1,455,000, thirty-four (34) were "non-accredited" investors in the amount of $1,237,000, and eleven (11) were not residents of the United States in the amount of $400,501. The remaining consideration of $862,499 was paid by cancellation or reduction of outstanding indebtedness owed by us to thirteen (13) investors (of which three were also cash investors and all of which are either "accredited" or non-US residents), ten (10) of whom were directors and/or officers of the Company in the amount of $575,833, and four (4) of whom were not directors or officers of the Company in the amount of $286,666. The "E" Warrants are exercisable at $5.00 per share through December 31, 2006, and none of the Warrants have been exercised.