

## **ZION OIL & GAS, INC.**

### **COMPENSATION COMMITTEE CHARTER**

#### **I. PURPOSE**

The Compensation Committee (the "Committee") of the Board of Directors (the "Board") of Zion Oil & Gas, Inc. (the "Company") shall discharge the Board's responsibilities with respect to (i) setting the compensation of the Company's Executive Officers; (ii) overseeing the Company's equity-based plans; (iii) reviewing and making recommendations to the full Board regarding Board compensation; and (iv) performing such other duties and responsibilities as may be consistent with the provisions of this charter.

#### **II. COMPOSITION**

The Committee shall be comprised of three or more members of the Board, each of whom shall be determined by the Board to be "independent" under the rules of the NASDAQ Stock Exchange and applicable legal requirements. In addition, each committee member shall be (ii) a "non-employee director" as such term is defined for purposes of Section 16 of the Securities Exchange Act of 1934, as amended (the "Act"), and (iii) an "outside director" as such term is defined for the purposes of Section 162(m) of the Internal Revenue Code. The foregoing notwithstanding, one non-independent director, who is not a current officer or employee or an immediate family member of such person, may serve on the Committee pursuant to the "exceptional and limited circumstances" exception under NASDAQ rules, provided, however, that such director may not serve for more than two years.

The members of the Committee shall be appointed by the Board and shall serve until such member's successor is duly elected and qualified or until such member's earlier resignation or removal. A member of the Committee may be removed, with or without cause, by a majority vote of the Board.

Unless a Chairperson is elected by the full Board, the members of the Committee shall designate a Chairperson by majority vote of the full Committee membership. The Chairperson shall be entitled to cast a vote to resolve any ties. The Chairperson will chair all regular sessions of the Committee and set the agendas for the Committee meetings.

The Committee may form and delegate authority to subcommittees consisting of one or more members when appropriate.

#### **III. MEETINGS**

The Committee shall meet as frequently as circumstances dictate. Meetings of the Committee may be held at any time in person or by such electronic means as permit all persons participating in the meeting to communicate with each other simultaneously and instantaneously.

As part of its review and establishment of the performance criteria and compensation of designated key executives, the Committee shall meet at least on an annual basis with the Company's chief executive officer (CEO) and the non-independent chairman, if any. The Committee shall also meet with any other corporate officers, as it deems appropriate. In all cases, officers shall not be present at meetings at which their performance and compensation are being discussed.

All non-management directors who are not members of the Committee may attend meetings of the Committee but may not vote. Additionally, the Committee may invite other persons to its meetings as it deems appropriate.

#### **IV. RESPONSIBILITIES AND DUTIES**

To fulfill its responsibilities and duties, the Committee shall:

##### **Compensation for Executive Officers and Directors**

1. Review and approve corporate goals and objectives relative to the compensation of the CEO and the non-independent chairman, if any, evaluating the performance of the CEO and the non-independent chairman, if any, in light of these goals and objectives and establishing the annual compensation of the CEO and the non-independent chairman, if any and approve the material terms of any employment agreements, severance arrangements, change-in-control arrangements or similar agreements or arrangements with the CEO and the non-independent chairman, if any, and any material amendments thereto;
2. Set the compensation of the Company's other Executive Officers as defined under Rule 16a-1(f) of the Act, taking into consideration input from the CEO, and approve the material terms of any employment agreements, severance arrangements, change-in-control arrangements or similar agreements or arrangements with such Executive Officers and any material amendments thereto;
3. Review and make recommendations to the Board with respect to the appropriateness of the Board's compensation on an annual basis, or as circumstances may warrant; and
4. Review and discuss with management, on at least an annual basis, management's assessment of whether risks arising from the Company's compensation policies and practices for its employees are reasonably likely to have a material adverse effect on the Company, and have the chair of the Committee review annually with the Audit Committee management's risk assessment process and conclusion.
5. As requested by the management, review, consult and make recommendations and/or determinations regarding employee compensation and benefit plans and programs generally, including employee bonus and retirement plans and program.

## **Incentive-Compensation and Equity-Based Plans**

1. Establish and maintain the Company's equity compensation policies and practices;
2. Review and make recommendations to the Board with respect to the Company's incentive-compensation plans and equity-based plans that are subject to Board approval;
3. Unless otherwise provided in a plan document or resolutions of the Board, administer the Company's equity-based plans, including the review of programs for granting awards to eligible employees under the Company's equity-based plans, and oversee the activities of the individuals responsible for administering those plans;
4. In its administration of the Company's incentive-compensation plans and equity-based plans, the Committee may, subject to taking into consideration the CEO's recommendations (i) grant stock options or stock purchase rights to individuals eligible for such grants, (ii) amend such stock options or stock purchase rights, and (iii) take all other actions permitted under the plans. Notwithstanding the foregoing, the Board shall retain the right to act on all such matters without limiting the Committee's authority. In this regard, the Committee may take any action necessary or appropriate to ensure that compensation intended to qualify as "performance based" under section 162(m) of the Internal Revenue Code will in fact so qualify.
5. Review and approve all of the Company's equity-based plans that are not otherwise subject to the approval of the Company's shareholders; and
6. Review and monitor key performance metrics of the above.

## **Public Disclosure**

1. Review and discuss any Compensation Discussion and Analysis ("CD&A") with Company management and, based on the review and discussion, make a recommendation to the Board regarding whether to include any CD&A in the Company's proxy statement and/or annual report on Form 10-K; and
2. Review and make recommendations on the public disclosure of the annual executive compensation report in the proxy statement, or prepare a Compensation Committee Report and authorize the inclusion of the report in the Company's proxy statement and/or its annual report on Form 10-K, if required by the SEC rules.

## **Reports**

1. Report regularly to the Board (i) following meetings of the Committee; (ii) with respect to such other matters that are relevant to the Committee's discharge of its responsibilities; and (iii) with respect to such recommendations as the Committee may deem appropriate; and

2. Maintain confidential minutes or other records of meetings and activities of the Committee as deemed appropriate by the Committee and subject to the Committee's sole discretion with regard to any such recordkeeping.

### **Retention of Consultants and Advisors**

As required by Rule 10C-1(b)(2), (3) and (4)(i)-(vi) under the Act, the Compensation Committee has the following specific responsibilities and authority:

1. The Compensation Committee may, in its sole discretion, retain or obtain the advice of a compensation consultant, legal counsel, or other adviser.
2. The Compensation Committee shall be directly responsible for the appointment, compensation and oversight of the work of any compensation consultant, legal counsel and other adviser retained by the Compensation Committee.
3. The Company must provide for appropriate funding, as determined by the Compensation Committee, for payment of reasonable compensation to a compensation consultant, legal counsel or any other adviser retained by the Compensation Committee.
4. The Compensation Committee may select, or receive advice from, a compensation consultant, legal counsel, or other adviser to the Compensation Committee, other than in-house legal counsel, only after taking into consideration the following factors:
  - (a) the provision of other services to the Company by the person that employs the compensation consultant, legal counsel or other adviser;
  - (b) the amount of fees received from the Company by the person that employs the compensation consultant, legal counsel or other adviser, as a percentage of the total revenue of the person that employs the compensation consultant, legal counsel or other adviser;
  - (c) the policies and procedures of the person that employs the compensation consultant, legal counsel or other adviser that are designed to prevent conflicts of interest;
  - (d) any business or personal relationship of the compensation consultant, legal counsel or other adviser with a member of the compensation committee;
  - (e) any stock of the Company owned by the compensation consultant, legal counsel or other adviser; and
  - (f) any business or personal relationship of the compensation consultant, legal counsel, other adviser or the person employing the adviser with an Executive Officer of the Company.

Nothing shall be construed: (1) to require the Compensation Committee to implement or act consistently with the advice or recommendations of the compensation consultant, legal counsel or other adviser to the Compensation Committee; or (ii) to affect the ability

or obligation of the Compensation Committee to exercise its own judgment in fulfillment of the duties of the Compensation Committee.

The Compensation Committee is required to conduct the independent assessment as outlined in Rule 10C-1(b)(2), (3) and (4)(i)-(vi) with respect to any compensation consultant, legal counsel or other adviser that provides advice to the Compensation Committee, other than in-house legal counsel. However, nothing in this Rule requires a compensation consultant, legal counsel or other compensation adviser to be independent, only that the Compensation Committee considers the above 4 (a)-(f) independence factors before selecting, or receiving advice from a compensation adviser. The Compensation Committee may select, or receive advice from any compensation adviser it prefers, including any that are not independent after considering the above six independence factors.

The Compensation Committee is not required to conduct an independence assessment for a compensation adviser that acts in a role limited to the following activities for which no disclosure is required under Item 407(e)(3)(iii) of Regulation S-K: (a) consulting on any broad-based plan that does not discriminate in scope, terms, or operation in favor of Executive Officers or directors of the Company, and that is available generally to all salaried employees; and/or (b) providing information that either is not customized for a particular issuer or that is customized based on parameters that are not developed by the adviser and about which the adviser does not provide advice.

## **V. ANNUAL PERFORMANCE EVALUATION**

The Committee shall perform a review and evaluation, at least annually, of the performance of the Committee and its members, including reviewing the compliance of the Committee with this Charter. In addition, the Committee shall review and reassess, at least annually, the adequacy of this Charter and recommend to the Board any improvements to this Charter that the Committee considers necessary or valuable.

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