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

FORM 10-Q

MARK ONE

☒ Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

for the Quarterly Period ended June 30, 2021; or

☐ Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

for the transition period from ________ to ________

ZION OIL & GAS, INC.

(Exact name of registrant as specified in its charter)

Delaware	**20-0065053**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
12655 N Central Expressway, Suite 1000, Dallas, TX	**75243**
(Address of principal executive offices)	Zip Code

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
N/A	N/A	N/A

(214) 221-4610
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 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 ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	☐	Accelerated filer	☐
Non-accelerated filer	☐	Smaller reporting company	☒
		Emerging growth company	☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

Title of each class	Trading Symbol(s)	Name of each exchange on which registered

As of August 10, 2021, Zion Oil & Gas, Inc. had outstanding 284,387,479 shares of common stock, par value $0.01 per share.

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Zion Oil & Gas, Inc.

Consolidated Condensed Balance Sheets as of

	June 30, 2021	December 31, 2020
	US$ thousands	US$ thousands
	(Unaudited)	
Current assets		
Cash and cash equivalents	**9,047**	11,708
Fixed short term bank and escrow deposits – restricted	**1,279**	2,954
Prepaid expenses and other	**534**	1,900
Other deposits	**589**	597
Governmental receivables	**1,539**	2,040
Other receivables	**186**	195
Total current assets	**13,174**	19,394
Unproved oil and gas properties, full cost method (see Note 4)	**32,101**	15,526
Property and equipment at cost		
Drilling rig and related equipment, net of accumulated depreciation of $347 and nil (see note 2J)	**7,197**	7,568
Property and equipment, net of accumulated depreciation of $585 and $564	**153**	131
	7,350	7,699
Right of Use Lease Assets (see Note 7)	**451**	438
Other assets		
Assets held for severance benefits	**484**	446
Total other assets	**484**	446
Total assets	**53,560**	43,503
Liabilities and Stockholders' Equity		
Current liabilities		
Accounts payable	**1,962**	1,369
Lease obligation – current (see Note 7)	**256**	191
Asset retirement obligation	**571**	571
Derivative liability (see Note 6)	**-**	431

10% Senior convertible bonds, net of unamortized deferred financing cost of nil and $9 and unamortized debt discount of nil and $205 at June 30, 2021 and December 31, 2020, respectively (see Note 5)	**-**	3,033
Accrued liabilities	**1,740**	1,987
Total current liabilities	**4,529**	7,582
Long-term liabilities		
Lease obligation – non-current (see Note 7)	**233**	307
Provision for severance pay	**498**	505
Total long-term liabilities	**731**	812
Total liabilities	**5,260**	8,394
Commitments and contingencies (see Note 8)		
Stockholders' equity		
Common stock, par value $.01; Authorized: 800,000,000 shares at June 30, 2021: Issued and outstanding: 283,273,444 and 237,381,555 shares at June 30, 2021 and December 31, 2020, respectively	**2,833**	2,374
Additional paid-in capital	**264,887**	245,539
Accumulated deficit	**(219,420)**	(212,804)
Total stockholders' equity	**48,300**	35,109
Total liabilities and stockholders' equity	**53,560**	43,503

The accompanying notes are an integral part of the unaudited interim consolidated condensed financial statements.

Zion Oil & Gas, Inc.

Consolidated Condensed Statements of Operations (Unaudited)

	For the three months ended June 30,		For the six months ended June 30,	
	2021	**2020**	**2021**	**2020**
	US$ thousands (Unaudited)	**US$ thousands (Unaudited)**	**US$ thousands (Unaudited)**	**US$ thousands (Unaudited)**
General and administrative	**2,952**	1,113	**4,923**	2,088
Impairment of unproved oil and gas properties	**-**	-	**-**	-
Other	**1,064**	577	**1,856**	1,045
Loss from operations	**(4,016)**	(1,690)	**(6,779)**	(3,133)
Other income (expense), net				
Gain (loss) on derivative liability	**5**	(67)	**431**	(51)
Foreign exchange gain (loss)	**13**	(14)	**(50)**	(3)
Financial expenses, net	**(58)**	(153)	**(218)**	(345)
Loss, before income taxes	**(4,056)**	(1,924)	**(6,616)**	(3,532)
Income taxes	**-**	-	**-**	-

Net loss	(4,056)	(1,924)	**(6,616)**	(3,532)
Net (loss), gain per share of common stock				
Basic and diluted (in US$)	**(0.02)**	(0.01)	**(0.03)**	(0.02)
Weighted-average shares outstanding				
Basic and diluted (in thousands)	**248,672**	172,361	**244,032**	155,587

The accompanying notes are an integral part of the unaudited interim consolidated condensed financial statements.

Zion Oil & Gas, Inc.

Consolidated Condensed Statement of Changes in Stockholders' Equity (Unaudited)

For the three and six months ended June 30, 2021

	Common Stock		Additional paid-in Capital	Accumulated deficit	Total
	Shares	Amounts			
	thousands	US$ thousands	US$ thousands	US$ thousands	US$ thousands
Balances as of December 31, 2020	237,382	2,374	245,539	(212,804)	35,109
Funds received from sale of DSPP units and shares and exercise of warrants	39,933	400	13,388	—	13,788
Costs associated with the issuance of shares	—	—	(115)	—	(115)
Value of bonds converted to shares	15	*	9	—	9
Bond interest paid in shares	530	5	316	—	321
Bond principal paid in shares	5,296	53	3,161	—	3,214
Funds received from option exercises	117	1	—	—	1
Value of options granted to employees, directors and others as non-cash compensation	—	—	2,589	—	2,589
Net loss	—	—	—	(6,616)	(6,616)
Balances as of June 30, 2021	283,273	2,833	264,887	(219,420)	48,300

	Common Stock		Additional paid-in Capital	Accumulated deficit	Total
	Shares	Amounts			
	thousands	US$ thousands	US$ thousands	US$ thousands	US$ thousands
Balances as of March 31, 2021	241,351	2,414	249,170	(215,364)	36,220
Funds received from sale of DSPP units and shares and exercise of warrants	36,085	361	10,578	—	10,939
Costs associated with the issuance of shares	—	—	(115)	—	(115)
Value of bonds converted to shares	11	*	9	—	9
Bond interest paid in shares	530	5	316	—	321
Bond principal paid in shares	5,296	53	3,161	—	3,214
Funds received from option exercises	—	—	—	—	—

Value of options granted to employees, directors and others as non-cash compensation	**—**	**—**	**1,768**	**—**	**1,768**
Net loss	**—**	**—**	**—**	**(4,056)**	**(4,056)**
Balances as of June 30, 2021	**283,273**	**2,833**	**264,887**	**(219,420)**	**48,300**

Zion Oil & Gas, Inc.

Consolidated Condensed Statement of Changes in Stockholders' Equity (Unaudited)

For the three and six months ended June 30, 2020

	Common Stock		**Additional paid-in Capital**	**Accumulated deficit**	**Total**
	Shares	**Amounts**			
	thousands	**US$ thousands**	**US$ thousands**	**US$ thousands**	**US$ thousands**
Balances as of December 31, 2019	**123,973**	**1,240**	**217,892**	**(205,808)**	**13,324**
Funds received from sale of DSPP units and shares and exercise of warrants	**53,765**	**537**	**11,965**	**—**	**12,502**
Value of bonds converted to shares	**1**	*****	**—**	**—**	**—**
Bond interest paid in shares	**1,782**	**18**	**307**	**—**	**325**
Funds received from option exercises	**388**	**4**	**—**	**—**	**4**
Value of options granted to employees, directors and others as non-cash compensation	**—**	**—**	**56**	**—**	**56**
Net loss	**—**	**—**	**—**	**(3,532)**	**(3,532)**
Balances as of June 30, 2020	**179,909**	**1,799**	**230,220**	**(209,340)**	**22,679**

	Common Stock		**Additional paid-in Capital**	**Accumulated deficit**	**Total**
	Shares	**Amounts**			
	thousands	**US$ thousands**	**US$ thousands**	**US$ thousands**	**US$ thousands**
Balances as of March 31, 2020	**164,691**	**1,647**	**226,654**	**(207,416)**	**20,885**
Funds received from sale of DSPP units and shares and exercise of warrants	**13,437**	**134**	**3,259**	**—**	**3,393**
Value of bonds converted to shares	**(1)**	*****	*****	**—**	*****
Bond interest paid in shares	**1,782**	**18**	**307**	**—**	**325**
Funds received from option exercises	**—**	**—**	**—**	**—**	**—**
Value of options granted to employees, directors and others as non-cash compensation	**—**	**—**	**—**	**—**	**—**
Net loss	**—**	**—**	**—**	**(1,924)**	**(1,924)**
Balances as of June 30, 2020	**179,909**	**1,799**	**230,220**	**(209,340)**	**22,679**

* Less than one thousand.

The accompanying notes are an integral part of the unaudited interim consolidated condensed financial statements.

Zion Oil & Gas, Inc.

Consolidated Condensed Statements of Cash Flows (Unaudited)

	For the six months ended June 30,	
	2021	**2020**
	US$ thousands	**US$ thousands**
Cash flows from operating activities		
Net loss	**(6,616)**	(3,532)
Adjustments required to reconcile net loss to net cash used in operating activities:		
Depreciation	**368**	26
Cost of options issued to employees, directors and others as non-cash compensation	**2,589**	56
Amortization of debt discount related to convertible bonds	**190**	228
Non-cash interest expense	**-**	101
Change in derivative liability	**(431)**	51
Change in assets and liabilities, net:		
Other deposits	**8**	197
Prepaid expenses and other	**1,366**	81
Governmental receivables	**501**	16
Lease obligation – current	**(63)**	(3)
Lease obligation – noncurrent	**(74)**	(115)
Right of use lease assets	**115**	104
Other receivables	**9**	50
Severance payable, net	**(45)**	16
Accounts payable	**(91)**	(8)
Asset retirement obligation	**-**	(14)
Accrued liabilities	**(792)**	(210)
Net cash used in operating activities	**(2,966)**	(2,956)
Cash flows from investing activities		
Acquisition of property and equipment	**(43)**	(4)
Acquisition of drilling rig and related equipment	**(98)**	(4,609)
Investment in unproved oil and gas properties	**(14,903)**	(526)
Net cash used in investing activities	**(15,044)**	(5,139)
Cash flows from financing activities		
Payments related to capital lease	**-**	(6)
Costs paid related to the issuance of new shares	**(115)**	-
Proceeds from exercise of stock options	**1**	4
Proceeds from issuance of stock and exercise of warrants	**13,788**	12,502
Net cash provided by financing activities	**13,674**	12,500
Net increase in cash, cash equivalents and restricted cash	**(4,336)**	4,405
Cash, cash equivalents and restricted cash – beginning of period	**14,662**	5,935
Cash, cash equivalents and restricted cash – end of period	**10,326**	10,340

Supplemental schedule of cash flow information

Cash paid for interest	-	1
Non-cash investing and financing activities:		
Convertible Bond interest paid in shares	**321**	325
Convertible Bond principal paid in shares	**3,214**	-
Unpaid investments in oil & gas properties	**2,798**	68
10% Senior Convertible Bonds converted to shares	**9**	-
Capitalized convertible bond interest attributed to oil and gas properties	**104**	59
New lease accounted for as a right of use lease asset	**128**	-

* Less than one thousand

The accompanying notes are an integral part of the unaudited interim consolidated condensed financial statements.

Cash, cash equivalents and restricted cash, are comprised as follows:

	June 30, 2021	December 31, 2020	June 30, 2020	December 31, 2019
	US$ thousands	US$ thousands	US$ thousands	US$ thousands
Cash and cash equivalents	**9,047**	11,708	8,288	4,845
Restricted cash included in fixed short-term bank deposits	**1,279**	2,954	2,052	1,090
	10,326	14,662	10,340	5,935

Zion Oil & Gas, Inc.

Consolidated Condensed Notes to Financial Statements (Unaudited)

Note 1 - Nature of Operations, Basis of Presentation and Going Concern

A. Nature of Operations

Zion Oil & Gas, Inc., a Delaware corporation ("we," "our," "Zion" or the "Company") is an oil and gas exploration company with a history of 21 years of oil & gas exploration in Israel. As of June 30, 2021, the Company has no revenues from its oil and gas operations.

Zion maintains its corporate headquarters in Dallas, Texas. The Company also has branch offices in Caesarea, Israel and Geneva, Switzerland. The purpose of the Israel branch is to support the Company's operations in Israel, and the purpose of the Switzerland branch is to operate a foreign treasury center for the Company.

On January 24, 2020, Zion incorporated a wholly owned subsidiary, Zion Drilling, Inc., a Delaware corporation, for the purpose of owning a drilling rig, related equipment and spare parts in the future, and on January 31, 2020, Zion incorporated another wholly owned subsidiary, Zion Drilling Services, Inc., a Delaware corporation, to act as the contractor providing such drilling services. When Zion is not using the rig for its own exploration activities, Zion Drilling Services may contract with other operators in Israel to provide drilling services at market rates then in effect.

Zion has the trademark "ZION DRILLING" filed with the United States Patent and Trademark Office. Zion has the trademark filed with the World Intellectual Property Organization in Geneva, Switzerland, pursuant to the Madrid Agreement and Protocol. In addition, Zion has the trademark filed with the Israeli Trademark Office in Israel.

Exploration Rights/Exploration Activities

The Company currently holds one active petroleum exploration license onshore Israel, the New Megiddo License 428 ("NML 428"), comprising approximately 99,000 acres. The NML 428 was awarded on December 3, 2020 for a six-month term with the possibility of an additional six-month extension. On April 29, 2021, Zion submitted a request to the Ministry of Energy for a six-month extension to December 2, 2021. On May 30, 2021, the Ministry of Energy approved our request for extension to December 2, 2021. The ML 428 lies onshore, south and west of the Sea of Galilee and we continue our exploration focus here as it appears to possess the key geologic ingredients of an active petroleum system with significant exploration potential.

The Megiddo Jezreel #1 ("MJ #1") exploratory well was spud on June 5, 2017 and drilled to a total depth ("TD") of 5,060 meters (approximately 16,600 feet). Thereafter, the Company successfully cased and cemented the well while awaiting the approval of the testing protocol. The Ministry of Energy approved the well testing protocol on April 29, 2018.

During the fourth quarter of 2018, the Company testing protocol was concluded at the MJ #1 well. The test results confirmed that the MJ #1 well did not contain hydrocarbons in commercial quantities in the zones tested. As a result, in the year ended December 31, 2018, the Company recorded a non-cash impairment charge to its unproved oil and gas properties of $30,906,000. During the six months ended June 30, 2021, and 2020, respectively, the Company did not record any post-impairment charges.

The MJ#1 well provided Zion with information Zion believes is important for potential future exploration efforts within its license area. As with many frontier wildcat wells, the MJ#1 also left several questions unanswered.

Note 1 - Nature of Operations, Basis of Presentation and Going Concern (cont'd)

While not meant to be an exhaustive list, a summary of what Zion believes to be key information learned in the MJ#1 well is as follows:

1. The MJ#1 encountered much higher subsurface temperatures at a depth shallower than expected before drilling the well. In our opinion, this is significant because reaching a minimum temperature threshold is necessary for the generation of hydrocarbons from an organic-rich source rock.

2. The known organic rich (potentially hydrocarbon bearing) Senonian age source rocks that are typically present in this part of Israel were not encountered as expected. Zion expected these source rocks to be encountered at approximately 1,000 meters in the MJ#1 well.

3. MJ#1 had natural fractures, permeability (the ability of fluid to move through the rock) and porosity (pore space in rock) that allowed the sustained flow of formation fluid in the shallower Jurassic and lower Cretaceous age formations between approximately 1,200 and 1,800 meters. While no hydrocarbons were encountered, Zion believes this fact is nonetheless significant because it provides important information about possible reservoir pressures and the ability of fluids to move within the formation and to the surface.

4. MJ#1 encountered oil in the Triassic Mohilla formation which Zion believes may indicate the presence of an active deep petroleum system is in Zion's license area. There did not appear to be any natural permeability or porosity in the Triassic Mohilla formation to allow formation fluid to reach the surface naturally during testing, and thus the MJ#1 was not producible or commercial

5. The depths and thickness of the formations we encountered varied greatly from pre-drill estimates. This required the MJ#1 to be drilled to a much greater depth than previously expected. Zion has tied these revised formation depths to seismic data which will allow for more accurate interpretation and mapping in the future.

A summary of what Zion believes to be some key questions left to be answered are:

1. Is the missing shallow Senonian age source rock a result of regional erosion, or is it missing because of a fault that cut the well-bore and could be reasonably expected to be encountered in the vicinity of the MJ#1 drill site? Zion believes this is an important question to answer because if the Senonian source rocks do exist in this area, the high temperatures encountered are sufficient to mature these source rocks and generate oil.

2. Do the unusually high shallow subsurface temperatures extend regionally beyond the MJ#1 well, which could allow for the generation of hydrocarbons in the Senonian age source rock within our license area?

3. As a consequence of seismic remapping, where does the MJ#1 well lie relative to the potential traps at the Jurassic and Triassic levels and was the well location too low on the structures and deeper than the potential hydrocarbons within those traps?

As a result of these unanswered questions and with the information gained drilling the MJ#1 well, Zion believed it was prudent and consistent with good industry practice to try and answer some of these questions with a focused 3-D seismic imaging shoot of approximately 72 square kilometers surrounding the MJ#1 well. Zion has completed all of the acquisition, processing and interpretation of the 3-D data and has incorporated its expanded knowledge base into the drilling of our current MJ-02 exploratory well (see further details below).

Zion's geology team is continuing to work on a larger interpretation of 3D areas, along with potential exploration locations located in the western portion of the NML 428 area.

Note 1 - Nature of Operations, Basis of Presentation and Going Concern (cont'd)

Megiddo-Jezreel Petroleum License, No. 401 ("MJL 401") and New Megiddo License 428 ("NML 428")

The Megiddo-Jezreel License 401 was awarded on December 3, 2013 for a three-year primary term through December 2, 2016 with the possibility of additional one-year extensions up to a maximum of seven years. The Megiddo-Jezreel License 401 lies onshore, south and west of the Sea of Galilee, and we continue our exploration focus here as it appears to possess the key geologic ingredients of an active petroleum system with significant exploration potential.

The NML 428 was awarded on December 3, 2020 for a six-month term with the possibility of an additional six-month extension. This license effectively replaced the Megiddo-Jezreel License 401 as it has the same area and coordinates.

The MJ-02 drilling plan was approved by the Ministry of Energy on July 29, 2020. On January 6, 2021, Zion officially spudded its MJ-02 exploratory well. Zion plans to reach a total depth of approximately 5,800 meters (~19,024 feet). Although our operational team encountered difficulties to maintain stability with a shale formation in recent drilling, we have moved forward with adjusted drilling parameters to enable us to maintain shale integrity as we move toward our zones of interest.

B. Basis of Presentation

The accompanying unaudited interim consolidated condensed financial statements of Zion Oil & Gas, Inc. have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") for interim financial information and with Article 8-03 of Regulation S-X. Accordingly, they do not include all the information and notes required by GAAP for complete financial statements. In the opinion of management, all adjustments, consisting only of normal recurring accruals necessary for a fair statement of financial position, results of operations and cash flows, have been included. The information included in this Quarterly Report on Form 10-Q should be read in conjunction with the financial statements and the accompanying notes included in the Company's Annual Report on Form 10-K for the year ended December 31, 2020. The year-end balance sheet data presented for comparative purposes was derived from audited financial statements, but does not include all disclosures required by GAAP. The results of operations for the three and six months ended June 30, 2021 are not necessarily indicative of the operating results for the year ending December 31, 2021 or for any other subsequent interim period.

C. Going Concern

The Company incurs cash outflows from operations, and all exploration activities and overhead expenses to date have been financed by way of equity or debt financing. The recoverability of the costs incurred to date is uncertain and dependent upon achieving significant commercial production of hydrocarbons.

The Company's ability to continue as a going concern is dependent upon obtaining the necessary financing to undertake further exploration and development activities and ultimately generating profitable operations from its oil and natural gas interests in the future. The Company's current operations are dependent upon the adequacy of its current assets to meet its current expenditure requirements and the accuracy of management's estimates of those requirements. Should those estimates be materially incorrect, the Company's ability to continue as a going concern may be impaired. The consolidated 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. During the six months ended June 30, 2021, the Company incurred a net loss of approximately \$6.6 million and had an accumulated deficit of approximately \$219.4 million. These factors raise substantial doubt about the Company's ability to continue as a going concern.

To carry out planned operations, the Company must raise additional funds through additional equity and/or debt issuances or through profitable operations. There can be no assurance that this capital or positive operational income will be available to the Company, and if it is not, the Company may be forced to curtail or cease exploration and development activities. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Note 2 - Summary of Significant Accounting Policies

A. Net Gain (Loss) per Share Data

Basic and diluted net (loss) gain per share of common stock, par value \$0.01 per share ("Common Stock"), is presented in conformity with ASC 260-10 "Earnings Per Share." Diluted net loss per share is the same as basic net loss per share, as the inclusion of 16,426,527 and 15,248,643 and 10,589,366 and 10,529,736 Common Stock equivalents in the three- and six-month period ended June 30, 2021 and 2020 respectively, would be anti-dilutive.

B. Use of Estimates

The preparation of the accompanying consolidated condensed financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions about future events. These estimates and the underlying assumptions affect the amounts of assets and liabilities reported, disclosures about contingent assets and liabilities, and reported amounts of revenues and expenses. Such estimates include the valuation of unproved oil and gas properties, deferred tax assets, asset retirement obligations and legal contingencies. These estimates and assumptions are based on management's best estimates and judgment. Management evaluates its estimates and assumptions on an ongoing basis using historical experience and other factors, including the current economic environment, which management believes to be reasonable under the circumstances. The Company adjusts such estimates and assumptions when facts and circumstances dictate. Illiquid credit markets, volatile equity, foreign currency, and energy markets have combined to increase the uncertainty inherent in such estimates and assumptions. As future events and their effects cannot be determined with precision, actual results could differ significantly from these estimates. Changes in those estimates resulting from continuing changes in the economic environment will be reflected in the consolidated financial statements in future periods.

The full extent to which the COVID-19 pandemic may directly or indirectly impact our business, results of operations and financial condition, will depend on future developments that are uncertain, including as a result of new information that may emerge concerning COVID-19 and the actions taken to contain it or treat COVID-19, as well as the economic impact on local, regional, national and international markets. We have made estimates of the impact of COVID-19 within our consolidated financial statements, and although there is currently no major impact, there may be changes to those estimates in future periods. Actual results may differ from these estimates.

C. Oil and Gas Properties and Impairment

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

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

The Company's oil and gas property represents an investment in unproved properties. These costs are excluded from the amortized cost pool until proved reserves are found or until it is determined that the costs are impaired. All costs excluded are reviewed at least quarterly to determine if impairment has occurred. The amount of any impairment is charged to expense since a reserve base has not yet been established. Impairment requiring a charge to expense may be indicated through evaluation of drilling results, relinquishing drilling rights or other information.

During the three and six months ended June 30, 2021, and 2020, respectively, the Company did not record any post-impairment charges.

Currently, the Company has no economically recoverable reserves and no amortization base. The Company's unproved oil and gas properties consist of capitalized exploration costs of $32,101,000 and $15,526,000 as of June 30, 2021 and December 31, 2020, respectively.

Note 2 - Summary of Significant Accounting Policies (cont'd)

D. Fair Value Measurements

The Company follows Accounting Standards Codification (ASC) 820, "Fair Value Measurements and Disclosures," as amended by Financial Accounting Standards Board (FASB) Financial Staff Position (FSP) No. 157 and related guidance. Those provisions relate to the Company's financial assets and liabilities carried at fair value and the fair value disclosures related to financial assets and liabilities. ASC 820 defines fair value, expands related disclosure requirements, and specifies a hierarchy of valuation techniques based on the nature of the inputs used to develop the fair value measures. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, assuming the transaction occurs in the principal or most advantageous market for that asset or liability.

The Company uses a three-tier fair value hierarchy to classify and disclose all assets and liabilities measured at fair value on a recurring basis, as well as assets and liabilities measured at fair value on a non-recurring basis, in periods subsequent to their initial measurement. The hierarchy requires the Company to use observable inputs when available, and to minimize the use of unobservable inputs, when determining fair value. The three tiers are defined as follows:

- Level 1—Observable inputs that reflect quoted market prices (unadjusted) for identical assets or liabilities in active markets;

- Level 2—Observable inputs other than quoted prices in active markets that are observable either directly or indirectly in the marketplace for identical or similar assets and liabilities; and

- Level 3—Unobservable inputs that are supported by little or no market data, which require the Company to develop its own assumptions.

The Company's financial instruments, including cash and cash equivalents, accounts payable and accrued liabilities, are carried at historical cost. At June 30, 2021, and December 31, 2020, the carrying amounts of these instruments approximated their fair values because of the short-term nature of these instruments. Derivative instruments are carried at fair value, generally estimated using the Binomial Model.

E. Derivative Liabilities

In accordance with ASC 815-40-25 and ASC 815-10-15 Derivatives and Hedging and ASC 480-10-25 Liabilities-Distinguishing Liabilities from Equity, the embedded derivatives associated with the Convertible Bonds are accounted for as a liability during the term of the related Convertible Bonds (see Note 5).

F. Stock-Based Compensation

ASC 718, "Compensation – Stock Compensation," prescribes accounting and reporting standards for all share-based payment transactions in which employee services are acquired. Transactions include incurring liabilities, or issuing or offering to issue shares, options, and other equity instruments such as employee stock ownership plans and stock appreciation rights. Share-based payments to employees, including grants of employee stock options, are recognized as compensation expense in the consolidated financial statements based on their fair values. That expense is recognized over the period during which an employee is required to provide services in exchange for the award, known as the requisite service period (usually the vesting period).

The Company accounts for stock-based compensation issued to non-employees and consultants in accordance with the provisions of ASC 505-50, "Equity – Based Payments to Non-Employees." Measurement of share-based payment transactions with non-employees is based on the fair value of whichever is more reliably measurable: (a) the goods or services received; or (b) the equity instruments issued. The fair value of the share-based payment transaction is determined at the earlier of performance commitment date or performance completion date.

Zion Oil & Gas, Inc.

Consolidated Condensed Notes to Financial Statements (Unaudited)

Note 2 - Summary of Significant Accounting Policies (cont'd)

G. ***Warrants***

In connection with the Dividend Reinvestment and Stock Purchase Plan ("DSPP") financing arrangements, the Company has issued warrants to purchase shares of its common stock. The outstanding warrants are stand-alone instruments that are not puttable or mandatorily redeemable by the holder and are classified as equity awards. The Company measures the fair value of the awards using the Black-Scholes option pricing model as of the measurement date. Warrants issued in conjunction with the issuance of common stock are initially recorded and accounted as a part of the DSPP investment as additional paid-in capital of the common stock issued. All other warrants are recorded at fair value and expensed over the requisite service period or at the date of issuance, if there is not a service period. Warrants granted in connection with ongoing arrangements are more fully described in Note 3, *Stockholders' Equity*.

H. Related parties

Parties are considered to be related to the Company if the parties, directly or indirectly, through one or more intermediaries, control, are controlled by, or are under common control with the Company. Related parties also include principal owners of the Company, its management, members of the immediate families of principal owners of the Company and its management and other parties with which the Company may deal if one party controls or can significantly influence the management or operating policies of the other to an extent that one of the transacting parties might be prevented from fully pursuing its own separate interests. All transactions with related parties are recorded at fair value of the goods or services exchanged. Zion did not have any related party transactions for the periods covered in this report, with the exception of recurring monthly consulting fees paid to certain management personnel.

I. Recently Adopted Accounting Pronouncements

In March 2020, the FASB issued ASU 2020-03, "Codification Improvements to Financial Instruments": The amendments in this update are to clarify, correct errors in, or make minor improvements to a variety of ASC topics. The changes in ASU 2020-03 are not expected to have a significant effect on current accounting practices. The ASU improves various financial instrument topics in the Codification to increase stakeholder awareness of the amendments and to expedite the improvement process by making the Codification easier to understand and easier to apply by eliminating inconsistencies and providing clarifications. The ASU is effective for smaller reporting companies for fiscal years beginning after December 15, 2022 with early application permitted. The Company is currently evaluating the impact the adoption of this guidance may have on its consolidated financial statements.

Zion Oil & Gas, Inc.

Consolidated Condensed Notes to Financial Statements (Unaudited)

Note 2 - Summary of Significant Accounting Policies (cont'd)

In August 2020, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2020-06, Debt with Conversion and Other Options (Subtopic 470-20) and Derivatives and Hedging-Contracts in Entity's Own Equity (Subtopic 815-40), Accounting for Convertible Instruments and Contracts in an Entity's Own

Equity. The ASU simplifies accounting for convertible instruments by removing major separation models required under current GAAP. Consequently, more convertible debt instruments will be reported as a single liability instrument with no separate accounting for embedded conversion features. The ASU removes certain settlement conditions that are required for equity contracts to qualify for the derivative scope exception, which will permit more equity contracts to qualify for it. The ASU simplifies the diluted net income per share calculation in certain areas. The ASU is effective for annual and interim periods beginning after December 31, 2021, and early adoption is permitted for fiscal years beginning after December 15, 2020, and interim periods within those fiscal years. The Company is currently evaluating the impact that this new guidance will have on its unaudited consolidated condensed financial statements.

The Company does not discuss recent pronouncements that are not anticipated to have an impact on or are unrelated to its financial condition, results of operations, cash flows or disclosures.

J. Depreciation and Accounting for Drilling Rig and Inventory

On March 12, 2020, Zion entered into a Purchase and Sale Agreement with Central European Drilling kft ("CED"), a Hungarian corporation, to purchase an onshore oil and gas drilling rig, drilling pipe, related equipment and spare parts for a purchase price of $5.6 million in cash, subject to acceptance testing and potential downward adjustment. We remitted to the Seller $250,000 on February 6, 2020 as earnest money towards the purchase price. The Closing anticipated by the Agreement took place on March 12, 2020 by the Seller's execution and delivery of a Bill of Sale to us. On March 13, 2020, the Seller retained the earnest money deposit, and the Company remitted $4,350,000 to the seller towards the purchase price and $1,000,000 (the "Holdback Amount") was deposited in escrow with American Stock Transfer and Trust Company LLC, as escrow agent, through November 30, 2020, or as extended by mutual agreement of the parties, pending a determination, if any, by us of any operating deficiency in the drilling rig. On January 6, 2021, Zion completed its acceptance testing of the I-35 drilling rig and the Holdback Amount was remitted to Central European Drilling on January 8, 2021.

Since the rig was purchased and closed during March 2020, this purchase was recorded on Zion's books as a long-term fixed asset as a component of Property and Equipment. The full purchase price of the drilling rig was $5.6 million, inclusive of approximately $540,000 allocated in spare parts and $48,000 allocated in additional separate assets. The value of the spare parts and separate assets are captured in separate ledger accounts, but reported as one line item with the drilling rig on the balance sheet.

In accordance with GAAP accounting rules, per the matching principle, monthly depreciation begins the month following when the asset is "placed in service." The rig was placed in service in December 2020 with January 2021 representing the first month of depreciation. Zion determined that the life of the I-35 drilling rig (the rig Zion purchased), is 10 years. Zion will depreciate the rig on a straight-line basis.

The $540,000 in spare parts was the original cost to CED. These items were received and counted by Zion upon receipt. All records and files are maintained by Zion. Zion plans to obtain a physical count of the equipment items at the end of each quarter, or as close to such date as practical, in accordance with our normal procedures.

Zion uses the First In First Out ("FIFO") method of accounting for the inventory spare parts, meaning that the earliest items purchased will be the first item charged to the well in which the inventory spare parts gets consumed.

It is also noteworthy that various components and systems on the rig will be subject to certifications by the manufacturer to ensure that the rig is maintained at optimal levels. Per standard practice in upstream oil and gas, each certification performed on our drilling rig increases the useful life of the rig by five years. The costs of each certification will be added to the drilling rig account and our straight-line amortization will be adjusted accordingly.

Note 2 - Summary of Significant Accounting Policies (cont'd)

See the table below for a reconciliation of the rig-related activity during the six months ended June 30, 2021:

I-35 Drilling Rig & Associated Equipment:

	Six-month period ended June 30, 2021			
	I-35 Drilling Rig	Rig Spare Parts	Other Drilling Assets	Total
	US$ thousands	US$ thousands	US$ thousands	US$ thousands
December 31, 2020	6,494	698	376	7,568
Asset Additions	**-**	**72**	**26**	**98**
Asset Depreciation	**(347)**	**-**	**-**	**(347)**
Asset Disposals for Self-Consumption	**-**	**(122)**	**-**	**(122)**
June 30, 2021	**6,147**	**648**	**402**	**7,197**

Note 3 - Stockholders' Equity

The Company's shareholders approved the amendment of the Company's Amended and Restated Certificate of Incorporation to increase the number of shares of common stock, par value $0.01, that the Company is authorized to issue from 400,000,000 shares to 800,000,000 shares, effective June 9, 2021.

A. 2011 Equity Incentive Stock Option Plan

During the six months ended June 30, 2021, the Company granted the following options from the 2011 Equity Incentive Plan for employees, directors and consultants, to purchase shares of common stock as non-cash compensation:

i. Options to purchase 600,000 shares of Common Stock to six senior officers and three staff members at an exercise price of $0.915 per share. The options vested upon grant and are exercisable through January 4, 2031. The fair value of the options at the date of grant amounted to approximately $456,000.

ii. Options to purchase 75,000 shares of Common Stock were granted to one senior officer at an exercise price of $0.01 per share. The options vested upon grant and are exercisable through January 6, 2031. The fair value of the options at the date of grant amounted to approximately $68,000. These options were granted per the provisions under the Israeli Appendix to the Plan.

iii. Options to purchase 1,800,000 shares of Common Stock to six senior officers and three staff members at an exercise price of $0.59 per share. The options vested upon grant and are exercisable through May 21, 2031. The fair value of the options at the date of grant amounted to approximately $885,000.

iv. Options to purchase 200,000 shares of Common Stock were granted to one senior officer at an exercise price of $0.01 per share. The options vested upon grant and are exercisable through May 21, 2031. The fair value of the options at the date of grant amounted to approximately $117,000. These options were granted per the provisions under the Israeli Appendix to the Plan.

During the six months ended June 30, 2020, the Company granted the following options from the 2011 Equity Incentive Plan for employees, directors and consultants, to purchase shares of common stock as non-cash compensation:

i. Options to purchase 110,000 shares of Common Stock to five senior officers at an exercise price of $0.01 per share. The options vested upon grant and are exercisable through January 6, 2030. The fair value of the options at the date of grant amounted to approximately $57,000.

Note 3 - Stockholders' Equity (cont'd)

B. 2011 Non-Employee Directors Stock Option Plan

During the six months ended June 30, 2021, the Company grant the following qualified (market value) and non-qualified options from the 2011 Non-Employee Directors Stock Option Plan for directors to purchase shares of common stock as non-cash compensation:

i. Options to purchase 350,000 shares of Common Stock to seven board members at an exercise price of $0.915 per share. The options vested upon grant and are exercisable through January 4, 2027. The fair value of the options at the date of grant amounted to approximately $252,000.

ii. Options to purchase 50,000 shares of Common Stock were granted to one board member at an exercise price of $0.01 per share. The options vested upon grant and are exercisable through January 4, 2027. The fair value of the options at the date of grant amounted to approximately $45,000. These options were granted per the provisions under the Israeli Appendix to the Plan.

iii. Options to purchase 1,400,000 shares of Common Stock to six board members and one consultant at an exercise price of $0.59 per share. The options vested upon grant and are exercisable through May 21, 2027. The fair value of the options at the date of grant amounted to approximately $643,000.

iv. Options to purchase 200,000 shares of Common Stock were granted to one board member at an exercise price of $0.01 per share. The options vested upon grant and are exercisable through May 21, 2027. The fair value of the options at the date of grant amounted to approximately $116,000. These options were granted per the provisions under the Israeli Appendix to the Plan.

During the six months ended June 30, 2020, the Company did not grant any qualified (market value) options from the 2011 Non-Employee Directors Stock Option Plan to its directors.

C. 2021 Incentive Stock Option Plan

Effective June 9, 2021, the Company's shareholders authorized the adoption of the Zion Oil & Gas, Inc. 2021 Omnibus Incentive Stock Option Plan ("Omnibus Plan") for employees, directors and consultants, initially reserving for issuance thereunder 38,000,000 shares of common stock.

The Omnibus Plan provides for the grant of incentive stock options, nonqualified stock options, stock appreciation rights, restricted stock, bonus stock, awards in lieu of cash obligations, other stock-based awards and performance units. The plan also permits cash payments under certain conditions.

The compensation committee of the Board of Directors (comprised of independent directors) is responsible for determining the type of award, when and to whom awards are granted, the number of shares and the terms of the awards and exercise prices. The options are exercisable for a period not to exceed ten years from the date of grant.

During the six months ended June 30, 2021, the Company granted the following options from the 2021 Equity Omnibus Plan for employees, directors and consultants, to purchase shares of common stock as non-cash compensation:

i. Options to purchase 25,000 shares of Common Stock to one board member at an exercise price of $0.29 per share. The options vested upon grant and are exercisable through June 15, 2031. The fair value of the options at the date of grant amounted to approximately $6,000.

Note 3 - Stockholders' Equity (cont'd)

C. Stock Options

The stock option transactions since January 1, 2021 are shown in the table below:

	Number of shares	**Weighted Average exercise price**
		US$
Outstanding, December 31, 2020	3,797,750	1.14
Changes during 2021 to:		
Granted to employees, officers, directors and others	**4,700,000**	0.59
Expired/Cancelled/Forfeited	**(183,000)**	1.52
Exercised	**(117,000)**	0.01
Outstanding, June 30, 2021	**8,197,750**	0.83
Exercisable, June 30, 2021	**8,197,750**	0.83

Note 3 - Stockholders' Equity (cont'd)

The following table summarizes information about stock options outstanding as of June 30, 2021:

Shares underlying outstanding options (non-vested)				Shares underlying outstanding options (fully vested)			
Range of exercise price	Number outstanding	Weighted average remaining contractual life (years)	Weighted Average Exercise price	Range of exercise price	Number Outstanding	Weighted average remaining contractual life (years)	Weighted Average Exercise price
US$			US$	US$			US$
—	—	—	—	0.01	10,000	2.37	0.01
—	—	—	—	0.01	5,000	2.95	0.01
—	—	—	—	0.01	20,000	4.92	0.01
—	—	—	—	0.01	130,000	5.50	0.01
—	—	—	—	0.01	50,000	5.51	0.01
—	—	—	—	0.01	60,000	5.79	0.01
—	—	—	—	0.01	200,000	5.88	0.01
—	—	—	—	0.01	40,000	6.25	0.01
—	—	—	—	0.01	87,500	6.50	0.01
—	—	—	—	0.01	25,000	6.51	0.01
—	—	—	—	0.01	30,000	6.66	0.01
—	—	—	—	0.01	4,000	6.76	0.01
—	—	—	—	0.01	25,000	7.52	0.01
—	—	—	—	0.01	50.000	7.83	0.01
—	—	—	—	0.01	105,000	8.21	0.01
—	—	—	—	0.01	305,000	8.38	0.01
—	—	—	—	0.01	60,000	8.51	0.01
—	—	—	—	0.01	75,000	9.51	0.01
—	—	—	—	0.01	200,000	9.89	0.01
—	—	—	—	0.16	340,000	4.44	0.16
—	—	—	—	0.16	150,000	8.44	0.16
—	—	—	—	0.18	25,000	4.42	0.18
—	—	—	—	0.28	25,000	4.17	0.28
—	—	—	—	0.28	25,000	8.17	0.28
—	—	—	—	0.29	25,000	5.95	0.29
—	—	—	—	0.59	1,400,000	5.88	0.59
—	—	—	—	0.59	1,800,000	9.89	0.59
—	—	—	—	0.92	350,000	5.51	0.92
—	—	—	—	0.92	600,000	9.51	0.92
—	—	—	—	1.33	25,000	1.83	1.33
—	—	—	—	1.38	105,307	3.51	1.38
—	—	—	—	1.55	200,000	0.93	1.55
—	—	—	—	1.67	405,943	3.26	1.67
—	—	—	—	1.70	218,500	1.47	1.70
—	—	—	—	1.75	250,000	2.02	1.75
—	—	—	—	1.78	25,000	3.18	1.78
—	—	—	—	2.31	250,000	2.51	2.31
				2.61	471,500	0.43	2.61
—	—	—	—	4.15	25,000	3.01	4.15
				0.01-4.15	8,197,750		0.83

Note 3 - Stockholders' Equity (cont'd)

Granted to employees

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

	For the six months ended June 30,	
	2021	**2020**
Weighted-average fair value of underlying stock at grant date	**$ 0.67**	$ 0.52
Dividend yields	**—**	—
Expected volatility	**120%-143%**	103%
Risk-free interest rates	**0.16%-0.84%**	1.61%
Expected lives (in years)	**3.00-5.00**	5.00
Weighted-average grant date fair value	**$ 0.55**	$ 0.51

Granted to non-employees

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

	For the six months ended June 30,	
	2021	**2020**
Weighted-average fair value of underlying stock at grant date	**$ 0.59**	$ —
Dividend yields	**—**	—
Expected volatility	**113%**	—
Risk-free interest rates	**1.07%**	—
Expected lives (in years)	**6.00**	—
Weighted-average grant date fair value	**$ 0.50**	$ —

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

The expected life represents the weighted average period of time that options granted are expected to be outstanding. The expected life of the options granted to employees and directors is calculated based on the Simplified Method as allowed under Staff Accounting Bulletin No. 110 ("SAB 110"), giving consideration to the contractual term of the options and their vesting schedules, as the Company does not have sufficient historical exercise data at this time. The expected life of the option granted to non-employees equals their contractual term. In the case of an extension of the option life, the calculation was made on the basis of the extended life.

Zion Oil & Gas, Inc.

Note 3 - Stockholders' Equity (cont'd)

D. Compensation Cost for Warrant and Option Issuances

The following table sets forth information about the compensation cost of warrant and option issuances recognized for employees and directors:

For the three months ended June 30,	
2021	**2020**
US$ thousands	**US$ thousands**
1,669	—

For the six months ended June 30,	
2021	**2020**
US$ thousands	**US$ thousands**
2,490	56

The following table sets forth information about the compensation cost of warrant and option issuances recognized for non-employees:

For the three months ended June 30,	
2021	**2020**
US$ thousands	**US$ thousands**
—	—

For the six months ended June 30,	
2021	**2020**
US$ thousands	**US$ thousands**
99	—

The following table sets forth information about the compensation cost of option issuances recognized for employees and non-employees and capitalized to Unproved Oil & Gas properties:

For the three months ended June 30,	
2021	**2020**
US$ thousands	**US$ thousands**
—	**—**

For the six months ended June 30,	
2021	**2020**
US$ thousands	**US$ thousands**
—	—

Note 3 - Stockholders' Equity (cont'd)

E. Dividend Reinvestment and Stock Purchase Plan ("DSPP")

On March 13, 2014 Zion filed a registration statement on Form S-3 that is part of a replacement registration statement that was filed with the SEC using a "shelf" registration process. The registration statement was declared effective by the SEC on March 31, 2014. On February 23, 2017, the Company filed a Form S-3 with the SEC (Registration No. 333-216191) as a replacement for the Form S-3 (Registration No. 333-193336), for which the three-year period ended March 31, 2017, along with the base Prospectus and Supplemental Prospectus. The Form S-3, as amended, and the new base Prospectus became effective on March 10, 2017, along with the Prospectus Supplement that was filed and became effective on March 10, 2017. The Prospectus Supplement under Registration No. 333-216191 describes the terms of the DSPP and replaces the prior Prospectus Supplement, as amended, under the prior Registration No. 333-193336.

On March 27, 2014, we launched our Dividend Reinvestment and Stock Purchase Plan (the "DSPP" or the "Plan") pursuant to which stockholders and interested investors can purchase shares of the Company's Common Stock as well as units of the Company's securities directly from the Company. The terms of the DSPP are described in the Prospectus Supplement originally filed on March 31, 2014 (the "Original Prospectus Supplement") with the Securities and Exchange Commission ("SEC") under the Company's effective registration Statement on Form S-3, as thereafter amended.

The ZNWAB warrants first became exercisable on May 2, 2016 and, in the case of ZNWAC on May 2, 2017 and in the case of ZNWAD on May 2, 2018, at a per share exercise price of $1.00.

As of May 2, 2017, any outstanding ZNWAB warrants expired.

As of May 2, 2018, any outstanding ZNWAC warrants expired.

On May 29, 2019, the Company extended the termination date of the ZNWAD Warrant by one (1) year from the expiration date of May 2, 2020 to May 2, 2021. Zion considers this warrant as permanent equity per ASC 815-40-35-2. As such, there is no value assigned to this extension.

On September 15, 2020, the Company extended the termination date of the ZNWAD Warrant by two (2) years from the expiration date of May 2, 2021 to May 2, 2023. Zion considers this warrant as permanent equity per ASC 815-40-35-2. As such, there is no value assigned to this extension.

On November 1, 2016, the Company launched a unit offering under the Company's DSPP pursuant to which participants could purchase units comprised of seven shares of Common Stock and seven Common Stock purchase warrants, at a per unit purchase price of $10. The warrant is referred to as "ZNWAE."

The ZNWAE warrants became exercisable on May 1, 2017 and continued to be exercisable through May 1, 2020 at a per share exercise price of $1.00.

On May 29, 2019, the Company extended the termination date of the ZNWAE Warrant by one (1) year from the expiration date of May 1, 2020 to May 1, 2021. Zion considers this warrant as permanent equity per ASC 815-40-35-2. As such, there is no value assigned to this extension.

On September 15, 2020, the Company extended the termination date of the ZNWAE Warrant by two (2) years from the expiration date of May 1, 2021 to May 1, 2023. Zion considers this warrant as permanent equity per ASC 815-40-35-2. As such, there is no value assigned to this extension.

The warrant terms provide that if the Company's Common Stock trades above $5.00 per share at the closing price for 15 consecutive trading days at any time prior to the expiration date of the warrant, the Company may, in its sole discretion, accelerate the termination of the warrant upon providing 60 days advance notice to the warrant holders.

Zion Oil & Gas, Inc.

Consolidated Condensed Notes to Financial Statements (Unaudited)

Note 3 - Stockholders' Equity (cont'd)

On May 22, 2017, the Company launched a new unit offering. This unit offering consisted of a new combination of common stock and warrants, a new time period in which to purchase under the program, and a new unit price, but otherwise the same unit program features, conditions and terms in the Prospectus Supplement applied. The unit program terminated on July 12, 2017. This program enabled participants to purchase Units of the Company's securities where each Unit (priced at $250.00 each) was comprised of (i) the number of shares of Common Stock determined by dividing $250.00 (the price of one Unit) by the average of the high and low sale prices of the Company's Common Stock as reported on the NASDAQ on the unit purchase date and (ii) Common Stock purchase warrants to purchase an additional 25 shares of Common Stock at a warrant exercise price of $1.00 per share. The warrant is referred to as "ZNWAF."

All ZNWAF warrants became exercisable on August 14, 2017 and continued to be exercisable through August 14, 2020 at a per share exercise price of $1.00.

On May 29, 2019, the Company extended the termination date of the ZNWAF Warrant by one (1) year from the expiration date of August 14, 2020 to August 14, 2021. Zion considers this warrant as permanent equity per ASC 815-40-35-2. As such, there is no value assigned to this extension.

On September 15, 2020, the Company extended the termination date of the ZNWAF Warrant by two (2) years from the expiration date of August 14, 2021 to August 14, 2023. Zion considers this warrant as permanent equity per ASC 815-40-35-2. As such, there is no value assigned to this extension.

The warrant terms provide that if the Company's Common Stock trades above $5.00 per share as the closing price for 15 consecutive trading days at any time prior to the expiration date of the warrant, the Company has the sole discretion to accelerate the termination date of the warrant upon providing 60 days advance notice to the warrant holders.

An Amendment No. 2 to the Prospectus Supplement (as described below) was filed on October 12, 2017.

Under Amendment No. 2, the Company initiated another unit offering which terminated on December 6, 2017. This unit offering enabled participants to purchase Units of the Company's securities where each Unit (priced at $250.00 each) was comprised of (i) a certain number of shares of Common Stock determined by dividing $250.00 (the price of one Unit) by the average of the high and low sale prices of the Company's Common Stock as reported on the NASDAQ on the unit purchase date and (ii) Common Stock purchase warrants to purchase an additional 15 shares of Common Stock at a warrant exercise price of $1.00 per share. The warrant is referred to as "ZNWAG."

The warrants became exercisable on January 8, 2018 and continue to be exercisable through January 8, 2023 at a per share exercise price of $1.00. The warrant terms provide that if the Company's Common Stock trades above $5.00 per share as the closing price for 15 consecutive trading days at any time prior to the expiration date of the warrant, the Company has the sole discretion to accelerate the termination date of the warrant upon providing 60 days advance notice to the warrant holders.

On February 1, 2018, the Company launched another unit offering which terminated on February 28, 2018. The unit offering consisted of Units of our securities where each Unit (priced at $250.00 each) was comprised of (i) 50 shares of Common Stock and (ii) Common Stock purchase warrants to purchase an additional 50 shares of Common Stock. The investor's Plan account was credited with the number of shares of the Company's Common Stock acquired under the Units purchased. Each warrant affords the investor the opportunity to purchase one share of Company Common Stock at a warrant exercise price of $5.00. The warrant is referred to as "ZNWAH."

The warrants became exercisable on April 2, 2018 and continued to be exercisable through April 2, 2020 at a per share exercise price of $5.00, after the Company, on December 4, 2018, extended the termination date of the Warrant by one (1) year from the expiration date of April 2, 2019 to April 2, 2020.

Note 3 - Stockholders' Equity (cont'd)

On May 29, 2019, the Company extended the termination date of the ZNWAH Warrant by one (1) year from the expiration date of April 2, 2020 to April 2, 2021. Zion considers this warrant as permanent equity per ASC 815-40-35-2. As such, there is no value assigned to this extension.

On September 15, 2020, the Company extended the termination date of the ZNWAH Warrant by two (2) years from the expiration date of April 2, 2021 to April 2, 2023. Zion considers this warrant as permanent equity per ASC 815-40-35-2. As such, there is no value assigned to this extension.

On August 21, 2018, the Company initiated another unit offering, and it terminated on September 26, 2018. The offering consisted of Units of the Company's securities where each Unit (priced at $250.00 each) was comprised of (i) a certain number of shares of Common Stock determined by dividing $250.00 (the price of one Unit) by the average of the high and low sale prices of the Company's publicly traded common stock as reported on the NASDAQ on the Unit Purchase Date and (ii) Common Stock purchase warrants to purchase an additional twenty-five (25) shares of Common Stock. The investor's Plan account was credited with the number of shares of the Company's Common Stock acquired under the Units purchased. Each warrant affords the investor the opportunity to purchase one share of Company Common Stock at a warrant exercise price of $1.00. The warrant is referred to as "ZNWAJ."

The warrants became exercisable on October 29, 2018 and continued to be exercisable through October 29, 2020 at a per share exercise price of $1.00, after the Company, on December 4, 2018, extended the termination date of the Warrant by one (1) year from the expiration date of October 29, 2019 to October 29, 2020.

On May 29, 2019, the Company extended the termination date of the ZNWAJ Warrant by one (1) year from the expiration date of October 29, 2020 to October 29, 2021. Zion considers this warrant as permanent equity per ASC 815-40-35-2. As such, there is no value assigned to this extension.

On September 15, 2020, the Company extended the termination date of the ZNWAJ Warrant by two (2) years from the expiration date of October 29, 2021 to October 29, 2023. Zion considers this warrant as permanent equity per ASC 815-40-35-2. As such, there is no value assigned to this extension.

On December 10, 2018, the Company initiated another unit offering, and it terminated on January 23, 2019. The offering consisted of Units of the Company's securities where each Unit (priced at $250.00 each) is comprised of (i) two hundred and fifty (250) shares of Common Stock and (ii) Common Stock purchase warrants to purchase an additional two hundred and fifty (250) shares of Common Stock at a per share exercise price of $0.01. The investor's Plan account was credited with the number of shares of the Company's Common Stock and Warrants that are acquired under the Units purchased. Each warrant affords the participant the opportunity to purchase one share of our Common Stock at a warrant exercise price of $0.01. The warrant is referred to as "ZNWAK."

The warrants became exercisable on February 25, 2019 and continued to be exercisable through February 25, 2020 at a per share exercise price of $0.01.

On May 29, 2019, the Company extended the termination date of the ZNWAK Warrant by one (1) year from the expiration date of February 25, 2020 to February 25, 2021. Zion considers this warrant as permanent equity per ASC 815-40-35-2. As such, there is no value assigned to this extension.

On September 15, 2020, the Company extended the termination date of the ZNWAK Warrant by two (2) years from the expiration date of February 25, 2021 to February 25, 2023. Zion considers this warrant as permanent equity per ASC 815-40-35-2. As such, there is no value assigned to this extension.

On April 24, 2019, the Company initiated another unit offering and it terminated on June 26, 2019, after the Company, on June 5, 2019, extended the termination date of the unit offering.

Note 3 - Stockholders' Equity (cont'd)

The unit offering consisted of Units of the Company's securities where each Unit (priced at $250.00 each) was comprised of (i) two hundred and fifty (250) shares of Common Stock and (ii) Common Stock purchase warrants to purchase an additional fifty (50) shares of Common Stock at a per share exercise price of $2.00. The investor's Plan account was credited with the number of shares of the Company's Common Stock and Warrants acquired under the Units purchased. For Plan participants who enrolled into the Unit Program with the purchase of at least one Unit and also enrolled in the separate Automatic Monthly Investments ("AMI") program at a minimum of $50.00 per month or more, received an additional twenty-five (25) warrants at an exercise price of $2.00 during this unit offering. The twenty-five (25) additional warrants were for enrolling into the AMI program. Existing subscribers to the AMI were entitled to the additional twenty-five (25) warrants once, if they purchased at least one (1) unit during the Unit program. Each warrant affords the participant the opportunity to purchase one share of our Common Stock at a warrant exercise price of $2.00. The warrant is referred to as "ZNWAL."

The warrants became exercisable on August 26, 2019 and continue to be exercisable through August 26, 2021 at a per share exercise price of $2.00.

On September 15, 2020, the Company extended the termination date of the ZNWAL Warrant by two (2) years from the expiration date of August 26, 2021 to August 26, 2023. Zion considers this warrant as permanent equity per ASC 815-40-35-2. As such, there is no value assigned to this extension.

Under our Plan, the Company under a Request For Waiver Program executed Waiver Term Sheets of a unit program consisting of Units (shares of stock and warrants) to a participant. The participant's Plan account was credited with the number of shares of the Company's Common Stock and Warrants that were acquired. Each warrant affords the participant the opportunity to purchase one share of our Common Stock at a warrant exercise price of $1.00. The warrant shall have the company notation of "ZNWAM." The warrants will not be registered for trading on the OTCQX or any other stock market or trading market. The warrants became exercisable on January 15, 2021 and continue to be exercisable through July 15, 2022 at a per share exercise price of $1.00.

On February 1, 2021, the Company initiated a unit offering and it terminated on March 17, 2021.

The unit offering consisted of Units of the Company's securities where each Unit (priced at $250.00 each) was comprised of (i) the number of Common Stock shares represented by the high-low average on the purchase date and (ii) Common Stock purchase warrants to purchase an additional twenty-five (25) shares of Common Stock at a per share exercise price of $1.00. The investor's Plan account was credited with the number of shares of the Company's Common Stock and Warrants acquired under the Units purchased. For Plan participants who enrolled into the unit offering with the purchase of at least one Unit or who enrolled in the separate Automatic Monthly Investments

(“AMI”) program at a minimum of $50.00 per month or more, received an additional ten (10) warrants at an exercise price of $1.00 during this Unit Option Program. The ten (10) additional warrants were for enrolling into the AMI program. Existing subscribers to the AMI were also entitled to the additional ten (10) warrants once, provided that they purchased at least one (1) unit during the Unit program. Each warrant affords the participant the opportunity to purchase one share of our Common Stock at a warrant exercise price of $1.00. The warrant is referred to as “ZNWAN.”

On April 12, 2021, the Company initiated a unit offering and it terminated on May 12, 2021.

The unit offering consisted of Units of the Company’s securities where each Unit (priced at $250.00 each) was comprised of (i) the number of Common Stock shares represented by the high-low average on the purchase date and (ii) Common Stock purchase warrants to purchase an additional fifty (50) shares of Common Stock at a per share exercise price of $.25. The investor’s Plan account was credited with the number of shares of the Company’s Common Stock and Warrants acquired under the Units purchased. For Plan participants who enrolled into the unit offering with the purchase of at least one Unit or who enrolled in the separate Automatic Monthly Investments (“AMI”) program at a minimum of $50.00 per month or more, received an additional fifty (50) warrants at an exercise price of $.25 during this Unit Option Program. The fifty (50) additional warrants were for enrolling into the AMI program. Existing subscribers to the AMI were also entitled to the additional fifty (50) warrants once, provided that they purchased at least one (1) unit during the Unit program. Each warrant affords the participant the opportunity to purchase one share of our Common Stock at a warrant exercise price of $.25. The warrant is referred to as “ZNWAO.”

Under our Plan, the Company under a Request For Waiver Program executed a Waiver Term Sheet for a unit program consisting of Zion securities to a participant. After conclusion of the program on June 17, 2021, the participant’s Plan account was credited with the number of shares of the Company’s Common Stock that were acquired.

Under our Plan, the Company under a Request For Waiver Program executed a Waiver Term Sheet for a unit program consisting of a Unit (shares of stock and warrants) to a participant. After conclusion of the program on May 28, 2021, the participant’s Plan account was credited with the number of shares of the Company’s Common Stock and Warrants that were acquired. Each warrant affords the participant the opportunity to purchase one share of our Common Stock at a warrant exercise price of $.25. The warrant shall have the company notation of “ZNWAP.” The warrants will not be registered for trading on the OTCQX or any other stock market or trading market. The warrants were issued and became exercisable on June 2, 2021 and continue to be exercisable through June 2, 2022 at a per share exercise price of $.25.

Note 3 - Stockholders’ Equity (cont’d)

Under our Plan, the Company under a Request For Waiver Program executed a Waiver Term Sheet of a unit program consisting of a Unit (shares of stock and warrants) to a participant. After conclusion of the program on June 18, 2021, the participant’s Plan account was credited with the number of shares of the Company’s Common Stock and Warrants that were acquired. Each warrant affords the participant the opportunity to purchase one share of our Common Stock at a warrant exercise price of $.25. The warrant shall have the company notation of “ZNWAQ.” The warrants will not be registered for trading on the OTCQX or any other stock market or trading market. The warrants will be issued on April 4, 2022 and be exercisable through July 6, 2022 at a per share exercise price of $.25.

Under our Plan, the Company under a Request For Waiver Program executed a Waiver Term Sheet of a unit program consisting of a Unit (shares of stock and warrants) to a participant. After conclusion of the program on June 18, 2021, the participant’s Plan account was credited with the number of shares of the Company’s Common Stock and Warrants that were acquired. Each warrant affords the participant the opportunity to purchase one share of our Common Stock at a warrant exercise price of $.25. The warrant shall have the company notation of “ZNWAR.” The warrants will not be registered for trading on the OTCQX or any other stock market or trading market. The warrants were issued and became exercisable on June 22, 2021 and continue to be exercisable through June 22, 2022 at a per share exercise price of $.25. Additionally, Zion incurred $115,000 in equity issuance costs to an outside party related to this waiver program.

On December 9, 2019 Zion filed an Amendment No. 1 to the Registration Statement on Form S-1 (File No. 333-235299) solely for the purpose of re-filing a revised Exhibit 5.1 to the Registration Statement. This Amendment No. 1 does not modify any provision of the prospectus that forms a part of the Registration Statement and accordingly, such prospectus has not been included herein.

For the three and six months ended June 30, 2021, approximately $10,939,000, and $13,788,000 were raised under the DSPP program, respectively.

For the three and six months ended June 30, 2020, approximately $3,393,000, and $12,502,000 were raised under the DSPP program, respectively.

The company raised approximately $550,000 from the period July 1, 2021 through August 7, 2021, under the DSPP program.

The warrants represented by the company notation ZNWAA are tradeable on the OTCQX market under the symbol ZNOGW. However, all of the other warrants described above, in the table below, and throughout this Form 10-Q, are not tradeable and are used internally for classification and accounting purposes only.

F. Subscription Rights Offering

On April 2, 2018 the Company announced an offering ("2018 Subscription Rights Offering") through American Stock Transfer & Trust Company, LLC (the "Subscription Agent"), at no cost to the shareholders, of non-transferable Subscription Rights (each "Right" and collectively, the "Rights") to purchase its securities to persons who owned shares of our Common Stock on April 13, 2018 ("the Record Date"). Pursuant to the 2018 Subscription Rights Offering, each holder of shares of common stock on the Record Date received non-transferable Subscription Rights, with each Right comprised of one share of the Company Common Stock, par value $0.01 per share (the "Common Stock") and one Common Stock Purchase Warrant to purchase an additional one share of Common Stock. Each Right could be exercised or subscribed at a per Right subscription price of $5.00. Each Warrant affords the investor the opportunity to purchase one share of the Company Common Stock at a warrant exercise price of $3.00. The warrant is referred to as "ZNWAI."

Note 3 - Stockholders' Equity (cont'd)

The warrants became exercisable on June 29, 2018 and continued to be exercisable through June 29, 2020 at a per share exercise price of $3.00, after the Company, on December 4, 2018, extended the termination date of the Warrant by one (1) year from the expiration date of June 29, 2019 to June 29, 2020.

On May 29, 2019, the Company extended the termination date of the ZNWAI Warrant by one (1) year from the expiration date of June 29, 2020 to June 29, 2021.

On September 15, 2020, the Company extended the termination date of the ZNWAI Warrant by two (2) years from the expiration date of June 29, 2021 to June 29, 2023. Zion considers this warrant as permanent equity per ASC 815-40-35-2. As such, there is no value assigned to this extension.

Each shareholder received.10 (one tenth) of a Subscription Right (i.e., one Subscription Right for each 10 shares owned) for each share of the Company's Common Stock owned on the Record Date.

The 2018 Subscription Rights Offering terminated on May 31, 2018. The Company raised net proceeds of approximately $3,038,000, from the subscription of Rights, after deducting fees and expenses of $243,000 incurred in connection with the rights offering.

G. Warrant Table

The warrants balances at December 31, 2020 and transactions since January 1, 2021 are shown in the table below:

Warrants	Exercise Price	Warrant Termination Date	Outstanding Balance, 12/31/2020	Warrants Issued	Warrants Exercised	Warrants Expired	Outstanding Balance, 06/30/2021
ZNWAA	$ 2.00	01/31/2023	1,498,804	-	-	-	1,498,804
ZNWAD	$ 1.00	05/02/2023	243,853	-	-	-	243,853
ZNWAE	$ 1.00	05/02/2023	2,144,099	-	-	-	2,144,099
ZNWAF	$ 1.00	08/14/2023	359,435	-	-	-	359,435
ZNWAG	$ 1.00	01/08/2023	240,068	-	-	-	240,068
ZNWAH	$ 5.00	04/19/2023	372,400	-	-	-	372,400
ZNWAI	$ 3.00	06/29/2023	640,730	-	-	-	640,730
ZNWAJ	$ 1.00	10/29/2023	545,900	-	-	-	545,900
ZNWAK	$ 0.01	02/25/2023	437,875	-	(5,670)	-	432,205
ZNWAL	$ 2.00	08/26/2023	517,875	-	-	-	517,875
ZNWAM	$ 1.00	07/15/2022	-	4,376,000	-	-	4,376,000
ZNWAN	$ 1.00	07/15/2022	-	267,725	(100)	-	267,625
ZNWAO	$ 0.25	06/12/2023	-	190,120	(11,332)	-	178,788
ZNWAP	$ 0.25	06/02/2022	-	1,639,916	(1,200,000)	-	439,916
ZNWAR	$ 0.25	06/23/2022	-	1,020,000	-	-	1,020,000
Outstanding warrants			7,001,039	7,493,761	(1,217,102)	-	13,277,698

Note 3 - Stockholders' Equity (cont'd)

H. Warrant Descriptions

The price and the expiration dates for the series of warrants to investors are as follows *:

		Period of Grant	US$	Expiration Date
ZNWAA Warrants	B,C	March 2013 – December 2014	2.00	January 31, 2023
ZNWAD Warrants	A,B,C	January 2015 – March 2016	1.00	May 02, 2023
ZNWAE Warrants	B,C	November 2016 – March 2017	1.00	May 01, 2023
ZNWAF Warrants	A,B,C	May 2017 – July 2017	1.00	August 14, 2023
ZNWAG Warrants	C	October 2017 – December 2017	1.00	January 08, 2023
ZNWAH Warrants	A,B,C	February 2018	5.00	April 2, 2023
ZNWAI Warrants	A,B,C	April 2018 – May 2018	3.00	June 29, 2023

ZNWAJ Warrants	B,C	August 2018 – September 2018	1.00	October 29, 2023
ZNWAK Warrants	B,C	December 2018 – January 2019	0.01	February 25, 2023
ZNWAL Warrants	C	July 2019 – August 2019	2.00	August 26, 2023
ZNWAM Warrants		January 2021 – March 2021	1.00	July 15, 2022
ZNWAN Warrants		May - June 2021	1.00	July 15, 2022
ZNWAO Warrants		June 2021	0.25	June 12, 2023
ZNWAP Warrants		June 2021	0.25	June 02, 2022
ZNWAQ Warrants		June 2021	0.25	July 6, 2022
ZNWAR Warrants		June 2021	0.25	June 22, 2022

* Zion's ZNWAB Warrants expired on May 2, 2017, and the ZNWAC Warrants expired on May 2, 2018
A On December 4, 2018, the Company extended the termination date of the Warrants by one (1) year.
B On May 29, 2019, the Company extended the termination date of the Warrants by one (1) year.
C On September 15, 2020, the Company extended the termination date of the Warrants by two (2) years.

Note 4 - Unproved Oil and Gas Properties, Full Cost Method

Unproved oil and gas properties, under the full cost method, are comprised as follows:

	June 30, 2021 US$ thousands	December 31, 2020 US$ thousands
Excluded from amortization base:		
Drilling costs, and other operational related costs	**18,824**	4,232
Capitalized salary costs	**2,084**	1,967
Capitalized interest costs	**1,418**	1,314
Legal and seismic costs, license fees and other preparation costs	**9,736**	7,974
Other costs	**39**	39
	32,101	15,526

Changes in Unproved oil and gas properties during the three and six months ended June 30, 2021 and 2020 are as follows:

	For the three months ended June 30,		For the six months ended June 30,	
	2021 US$ thousands	2020 US$ thousands	2021 US$ thousands	2020 US$ thousands
Excluded from amortization base:				
Drilling costs, and other operational related costs	**7,590**	84	**14,592**	84
Capitalized salary costs	**56**	51	**117**	97
Capitalized interest costs	**25**	39	**104**	59
Legal costs, license fees and other preparation costs	**728**	248	**1,762**	398
Other costs	**-**	4	**-**	11
	***8,399**	*426	***16,575**	*649

* Inclusive of non-cash amounts of approximately $460,000, and $62,000 during the three months ended June 30, 2021, and 2020, respectively

* Inclusive of non-cash amounts of approximately $2,902,000, and $127,000 during the six months ended June 30, 2021, and 2020, respectively

Please refer to Footnote 1 – Nature of Operations and Going Concern for more information about Zion's exploration activities.

Note 5 - Senior Convertible Bonds

Rights Offering -10% Senior Convertible Notes due May 2, 2021 and paid on May 3, 2021

On October 21, 2015, the Company filed with the SEC a prospectus supplement for a rights offering. Under this rights offering, we distributed at no cost, 360,000 non-transferable subscription rights to subscribe for, on a per right basis, two 10% Convertible Senior Bonds par $100 due May 2, 2021 (the "Notes"), to shareholders of the Company's Common Stock on October 15, 2015, the record date for the offering. Each whole subscription right entitled the participant to purchase two convertible bonds at a purchase price of $100 per bond. Effective October 21, 2015, the Company executed a Supplemental Indenture, as issuer, with the American Stock Transfer & Trust Company, LLC, a New York limited liability trust company ("AST"), as trustee for the Notes (the "Indenture").

On March 31, 2016, the rights offering terminated.

On May 2, 2016, the Company issued approximately $3,470,000 aggregate principal amount of convertible bonds or Notes in connection with the rights offering. The Company received net proceeds of approximately $3,334,000, from the issuance of the Notes, after deducting fees and expenses of $136,000 incurred in connection with the offering. These costs have been discounted as deferred offering costs.

The Notes contained a convertible option that gave rise to a derivative liability, which was accounted for separately from the Notes (see below). Accordingly, the Notes were initially recognized at fair value of approximately $1,844,000, which represents the principal amount of $3,470,000 from which a debt discount of approximately $1,626,000 (which is equal to the fair value of the convertible option) was deducted.

During the three and six months ended June 30, 2021, the Company recorded approximately $2,000 and $9,000, respectively, in amortization expense related to the deferred financing costs, approximately $60,000 and $205,000, respectively, in debt discount amortization net, and approximately $23,000 and $33,200, respectively, related to financing gains associated with Notes converted to shares.

During the three and six months ended June 30, 2020, the Company recorded approximately $7,000 and $13,000, respectively, in amortization expense related to the deferred financing costs, approximately $101,000 and $217,000, respectively, in debt discount amortization net, and approximately ($1,000) and $3,000, respectively, related to financing (losses) gains associated with Notes converted to shares.

The Notes were governed by the terms of the Indenture. The Notes were senior unsecured obligations of the Company and had an interest rate of 10% per year, payable annually in arrears on May 2 of each year, commencing May 2, 2017. The Notes matured on May 2, 2021, and the annual interest and principal were paid on May 3, 2021 (see below).

Interest and principal may be paid, at the Company's option, in cash or in shares of the Company's Common Stock. The number of shares for the payment of interest in shares of Common Stock, in lieu of the cash amount, will be based on the average of the closing prices of the Company's Common Stock as reported by Bloomberg L.P. for the 30 trading days preceding the record date for the payment of interest; such record date has been designated and will always be the 10th business day prior to the interest payment date on May 2 of each year. The number of shares for the payment of principal, in lieu of the cash amount, shall be based upon the average of the closing price of the Company's Common Stock as reported by Bloomberg L.P. for the 30 trading days preceding the principal repayment date; such record date has been designated as the trading day immediately prior to the 30-day period preceding the maturity date of May 2, 2021. Fractional shares were not issued, and the final number of shares were rounded up to the next whole share.

On April 2, 2021, the ability of bondholders to convert the bonds ended so the 30-day average share price could be computed. On May 2, 2021, Zion's bonds expired. Zion chose to pay the principal in kind with our stock. On May 2, 2021, a total of 32,139 $100 face value bonds were outstanding. The 30-day moving average price used to settle the bonds was .6069. Zion settled the principal on the bonds by issuing 5,300,000 shares of our common stock. The annual 10% coupon payment was paid in shares using the same 30-day average price. Zion issued approximately 530,000 shares for the remaining bond holders' interest payment.

On May 3, 2021, the Company paid its annual 10% interest to its bondholders of record on April 20, 2021. The interest was paid-in-kind ("PIK") in the form of Common Stock. An average of the Company stock price of $.606 was determined based on the 30 trading days prior to the record date of April 20, 2021. This figure was used to divide into 10% of the par value of the bonds held by the holders. The Company issued 529,892 shares to the accounts of its bondholders. Additionally, on May 3, 2021, the Company issued 5,296,308 shares to the accounts of its bondholders in payment of the principal amount of the convertible bonds. As of the date of this report, the Company fully paid its annual interest over the course of five years, as well as the principal amount of the bonds, and its obligation is completed.

Note 5 - Senior Convertible Bonds (cont'd)

Through the three and six months ended June 30, 2021, 232 and 332 convertible bonds of $100 each, respectively, have been converted at a conversion rate of approximately $2.27 per share. As a result, the Company issued approximately 10,200 and 14,600 shares of its Common Stock during the same period, respectively, and recorded approximately $14,000 and $24,000 in financial income during the same period.

Through the three and six months ended June 30, 2020, 8 and 28 convertible bonds of $100 each, respectively, have been converted at a conversion rate of approximately $2.27 per share. As a result, the Company issued approximately 352 and 1,232 shares of its Common Stock during the same period, respectively, and recorded approximately ($1,000) and $3,000 in financial (expenses) income during the same period.

	June 30, 2021	December 31, 2020
	US$ thousands	US$ thousands
10% Senior Convertible Bonds, on the day of issuance	$ -	$ 3,470
Unamortized Debt discount, net	$ -	$ (205)
Bonds converted to shares	$ -	$ (223)
Offering cost, net	$ -	$ (9)

10% senior Convertible bond - Liability	**$** -	$ 3,033

Capitalized interest for the three and six months ended June 30, 2021 was $25,000 and $104,000 compared to $39,000 and $59,000 for the three and six months ended June 30, 2020.

Interest expenses for the three and six months ended June 30, 2021 were $0 and $0 compared to $40,000 and $101,000 for the three and six months ended June 30, 2020.

Note 6 - Derivative Liability

The Notes issued by the Company and discussed in Note 5 contained a convertible option that gives rise to a derivative liability.

The debt instrument the Company issued included a make-whole provision, which provides that in the event of conversion by the investor under certain circumstances, the issuer is required to deliver to the holder additional consideration beyond the settlement of the conversion obligation.

Because time value make-whole provisions are not clearly and closely related to the debt host and would meet the definition of a derivative if considered freestanding, they are evaluated under the indexation guidance to determine whether they would be afforded the scope exception pursuant to ASC 815-10-15-74(a). This evaluation is generally performed in conjunction with the analysis of the embedded conversion feature.

Company has measured its derivative liability at fair value and recognized the derivative value as a current liability and recorded the derivative value on its balance sheet. Changes in the fair value are recorded as a gain or loss in the accompanying statement of operations.

The valuation of the Notes was done by using the Binomial Model, a well-accepted option-pricing model, and based on the Notes' terms and other parameters the Company identified as relevant for the valuation of the Notes' Fair Value.

The Binomial Model used the forecast of the Company share price during the Note's contractual term.

Note 6 - Derivative Liability (cont'd)

As of June 30, 2021 and December 31, 2020, the Company's liabilities that are measured at fair value are as follows:

	June 30, 2021		**December 31, 2020**	
	Level 3	**Total**	**Level 3**	**Total**
	US$ thousands	**US$ thousands**	**US$ thousands**	**US$ thousands**
Fair value of derivative liability	-	-	431	431

Change in value of the derivative liability during 2021 is as follows:

	US$ thousands

Derivative liability fair value at December 31, 2020	**431**
Gain on derivative liability	**(431)**
Derivative liability fair value at June 30, 2021	**-**

The following table presents the assumptions that were used for the model as of June 30, 2021:

	June 30, 2021	**December 31, 2020**
Convertible Option Fair Value of approximately	**$ -**	$ 431,000
Annual Risk-free Rate	**-**	.09%
Volatility	**-**	163.57%
Expected Term (years)	**-**	.33
Convertible Notes Face Value	**$ -**	$ 3,246,700
Expected annual yield on Regular Notes	**-**	28.77%
Price of the Underlying Stock	**$ -**	$ 0.90

During the three and six months ended June 30, 2021, the Company recorded unrealized gains of approximately $5,000, net, and $431,000, net, respectively, within the Statements of Operations on derivative liability.

During the three and six months ended June 30, 2020, the Company recorded unrealized losses of approximately $67,000, net, and $51,000, net, respectively, within the Statements of Operations on derivative liability.

Note 7 - Right of use lease assets and lease obligations

The Company is a lessee in several non-cancellable operating leases, primarily for transportation and office spaces.

The table below presents the operating lease assets and liabilities recognized on the balance sheets as of June 30, 2021 and December 31, 2020:

	June 30, 2021	**December 31, 2020**
	US$ thousands	**US$ thousands**
Operating lease assets	**$ 451**	$ 438
Operating lease liabilities:		
Current operating lease liabilities	**$ 256**	$ 191
Non-current operating lease liabilities	**$ 233**	$ 307
Total operating lease liabilities	**$ 489**	$ 498

The depreciable lives of operating lease assets and leasehold improvements are limited by the expected lease term.

The Company’s leases generally do not provide an implicit rate, and therefore the Company uses its incremental borrowing rate as the discount rate when measuring operating lease liabilities. The incremental borrowing rate represents an estimate of the interest rate the Company would incur at lease commencement to borrow an amount equal to the lease payments on a collateralized basis over the term of a lease within a particular currency environment.

The Company used incremental borrowing rates as of January 1, 2019 for operating leases that commenced prior to that date.

The Company's weighted average remaining lease term and weighted average discount rate for operating leases as of June 30, 2021 are:

	June 30, 2021
Weighted average remaining lease term (years)	**2.2**
Weighted average discount rate	**5.9%**

The table below reconciles the undiscounted future minimum lease payments (displayed by year and in the aggregate) under non-cancellable operating leases with terms of more than one year to the total operating lease liabilities recognized on the condensed consolidated balance sheets as of June 30, 2021:

	US$ thousands
July 1, 2021 through December 31, 2021	**275**
2022	**155**
2023	**90**
2024	**-**
Thereafter	**-**
Total undiscounted future minimum lease payments	**520**
Less: portion representing imputed interest	**(31)**
Total undiscounted future minimum lease payments	**489**

Note 7 - Right of use lease assets and lease obligations (cont'd)

Operating lease costs were $65,000 and $128,000 for the three and six months ended June 30, 2021, respectively. Operating lease costs were $61,000 and $122,000 for the three and six months ended June 30, 2020, respectively. Operating lease costs are included within general and administrative expenses on the statements of income.

Cash paid for amounts included in the measurement of operating lease liabilities was $71,000 and $143,000 for the three and six months ended June 30, 2021, respectively. Cash paid for amounts included in the measurement of operating lease liabilities were $67,000 and $134,000 for the three and six months ended June 30, 2020. These amounts are included in operating activities in the statements of cash flows.

Right-of-use assets obtained in exchange for new operating lease liabilities were $128,000 and $128,000 for the three and six months ended June 30, 2021, respectively. Right-of-use assets obtained in exchange for new operating lease liabilities were $0 and $0 for the three and six months ended June 30, 2020, respectively.

Note 8 - Commitments and Contingencies

A. Securities and Exchange Commission ("SEC") Investigation

As previously disclosed by the Company, on June 21, 2018, the Fort Worth Regional Office of the SEC informed Zion that it was conducting a formal, non-public investigation and asked that we provide certain information and documents in connection with its investigation. Since that date, we have fully cooperated with the SEC on an on-going basis in connection with its investigation. Investigations of this nature are inherently uncertain and their results cannot be predicted with certainty. Regardless of the outcome, an SEC investigation could have an adverse impact on us because of legal costs, diversion of management resources, and other factors. The investigation could also result in reputational harm to Zion and may have a material adverse effect on Zion's current and future business and exploratory activities and its ability to raise capital to continue our oil and gas exploratory activities.

B. Litigation

On October 29, 2018, Zion received a shareholder request to inspect books and records pursuant to Section 220 of the Delaware General Corporation Law for the purpose of investigating potential corporate mismanagement and alleged breaches of fiduciary duty in connection with public statements made by the Company from March 12, 2018 to May 30, 2018. The Company responded to this request.

On August 9, 2019, Zion received two (2) additional shareholder requests from the same law firm to inspect books and records pursuant to section 220 of the Delaware General Corporation Law for the purpose of investigating potential corporate mismanagement and alleged breaches of fiduciary duty in connection with public statements made by the Company from February 1, 2018 to present. Following discussion with counsel to the shareholder, the Company's counsel produced materials responsive to the shareholders' request in January 2020.

On February 12, 2020, by letter to Zion's Board of Directors, one of the shareholders making the August 9, 2019 request demanded that the Board investigate, address, remedy, and commence proceedings against certain of the Company's current and former officers and directors for alleged breaches of fiduciary duties, violations of section 10(b) and 20(a) of the Exchange Act, waste of corporate assets, unjust enrichment, and violations of all other applicable laws. The shareholder alleges wrongdoing in connection with public statements made by the Company from February 1, 2018 regarding the Company's oil and gas exploration activities, the Company's accounting and disclosure of expenses, and the Board's oversight of operations. The Board hired independent counsel to investigate the claims made against certain of the Company's current and former officers and directors. That investigation concluded and based on the findings and recommendations of independent counsel, the Board decided not to pursue claims against any current or former officer or director. On July 14, 2020, Zion received a request from the same shareholder making the February 12, 2020 demand to inspect books and records pursuant to Section 220 of the Delaware General Corporation Law for the purpose of evaluating the Board's decision to reject the litigation demand. The Company responded to this request in August 2020. The Company has not received any further communication from the shareholder following the August 2020 response.

From time to time, the Company may be subject to routine litigation, claims or disputes in the ordinary course of business. The Company defends itself vigorously in all such matters. However, we cannot predict the outcome or effect of any of the potential litigation, claims or disputes.

The Company is not subject to any litigation at the present time.

Note 8 - Commitments and Contingencies (cont'd)

C. Recent Market Conditions – Coronavirus Pandemic

During March 2020, a global pandemic was declared by the World Health Organization related to the rapidly growing outbreak of a novel strain of coronavirus ("COVID-19"). The pandemic has significantly impacted the economic conditions in the United States and Israel, as federal, state and local governments react to the public health crisis, creating significant uncertainties in the United States, Israel and world economies. In the interest of public health and safety, jurisdictions (international, national, state and local) where we have operations, restricted travel and required workforces to work from home. As of the date of this report, many of our employees are working from home. However, while there are various uncertainties to navigate, the Company's business activities are continuing. The situation is rapidly changing and additional impacts to the business may arise that we are not aware of currently. We cannot predict whether, when or the manner in which the conditions surrounding COVID-19 will change including the timing of lifting any restrictions or work from home arrangements.

The full extent of COVID-19's impact on our operations and financial performance depends on future developments that are uncertain and unpredictable, including the duration and spread of the pandemic, its impact on capital and financial markets and any new information that may emerge concerning the severity of the virus, its spread to other regions as well as the actions taken to contain it, among others.

D. Environmental and Onshore Licensing Regulatory Matters

The Company is engaged in oil and gas exploration and production and may become subject to certain liabilities as they relate to environmental clean-up of well sites or other environmental restoration procedures and other obligations as they relate to the drilling of oil and gas wells or the operation thereof. Various guidelines have been published in Israel by the State of Israel's Petroleum Commissioner and Energy and Environmental Ministries as it pertains to oil and gas activities. Mention of these older guidelines was included in previous Zion filings.

On April 8, 2019 the Energy Ministry issued new procedural guidelines regarding a uniform reporting manner by which the rights holder in a license must submit a quarterly report regarding a summary of license history, the nature, scope, location and results of the exploration work, specification of the amounts expended for the exploration work, and the results and interpretation of the exploration work and basic data on which these results and interpretation are based.

On July 18, 2019, the Energy Ministry issued a guidance document entitled "Instructions for Submitting Guarantees with respect to Oil Rights granted pursuant to the Petroleum Law" which states that onshore license applicants are required to deposit a base bank guarantee of $500,000. Furthermore, prior to drilling, an onshore license holder is required to deposit an additional bank guarantee in the amount as determined by the Petroleum Commissioner in accordance with the characteristics of the drilling and the drilling plan but no less than $250,000. The guarantee, as determined by the Commissioner, shall be deposited with the Commissioner Office for each well separately drilled. The Petroleum Commissioner has discretion to raise or lower those amounts or may also forfeit a Company's existing guarantee and/or cancel a petroleum right under certain circumstances.

In addition, new and extended insurance policy guidelines were added. The Petroleum Commissioner may also view non-compliance with the new insurance provisions as breaching the work plan and the rights granted and act accordingly.

The Company believes that these new regulations will result in an increase in the expenditures associated with obtaining new exploration rights and drilling new wells. The Company expects that an additional financial burden could occur as a result of requiring cash reserves that could otherwise be used for operational purposes. In addition, these new regulations are likely to continue to increase the time needed to obtain all of the necessary authorizations and approvals to drill and production test exploration wells.

As of June 30, 2021, and December 31, 2020, the Company accrued $0 for license regulatory matters.

Note 8 - Commitments and Contingencies (cont'd)

E. Bank Guarantees

As of June 30, 2021, the Company provided Israeli-required bank guarantees to various governmental bodies (approximately $1,175,000) and others (approximately $88,000) with respect to its drilling operation in an aggregate amount of approximately $1,263,000. The (cash) funds backing these guarantees are held in restricted interest-bearing accounts and are reported on the Company's balance sheets as fixed short-term bank deposits – restricted.

F. Risks

Market risk is a broad term for the risk of economic loss due to adverse changes in the fair value of a financial instrument. These changes may be the result of various factors, including interest rates, foreign exchange rates, commodity prices and/or equity prices. In the normal course of doing business, we are exposed to the risks associated with foreign currency exchange rates and changes in interest rates.

Foreign Currency Exchange Rate Risks. A portion of our expenses, primarily labor expenses and certain supplier contracts, are denominated in New Israeli Shekels ("NIS"). As a result, we have significant exposure to the risk of fluctuating exchange rates with the U.S. Dollar ("USD"), our primary reporting currency. During the period January 1, 2021 through June 30, 2021, the USD has fluctuated by approximately 1.4% against the NIS (the USD strengthened relative to the NIS). By contrast, during the period January 1, 2020 through December 31, 2020, the USD fluctuated by approximately 7.0% against the NIS (the USD weakened relative to the NIS). Continued strengthening of the US dollar against the NIS will result in lower operating costs from NIS denominated expenses. To date, we have not hedged any of our currency exchange rate risks, but we may do so in the future.

Interest Rate Risk. Our exposure to market risk relates to our cash and investments. We maintain an investment portfolio of short-term bank deposits and money market funds. The securities in our investment portfolio are not leveraged, and are, due to their very short-term nature, subject to minimal interest rate risk. We currently do not hedge interest rate exposure. Because of the short-term maturities of our investments, we do not believe that a change in market interest rates would have a significant negative impact on the value of our investment portfolio except for reduced income in a low interest rate environment. At June 30, 2021, we had cash, cash equivalents and short-term bank deposits of approximately $10,326,000. The weighted average annual interest rate related to our cash and cash equivalents for the three and six months ended June 30, 2021, exclusive of funds at US banks that earn no interest, was approximately .08% and .11%, respectively.

The primary objective of our investment activities is to preserve principal while at the same time maximizing yields without significantly increasing risk. To achieve this objective, we invest our excess cash in short-term bank deposits and money market funds that may invest in high quality debt instruments.

Note 9 - Subsequent Events

(i) Approximately $550,000 was collected through the Company's DSPP program during the period July 1 through August 9, 2021.

(ii) Options to purchase 1,425,000 shares of Common Stock were issued to eleven board members and four employees at an exercise price of $0.39 per share. The options vested upon grant and are exercisable through July 9, 2031. The fair value of the options at the date of grant amounted to approximately $468,000.

(iii) Options to purchase 100,000 shares of Common Stock were issued to seven employees at an exercise price of $0.29 per share. The options vested upon grant and are exercisable through July 13, 2031. The fair value of the options at the date of grant amounted to approximately $33,000.

(iv) Options to purchase 375,000 shares of Common Stock were issued to two board members and six employees at an exercise price of $0.01 per share. The options vested upon grant and are exercisable through July 17, 2031. The fair value of the options at the date of grant amounted to approximately $140,000.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

THE FOLLOWING DISCUSSION SHOULD BE READ IN CONJUNCTION WITH OUR UNAUDITED INTERIM FINANCIAL STATEMENTS AND THE RELATED NOTES TO THOSE STATEMENTS INCLUDED IN THIS FORM 10-Q. SOME OF OUR DISCUSSION IS FORWARD-LOOKING AND INVOLVES RISKS AND UNCERTAINTIES. FOR INFORMATION REGARDING RISK FACTORS THAT COULD HAVE A MATERIAL ADVERSE EFFECT ON OUR BUSINESS, REFER TO THE DISCUSSION OF RISK FACTORS IN THE "DESCRIPTION OF BUSINESS" SECTION OF OUR ANNUAL REPORT ON FORM 10-K FOR THE YEAR ENDED DECEMBER 31, 2020, FILED WITH THE SECURITIES AND EXCHANGE COMMISSION.

Forward-Looking Statements

Certain statements made in this discussion are "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. These statements may materially differ from actual results.

Forward-looking statements can be identified by terminology such as "may", "should", "expects", "intends", "anticipates", "believes", "estimates", "predicts", or "continue" or the negative of these terms or other comparable terminology and include, without limitation, statements regarding:

- The going concern qualification in our consolidated financial statements;
- our liquidity and our ability to raise capital to finance our overall exploration and development activities within our license area;
- our ability to continue meeting the requisite continued listing requirements by OTCQX;
- the outcome of the current SEC investigation against us;
- Business interruptions from the COVID-19 pandemic;
- our ability to obtain new license areas to continue our petroleum exploration program;
- interruptions, increased consolidated financial costs and other adverse impacts of the coronavirus pandemic on the drilling and testing of our MJ#2 well and our capital raising efforts;
- our ability to explore for and develop natural gas and oil resources successfully and economically within our license area;
- our ability to maintain the exploration license rights to continue our petroleum exploration program;
- the availability of equipment, such as seismic equipment, drilling rigs, and production equipment as well as access to qualified personnel;
- the impact of governmental regulations, permitting and other legal requirements in Israel relating to onshore exploratory drilling;
- our estimates of the time frame within which future exploratory activities will be undertaken;
- changes in our exploration plans and related budgets;

- the quality of existing and future license areas with regard to, among other things, the existence of reserves in economic quantities;

- anticipated trends in our business;

- our future results of operations;

- our capital expenditure program;

- future market conditions in the oil and gas industry;

- the demand for oil and natural gas, both locally in Israel and globally; and

- The impact of fluctuating oil and gas prices on our exploration efforts

Overview

Zion Oil and Gas, Inc., a Delaware corporation, is an oil and gas exploration company with a history of 21 years of oil and gas exploration in Israel. We were incorporated in Florida on April 6, 2000 and reincorporated in Delaware on July 9, 2003. We completed our initial public offering in January 2007. Our common stock, par value $0.01 per share (the "Common Stock") currently trades on the OTCQX Market under the symbol "ZNOG" and our Common Stock warrant under the symbol "ZNOGW."

The Company currently holds one active petroleum exploration license onshore Israel, the New Megiddo License 428 ("NML 428"), comprising approximately 99,000 acres. The NML 428 was awarded on December 3, 2020 for a six-month term with the possibility of an additional six-month extension. On April 29, 2021, Zion submitted a request to the Ministry of Energy for a six-month extension to December 2, 2021. On May 30, 2021, the Ministry of Energy approved our request for extension to December 2, 2021. The ML 428 lies onshore, south and west of the Sea of Galilee and we continue our exploration focus here as it appears to possess the key geologic ingredients of an active petroleum system with significant exploration potential.

The Megiddo Jezreel #1 ("MJ #1") site was completed in early March 2017, after which the drilling rig and associated equipment were mobilized to the site. Performance and endurance tests were completed, and the MJ #1 exploratory well was spud on June 5, 2017 and drilled to a total depth ("TD") of 5,060 meters (approximately 16,600 feet). Thereafter, the Company obtained three open-hole wireline log suites (including a formation image log), and the well was successfully cased and cemented. The Ministry of Energy approved the well testing protocol on April 29, 2018.

During the fourth quarter of 2018, the Company testing protocol was concluded at the MJ #1 well. The test results confirmed that the MJ #1 well did not contain hydrocarbons in commercial quantities in the zones tested. As a result, in the year ended December 31, 2018, the Company recorded a non-cash impairment charge to its unproved oil and gas properties of $30,906,000. During the three and six months ended June 30, 2021, and 2020, respectively, the Company did not record any post-impairment charges.

While the well was not commercially viable, Zion learned a great deal from the drilling and testing of this well. We believe that the drilling and testing of this well carried out the testing objectives which would support further evaluation and potential further exploration efforts within our License area. Zion believed it was prudent and consistent with good industry practice to try and answer some of these questions with a focused 3-D seismic imaging shoot of approximately 72 square kilometers surrounding the MJ#1 well. Zion completed all of the acquisition, processing and interpretation of the 3-D data and incorporated its expanded knowledge base into the drilling of our current MJ-02 exploratory well.

On March 12, 2020, Zion entered into a Purchase and Sale Agreement with Central European Drilling kft, a Hungarian corporation, to purchase an onshore oil and gas drilling rig, drilling pipe, related equipment and spare parts for a purchase price of $5.6 million in cash, subject to acceptance testing and potential downward adjustment. We remitted to the Seller $250,000 on February 6, 2020 as earnest money towards the Purchase Price. The Closing anticipated by the Agreement took place on March 12, 2020 by the Seller's execution and delivery of a Bill of Sale to us. On March 13, 2020, the Seller retained the earnest money deposit, and the Company remitted $4,350,000 to the seller towards the purchase price, and $1,000,000 (the "Holdback Amount") was deposited in escrow with American Stock Transfer and Trust Company LLC. On January 6, 2021, Zion completed its acceptance testing of the I-35 drilling rig and the Holdback Amount was remitted to Central European Drilling.

The MJ-02 drilling plan was approved by the Ministry of Energy on July 29, 2020. On January 6, 2021, Zion officially spudded its MJ-02 exploratory well. Zion plans to reach a total depth of approximately 5,800 meters (~19,024 feet). Although our operational team encountered difficulties to maintain stability with a shale formation in recent drilling, we have moved forward with adjusted drilling parameters to enable us to maintain shale integrity as we move toward our zones of interest.

At present, we have no revenues or operating income. Our ability to generate future revenues and operating cash flow will depend on the successful exploration and exploitation of our current and any future petroleum rights or the acquisition of oil and/or gas producing properties, and the volume and timing of such production. In addition, even if we are successful in producing oil and gas in commercial quantities, our results will depend upon commodity prices for oil and gas, as well as operating expenses including taxes and royalties.

Our executive offices are located at 12655 North Central Expressway, Suite 1000, Dallas, Texas 75243, and our telephone number is (214) 221-4610. Our branch office's address in Israel is 9 Halamish Street, North Industrial Park, Caesarea 3088900, and the telephone number is +972-4-623-8500. Our website address is: www.zionoil.com.

Current Exploration and Operation Efforts

Megiddo-Jezreel Petroleum License

The Company currently holds one active petroleum exploration license onshore Israel, the New Megiddo License 428 ("NML 428"), comprising approximately 99,000 acres. The NML 428 was awarded on December 3, 2020 for a six-month term with the possibility of an additional six-month extension. On April 29, 2021, Zion submitted a request to the Ministry of Energy for a six-month extension to December 2, 2021. On May 30, 2021, the Ministry of Energy approved our request for extension to December 2, 2021. The ML 428 lies onshore, south and west of the Sea of Galilee, and we continue our exploration focus here as it appears to possess the key geologic ingredients of an active petroleum system with significant exploration potential.

The NML 428 lies onshore, south and west of the Sea of Galilee and we continue our exploration focus here as it appears to possess the key geologic ingredients of an active petroleum system with significant exploration potential.

The previous Megiddo Jezreel #1 ("MJ #1") exploratory well was spudded on June 5, 2017 and drilled to a total depth ("TD") of 5,060 meters (approximately 16,600 feet). Thereafter, the Company successfully cased and cemented the well while awaiting the approval of the testing protocol. The Ministry of Energy approved the well testing protocol on April 29, 2018.

During the fourth quarter of 2018, the Company testing protocol was concluded at the MJ #1 well. The test results confirmed that the MJ #1 well did not contain hydrocarbons in commercial quantities in the zones tested. As a result, in the year ended December 31, 2018, the Company recorded a non-cash impairment charge to its unproved oil and gas properties of $30,906,000. During the three and six months ended June 30, 2021, and 2020, respectively, the Company did not record any post-impairment charges.

The MJ#1 well provided Zion with information Zion believes is important for potential future exploration efforts within its license area. As with many frontier wildcat wells, the MJ#1 also left several questions unanswered.

While not meant to be an exhaustive list, a summary of what Zion believes to be key information learned in the MJ#1 well is as follows

1. The MJ#1 encountered much higher subsurface temperatures at a depth shallower than expected before drilling the well. In our opinion, this is significant because reaching a minimum temperature threshold is necessary for the generation of hydrocarbons from an organic-rich source rock.

2. The known organic rich (potentially hydrocarbon bearing) Senonian age source rocks that are typically present in this part of Israel were not encountered as expected. Zion expected these source rocks to be encountered at approximately 1,000 meters in the MJ#1 well.

3. MJ#1 had natural fractures, permeability (the ability of fluid to move through the rock) and porosity (pore space in rock) that allowed the sustained flow of formation fluid in the shallower Jurassic and lower Cretaceous age formations between approximately 1,200 and 1,800 meters. While no hydrocarbons were encountered, Zion believes this fact is nonetheless significant because it provides important information about possible reservoir pressures and the ability of fluids to move within the formation and to the surface.

4. MJ#1 encountered oil in the Triassic Mohilla formation which Zion believes may indicate the presence of an active deep petroleum system is in Zion’s license area. There was no natural permeability or porosity in the Triassic Mohilla formation to allow formation fluid to reach the surface naturally during testing, and thus the MJ#1 was not producible or commercial.

5. The depths and thickness of the formations we encountered varied greatly from pre-drill estimates. This required the MJ#1 to be drilled to a much greater depth than previously expected. Zion has tied these revised formation depths to seismic data which will allow for more accurate interpretation and mapping in the future.

A summary of what Zion believes to be some key questions left to be answered are:

1. Is the missing shallow Senonian age source rock a result of regional erosion, or is it missing because of a fault that cut the well-bore and could be reasonably expected to be encountered in the vicinity of the MJ#1 drill site? Zion believes this is an important question to answer because if the Senonian source rocks do exist in this area, the high temperatures encountered are sufficient to mature these source rocks and generate oil.

2. Do the unusually high shallow subsurface temperatures extend regionally beyond the MJ#1 well, which could allow for the generation of hydrocarbons in the Senonian age source rock within our license area?

3. As a consequence of seismic remapping, where does the MJ#1 well lie relative to the potential traps at the Jurassic and Triassic levels, and was the well location too low on the structures and deeper than the potential hydrocarbons within those traps?

As a result of these unanswered questions and with the information gained drilling the MJ#1 well, Zion believed it was prudent and consistent with good industry practice to try and answer some of these questions with a focused 3-D seismic imaging shoot of approximately 72 square kilometers surrounding the MJ#1 well. Zion has completed all of the acquisition, processing and interpretation of the 3-D data and incorporated its expanded knowledge base into the drilling of our current MJ-02 exploratory well (see further details below).

The Geology team is continuing to work on a larger interpretation of 3D areas, along with potential exploration locations located in the western portion of the NML 428 area.

On March 12, 2020, Zion entered into a Purchase and Sale Agreement with Central European Drilling kft ("CED"), a Hungarian corporation, to purchase an onshore oil and gas drilling rig, drilling pipe, related equipment and spare parts for a purchase price of $5.6 million in cash, subject to acceptance testing and potential downward adjustment. We remitted to the Seller $250,000 on February 6, 2020 as earnest money towards the Purchase Price. The Closing anticipated by the Agreement took place on March 12, 2020 by the Seller's execution and delivery of a Bill of Sale to us. On March 13, 2020, the Seller retained the earnest money deposit, and the Company remitted $4,350,000 to the seller towards the purchase price and $1,000,000 (the "Holdback Amount") was deposited in escrow with American Stock Transfer and Trust Company LLC.

I-35 Drilling Rig & Associated Equipment

	Six-month period ended June 30, 2021			
	I-35 Drilling Rig	**Rig Spare Parts**	**Other Drilling Assets**	**Total**
	US$ thousands	**US$ thousands**	**US$ thousands**	**US$ thousands**
December 31, 2020	6,494	698	376	7,568
Asset Additions	**-**	**72**	**26**	**98**
Asset Depreciation	**(347)**	**-**	**-**	**(347)**
Asset Disposals for Self-Consumption	**-**	**(122)**	**-**	**(122)**
June 30, 2021	**6,147**	**648**	**402**	**7,197**

On January 6, 2021, Zion completed its acceptance testing of the I-35 drilling rig, and the Holdback Amount was remitted to Central European Drilling on January 8, 2021. Also on January 6, 2021, Zion officially spudded its MJ-02 exploratory well. Zion plans to reach a total depth of approximately 5,800 meters (~19,024 feet). Although our operational team encountered difficulties to maintain stability with a shale formation in recent drilling, we have moved forward with adjusted drilling parameters to enable us to maintain shale integrity as we move toward our zones of interest.

Zion's ability to fully undertake all of these aforementioned activities is subject to its raising the needed capital from its continuing offerings, of which no assurance can be provided.

ZION
OIL & GAS
DRILLING LOCATION
NEAR BEIT SHE'AN, ISRAEL
HAIFA
World-class
natural gas reserves
Sea
of
Galilee
ZEBULUN
ISSACHAR
MEGIDDO-JEZREEL
LICENSE
ZION
DRILL
SITE
CAESAREA
MANASSEH
(HEAD OF JOSEPH)
Mediterranean
Sea
ISRAEL
TEL AVIV
EPHRAIM
DAN
BENJAMIN
JERUSALEM

Map 1. Zion's New Megiddo License 428 as of June 30, 2021.

Zion's Former Joseph License

Zion has plugged all of its exploratory wells on its former Joseph License area, and the reserve pits have been evacuated, but acknowledges its obligation to complete the abandonment of these well sites in accordance with guidance from the Energy Ministry, Environmental Ministry and local officials.

Onshore Licensing, Oil and Gas Exploration and Environmental Guidelines

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 and other obligations as they relate to the drilling of oil and gas wells or the operation thereof. Various guidelines have been published in Israel by the State of Israel's Petroleum Commissioner, the Energy Ministry, and the Environmental Ministry in recent years as it pertains to oil and gas activities. Mention of these guidelines was included in previous Zion Oil & Gas filings.

We acknowledge that these new regulations are likely to increase the expenditures associated with obtaining new exploration rights and drilling new wells. The Company expects that additional financial burdens could occur as a result of the Ministry requiring cash reserves that could otherwise be used for operational purposes.

Capital Resources Highlights

We need to raise significant funds to finance the continued exploration efforts and maintain orderly operations. To date, we have funded our operations through the issuance of our securities and convertible debt. We will need to continue to raise funds through the issuance of equity and/or debt securities (or securities convertible into or exchangeable for equity securities). No assurance can be provided that we will be successful in raising the needed capital on terms favorable to us (or at all).

The Dividend Reinvestment and Stock Purchase Plan

On March 13, 2014 Zion filed a registration statement on Form S-3 that is part of a replacement registration statement that was filed with the SEC using a "shelf" registration process. The registration statement was declared effective by the SEC on March 31, 2014. On February 23, 2017, the Company filed a Form S-3 with the SEC (Registration No. 333-216191) as a replacement for the Form S-3 (Registration No. 333-193336), for which the three-year period ended March 31, 2017, along with the base Prospectus and Supplemental Prospectus. The Form S-3, as amended, and the new base Prospectus became effective on March 10, 2017, along with the Prospectus Supplement that was filed and became effective on March 10, 2017. The Prospectus Supplement under Registration No. 333-216191 describes the terms of the DSPP and replaces the prior Prospectus Supplement, as amended, under the prior Registration No. 333-193336.

On March 27, 2014, we launched our Dividend Reinvestment and Stock Purchase Plan (the "DSPP" or the "Plan") pursuant to which stockholders and interested investors can purchase shares of the Company's Common Stock as well as units of the Company's securities directly from the Company. The terms of the DSPP are described in the Prospectus Supplement originally filed on March 31, 2014 (the "Original Prospectus Supplement") with the Securities and Exchange Commission ("SEC") under the Company's effective registration Statement on Form S-3, as thereafter amended.

Please see Footnote 3E ("Dividend Reinvestment and Stock Purchase Plan ("DSPP")), which is a part of this Form 10-Q filing, for details about specific unit programs, dates, and filings during the years 2016 through 2021.

For the three and six months ended June 30, 2021, approximately $10,939,000 and $13,788,000 were raised under the DSPP program.

For the three and six months ended June 30, 2020, approximately $3,393,000 and $12,502,000 were raised under the DSPP program.

The warrants balances at December 31, 2020 and transactions since January 1, 2021 are shown in the table below:

Warrants	Exercise Price	Warrant Termination Date	Outstanding Balance, 12/31/2020	Warrants Issued	Warrants Exercised	Warrants Expired	Outstanding Balance, 06/30/2021
ZNWAA	$ 2.00	01/31/2023	1,498,804	-	-	-	1,498,804
ZNWAD	$ 1.00	05/02/2023	243,853	-	-	-	243,853
ZNWAE	$ 1.00	05/02/2023	2,144,099	-	-	-	2,144,099
ZNWAF	$ 1.00	08/14/2023	359,435	-	-	-	359,435
ZNWAG	$ 1.00	01/08/2023	240,068	-	-	-	240,068
ZNWAH	$ 5.00	04/19/2023	372,400	-	-	-	372,400
ZNWAI	$ 3.00	06/29/2023	640,730	-	-	-	640,730
ZNWAJ	$ 1.00	10/29/2023	545,900	-	-	-	545,900
ZNWAK	$ 0.01	02/25/2023	437,875	-	(5,670)	-	432,205
ZNWAL	$ 2.00	08/26/2023	517,875	-	-	-	517,875
ZNWAM	$ 1.00	07/15/2022	-	4,376,000	-	-	4,376,000
ZNWAN	$ 1.00	07/15/2022	-	267,725	(100)	-	267,625
ZNWAO	$ 0.25	06/12/2023	-	190,120	(11,332)	-	178,788
ZNWAP	$ 0.25	06/02/2022	-	1,639,916	(1,200,000)	-	439,916
ZNWAR	$ 0.25	06/23/2022	-	1,020,000	-	-	1,020,000
Outstanding warrants			7,001,039	7,493,761	(1,217,102)	-	13,277,698

According to the warrant table, the Company could potentially raise up to approximately $16,408,000 if all outstanding warrants were exercised by its holders.

10% Senior Convertible Notes due May 2, 2021 and paid on May 3, 2021

Please see Footnote 5 ("Senior Convertible Bonds"), which is a part of this Form 10-Q filing, for a description and details about the Bonds.

2018 Subscription Rights Offering

Please see Footnote 3F ("Subscription Rights Offering"), which is a part of this Form 10-Q filing, for a description of and details about the Subscription Rights Offering.

Principal Components of our Cost Structure

Our operating and other expenses primarily consist of the following:

- Impairment of Unproved Oil and Gas Properties: Impairment expense is recognized if a determination is made that a well will not be commercially productive. The amounts include amounts paid in respect of the drilling operations as well as geological and geophysical costs and various amounts that were paid to Israeli regulatory authorities.

- General and Administrative Expenses: Overhead, including payroll and benefits for our corporate staff, costs of managing our exploratory operations, audit and other professional fees, and legal compliance is included in general and administrative expenses. General and administrative expenses also include non-cash stock-based compensation expense, investor relations related expenses, lease and insurance and related expenses.

- Depreciation, Depletion, Amortization and Accretion: The systematic expensing of the capital costs incurred to explore for natural gas and oil represents a principal component of our cost structure. As a full cost company, we capitalize all costs associated with our exploration, and apportion these costs to each unit of production, if any, through depreciation, depletion and amortization expense. As we have yet to have production, the costs of abandoned wells are written off immediately versus being included in this amortization pool.

Going Concern Basis

Since we have limited capital resources, no revenue to date and a loss from operations, our consolidated 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. 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. Therefore, there is substantial doubt about our ability to continue as a going concern. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

The Impact of COVID-19

During March 2020, a global pandemic was declared by the World Health Organization related to the rapidly growing outbreak of a novel strain of coronavirus (“COVID-19”). The pandemic has significantly impacted the economic conditions in the United States and Israel, as federal, state and local governments react to the public health crisis, creating significant uncertainties in the United States, Israel and world economies. In the interest of public health and safety, jurisdictions (international, national, state and local) where we have operations, restricted travel and required workforces to work from home. As of the date of this report, many of our employees are working from home, at least on a part-time basis. However, while there are various uncertainties to navigate, the Company’s business activities are continuing. The situation is rapidly changing and additional impacts to the business may arise that we are not aware of currently. We cannot predict whether, when or the manner in which the conditions surrounding COVID-19 will change including the timing of lifting any restrictions or work from home arrangements.

The full extent of COVID-19’s impact on our operations and financial performance depends on future developments that are uncertain and unpredictable, including the duration and spread of the pandemic, its impact on capital and financial markets and any new information that may emerge concerning the severity of the virus, its spread to other regions as well as the actions taken to contain it, among others.

Critical Accounting Policies

Management’s discussion and analysis of financial condition and results of operations is based upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expense during the reporting period.

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.

Impairment of Oil and Gas Properties

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.

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

Our oil and gas properties represent an investment in unproved properties. These costs are excluded from the amortized cost pool until proved reserves are found or until it is determined that the costs are impaired. All costs excluded are reviewed at least quarterly to determine if impairment has occurred. The amount of any impairment is charged to expense since a reserve base has not yet been established. A further impairment requiring a charge to expense may be indicated through evaluation of drilling results, relinquishing drilling rights or other information.

Abandonment of properties is accounted for as adjustments to capitalized costs. 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 revenue 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.

During the fourth quarter of 2018, the Company testing protocol was concluded at the MJ #1 well. The test results confirmed that the MJ #1 well did not contain hydrocarbons in commercial quantities in the zones tested. As a result, in the year ended December 31, 2020, the Company recorded a non-cash impairment charge to its unproved oil and gas properties of $30,906,000. During the three and six months ended June 30, 2021, and 2020, the Company did not record any post-impairment charges.

Following the impairment charge noted above, the total net book value of our unproved oil and gas properties under the full cost method is $32,101,000 at June 30, 2021.

Asset Retirement Obligation

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-lived assets.

Fair Value Considerations

We follow ASC 820, “Fair Value Measurements and Disclosures,” as amended by Financial Accounting Standards Board (FASB) Financial Staff Position (FSP) No. 157 and related guidance. Those provisions relate to the Company’s financial assets and liabilities carried at fair value and the fair value disclosures related to financial assets and liabilities. ASC 820 defines fair value, expands related disclosure requirements, and specifies a hierarchy of valuation techniques based on the nature of the inputs used to develop the fair value measures. Fair value is defined as the price that would be received from the sale of an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, assuming the transaction occurs in the principal or most advantageous market for that asset or liability.

There are three levels of inputs to fair value measurements - Level 1, meaning the use of quoted prices for identical instruments in active markets; Level 2, meaning the use of quoted prices for similar instruments in active markets or quoted prices for identical or similar instruments in markets that are not active or are directly or indirectly observable; and Level 3, meaning the use of unobservable inputs. We use Level 1 inputs for fair value measurements whenever there is an active market, with actual quotes, market prices, and observable inputs on the measurement date. We use Level 2 inputs for fair value measurements whenever there are quoted prices for similar securities in an active market or quoted prices for identical securities in an inactive market. We use observable market data whenever available. We use Level 3 inputs in the Binomial Model used for the valuation of the derivative liability.

Derivative Liabilities

In accordance with ASC 815-40-25 and ASC 815-10-15 Derivatives and Hedging and ASC 480-10-25 Liabilities-Distinguishing Liabilities from Equity, the embedded derivatives associated with the Convertible Bonds are accounted for as liabilities during the term of the related Convertible Bonds.

RESULTS OF OPERATIONS

	For the three months ended June 30,		For the six months ended June 30,	
	2021	2020	2021	2020
	(US $ in thousands)		(US $ in thousands)	
Operating costs and expenses:				
General and administrative expenses	**2,952**	1,113	**4,923**	2,088
Other	**1,064**	577	**1,856**	1,045
Subtotal Operating costs and expenses	**4,016**	1,690	**6,779**	3,133
Loss (Gain) on derivative liability	**(5)**	67	**(431)**	51
Other expense, net	**45**	167	**268**	348
Net loss	**4,056**	1,924	**6,616**	3,532

Revenue. We currently have no revenue generating operations.

Operating costs and expenses. Operating costs and expenses for the three and six months ended June 30, 2021 were $4,016,000 and $6,779,000, respectively, compared to $1,690,000 and $3,133,000 for the three and six months ended June 30, 2020. The increase in operating costs and expenses during the three and six months ended June 30, 2021 compared to the corresponding period in 2020 is primarily attributable to increase in general and administrative expenses driven by the non-cash expenses associated with stock option grants, and by an increase in other expenses.

General and administrative expenses. General and administrative expenses for the three and six months ended June 30, 2021 were $2,952,000 and $4,923,000, respectively, compared to $1,113,000 and $2,088,000 for the three and six months ended June 30, 2020. The increase in general and administrative expenses during each of the three and six months ended June 30, 2021 compared to the corresponding periods in 2020 is primarily attributable to non-cash expenses associated with stock option grants during 2021 compared to the corresponding periods in 2020.

Other expense. Other expenses during the three and six months ended June 30, 2021 were $1,064,000 and $1,856,000, respectively, compared to $577,000 and $1,045,000 for the three and six months ended June 30, 2020. Other general and administrative expenses are comprised of non-compensation and non-professional expenses incurred. The increase in other general and administrative expenses during the three and six months ended June 30, 2021 compared to the corresponding periods in 2020 is primarily attributable to increased expenses associated with investor relations activities and depreciation expenses related to the rig asset.

Loss (Gain) on derivative liability. Loss, (Gain) on derivative liability during the three and six months ended June 30, 2021 were ($5,000) and ($431,000), compared to $67,000 and $51,000 for the three and six months ended June 30, 2020. An embedded derivative is contained within the valuation of Zion's $100 convertible bond offering which closed in March 2016. The (gain) loss on derivative liability during the three and six months ended June 30, 2021 compared to the loss, on derivative liability during the three and six months ended June 30, 2020 is primarily due to the change in the share price of our common stock that occurred during the three and six months ended June 30, 2021.

Other expense, net. Other expense, net for the three and six months ended June 30, 2021 were $45,000 and $268,000, compared to $167,000 and $348,000 for the three and six months ended June 30, 2020. The decrease in other expense, net during the three and six months ended June 30, 2021 compared to the corresponding period in 2020 is primarily attributable financial expenses related to the Company's convertible bonds and to exchange rate differences associated with the fluctuating exchange rates of the New Israeli Shekels ("NIS") with the U.S. Dollar ("USD").

Net Loss. Net loss for the three and six months ended June 30, 2021 was $4,056,000 and $6,616,000 compared to $1,924,000 and $3,532,000 for the three and six months ended June 30, 2020. The increase in net loss for 2021 is primarily attributable to General and administrative expenses and other expenses in the three and six months ended June 30, 2021 compared to the three and six months ended June 30, 2020.

Liquidity and Capital Resources

Liquidity is a measure of a company's ability to meet potential cash requirements. As discussed above, we have historically met our capital requirements through the issuance of common stock as well as proceeds from the exercise of warrants and options to purchase common shares.

Our ability to continue as a going concern is dependent upon obtaining the necessary financing to complete further exploration and development activities and generate profitable operations from our oil and natural gas interests in the future. Our current operations are dependent upon the adequacy of our current assets to meet our current expenditure requirements and the accuracy of management's estimates of those requirements. Should those estimates be materially incorrect, our ability to continue as a going concern will be impaired. Our financial statements for the three and six months ended June 30, 2021 have been prepared on a going concern basis, which contemplates the realization of assets and the settlement of liabilities and commitments in the normal course of business. We have incurred a history of operating losses and negative cash flows from operations. Therefore, there is substantial doubt about our ability to continue as a going concern.

At June 30, 2021, we had approximately $9,047,000 in cash and cash equivalents compared to $11,708,000 at December 31, 2020, which does not include any restricted funds. Our working capital (current assets minus current liabilities) was $8,645,000 at June 30, 2021 and $11,812,000 at December 31, 2020.

As of June 30, 2021, we provided bank guarantees to various governmental bodies (approximately $1,175,000) and others (approximately $88,000) in respect of our drilling operation in the aggregate amount of approximately $1,263,000. The (cash) funds backing these guarantees are held in restricted interest-bearing accounts and are reported on the Company's balance sheets as fixed short-term bank deposits restricted.

During the six months ended June 30, 2021, cash used in operating activities totaled $2,966,000. Cash provided by financing activities during the six months ended June 30, 2021 was $13,674,000 and is primarily attributable to proceeds received from the Dividend Reinvestment and Stock Purchase Plan (the "DSPP" or "Plan").

Net cash used in investing activities such as unproved oil and gas properties, equipment and spare parts was $15,044,000 for the six months ended June 30, 2021.

During the six months ended June 30, 2020, cash used in operating activities totaled $2,956,000. Cash provided by financing activities during the six months ended June 30, 2020 was $12,500,000 and is primarily attributable to proceeds received from the Dividend Reinvestment and Stock Purchase Plan (the "DSPP" or the "Plan"). Net cash used in investing activities was $5,139,000 for the six months ended June 30, 2020. This was primarily the result of the purchase of the drilling rig, equipment and inventory.

Accounting standards require management to evaluate our ability to continue as a going concern for a period of one year subsequent to the date of the filing of this Form 10-Q. We expect to incur additional significant expenditures to further our exploration and development programs. While we raised approximately $550,000 during the period July 1, 2021 through August 9, 2021, we will need to raise additional funds in order to continue our exploration and development activities in our license area. Additionally, we estimate that, when we are not actively drilling a well, our expenditures are approximately $600,000 per month excluding exploratory operational activities. However, when we are actively drilling a well, we estimate an additional minimum expenditure of approximately $2,500,000 per month. The above estimates are subject to change. Subject to the qualifications specified below, management believes that our existing cash balance, coupled with anticipated proceeds under the DSPP, will be sufficient to finance our plan of operations through December 2021.

The recent outbreak of the coronavirus has to date significantly disrupted business operations and resulted in significantly increased unemployment in the general economy. The extent to which the coronavirus impacts our operations, specifically our capital raising efforts, as well as our ability to continue our exploratory efforts, will depend on future developments, which are highly uncertain and cannot be predicted with confidence, including the duration of the outbreak, new information which may emerge concerning the severity of the coronavirus and the actions to contain the coronavirus or treat its impact, among others.

No assurance can be provided that we will be able to raise the needed operating capital.

Even if we raise the needed funds, there are factors that can nevertheless adversely impact our ability to fund our operating needs, including (without limitation), unexpected or unforeseen cost overruns in planned non-drilling exploratory work in existing license areas, the costs associated with extended delays in undertaking the required exploratory work, and plugging and abandonment activities which is typical of what we have experienced in the past.

The financial information contained in these consolidated financial statements has been prepared on a basis that assumes that we will continue as a going concern, which contemplates the realization of assets and the satisfaction of liabilities and commitments in the normal course of business. This financial information and these consolidated financial statements do not include any adjustments that may result from the outcome of this uncertainty.

Off-Balance Sheet Arrangements

We do not currently use any off-balance sheet arrangements to enhance our liquidity or capital resource position, or for any other purpose.

Recently Issued Accounting Pronouncements

The Company does not believe that the adoption of any recently issued accounting pronouncements in 2021 had a significant impact on our financial position, results of operations, or cash flow.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market risk is a broad term for the risk of economic loss due to adverse changes in the fair value of a financial instrument. These changes may be the result of various factors, including interest rates, foreign exchange rates, commodity prices and/or equity prices. In the normal course of doing business, we are exposed to the risks associated with foreign currency exchange rates and changes in interest rates.

Foreign Currency Exchange Rate Risks. A portion of our expenses, primarily labor expenses and certain supplier contracts, are denominated in New Israeli Shekels ("NIS"). As a result, we have significant exposure to the risk of fluctuating exchange rates with the U.S. Dollar ("USD"), our primary reporting currency. During the period January 1, 2021 through June 30, 2021, the USD has fluctuated by approximately 1.4% against the NIS (the USD strengthened relative to the NIS). By contrast, during the period January 1, 2020 through December 31, 2020, the USD fluctuated by approximately 7.0% against the NIS (the USD weakened relative to the NIS). Continued strengthening of the US dollar against the NIS will result in lower operating costs from NIS denominated expenses. To date, we have not hedged any of our currency exchange rate risks, but we may do so in the future.

Interest Rate Risk. Our exposure to market risk relates to our cash and investments. We maintain an investment portfolio of short-term bank deposits and money market funds. The securities in our investment portfolio are not leveraged, and are, due to their very short-term nature, subject to minimal interest rate risk. We currently do not hedge interest rate exposure. Because of the short-term maturities of our investments, we do not believe that a change in market interest rates would have a significant negative impact on the value of our investment portfolio except for reduced income in a low interest rate environment. At June 30, 2021 we had cash, cash equivalents and short-term and long-term bank deposits of approximately $10,326,000. The weighted average annual interest rate related to our cash and cash equivalents for the three and six months ended June 30, 2021, exclusive of funds at US banks that earn no interest, was approximately .08% and .11%, respectively.

The primary objective of our investment activities is to preserve principal while at the same time maximizing yields without significantly increasing risk. To achieve this objective, we invest our excess cash in short-term bank deposits and money market funds that may invest in high quality debt instruments.

ITEM 4. CONTROLS AND PROCEDURES

We maintain disclosure 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, is recorded, processed, summarized and reported within the time period specified in the SEC's rules and forms. As of June 30, 2021, our chief executive officer and our chief financial officer conducted an evaluation of the effectiveness of our disclosure controls and procedures. Based on this evaluation, our chief executive officer and our chief financial officer concluded that our disclosure controls and procedures were effective as of June 30, 2021.

Changes in Internal Control over Financial Reporting

There were no changes in internal controls over financial reporting that occurred during the quarter ended June 30, 2021 that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

PART II—OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

Securities and Exchange Commission ("SEC") Investigation

As previously disclosed by the Company, on June 21, 2018, the Fort Worth Regional Office of the SEC informed Zion that it was conducting a formal, non-public investigation and asked that we provide certain information and documents in connection with its investigation. Since that date, we have fully cooperated with the SEC on an on-going basis in connection with its investigation. Investigations of this nature are inherently uncertain and their results cannot be predicted with certainty. Regardless of the outcome, an SEC investigation could have an adverse impact on us because of legal costs, diversion of management resources, and other factors. The investigation could also result in reputational harm to Zion and may have a material adverse effect on Zion's current and future business and exploratory activities and its ability to raise capital to continue our oil and gas exploratory activities.

Litigation

On October 29, 2018, Zion received a shareholder request to inspect books and records pursuant to Section 220 of the Delaware General Corporation Law for the purpose of investigating potential corporate mismanagement and alleged breaches of fiduciary duty in connection with public statements made by the Company from March 12, 2018 to May 30, 2018. The Company responded to this request.

On August 9, 2019, Zion received two (2) additional shareholder requests from the same law firm to inspect books and records pursuant to section 220 of the Delaware General Corporation Law for the purpose of investigating potential corporate mismanagement and alleged breaches of fiduciary duty in connection with public statements made by the Company from February 1, 2018 to present. Following discussion with counsel to the shareholder, the Company's counsel produced materials responsive to the shareholders' request in January 2020.

On February 12, 2020, by letter to Zion's Board of Directors, one of the shareholders making the August 9, 2019 request demanded that the Board investigate, address, remedy, and commence proceedings against certain of the Company's current and former officers and directors for alleged breaches of fiduciary duties, violations of section 10(b) and 20(a) of the Exchange Act, waste of corporate assets, unjust enrichment, and violations of all other applicable laws. The shareholder alleges wrongdoing in connection with public statements made by the Company from February 1, 2018 regarding the Company's oil and gas exploration activities, the Company's accounting and disclosure of expenses, and the Board's oversight of operations. The Board hired independent counsel to investigate the claims made against certain of the Company's current and former officers and directors. That investigation concluded and based on the findings and recommendations of independent counsel, the Board decided not to pursue claims against any current or former officer or director. On July 14, 2020, Zion received a request from the same shareholder making the February 12, 2020 demand to inspect books and records pursuant to Section 220 of the Delaware General Corporation Law for the purpose of evaluating the Board's decision to reject the litigation demand. The Company responded to this request in August 2020. The Company has not received any further communication from the shareholder following the August 2020 response.

From time to time, the Company may be subject to routine litigation, claims or disputes in the ordinary course of business. The Company defends itself vigorously in all such matters. However, we cannot predict the outcome or effect of any of the potential litigation, claims or disputes.

The Company is not subject to any litigation at the present time.

ITEM 1A. RISK FACTORS

During the quarter ended June 30, 2021, there were no material changes to the risk factors previously reported in our Annual Report on Form 10-K for the year ended December 31, 2020.

ITEM 2. UNREGISTERED SALES OF SECURITIES AND USE OF PROCEEDS

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

None.

ITEM 5. OTHER INFORMATION:

None.

ITEM 6. EXHIBITS

Exhibit Index:

10.1	Executive Employment and Retention Agreements (Management Agreements)
	(i) Employment Agreement dated January 1, 2021 and made effective January 1, 2021 between Zion Oil & Gas, Inc. and Martin van Brauman (incorporated by reference to Form 10-Q filed on May 13, 2021)
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 under the Exchange Act
31.2	Certification of the Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 under the Exchange Act
32.1	Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (furnished only)
32.2	Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (furnished only)
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema
101.CAL	XBRL Taxonomy Extension Calculation Linkbase
101.DEF	XBRL Taxonomy Extension Definition Linkbase
101.LAB	XBRL Taxonomy Extension Label Linkbase
101.PRE	XBRL Taxonomy Extension Presentation Linkbase

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

ZION OIL & GAS, INC.
(Registrant)

By: /s/ Robert W.A. Dunn
Robert W. A. Dunn
Chief Executive Officer
(Principal Executive Officer)

Date: August 11, 2021

By: /s/ Michael B. Croswell Jr.
Michael B. Croswell Jr.
Chief Financial Officer
(Principal Financial and Accounting Officer)

Date: August 11, 2021