

PIONEER OIL AND GAS
FINANCIAL STATEMENTS
(UNAUDITED)

December 31, 2005

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ACCOUNTANTS' REPORT

To the Board of Directors and
Stockholders of Pioneer Oil and Gas

We have compiled the accompanying balance sheet of Pioneer Oil and Gas as of December 31, 2005, and the related statements of income and cash flows for the quarters ended December 31, 2005 and 2004, in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants.

A compilation is limited to presenting in the form of financial statements information that is the representation of management. We have not audited or reviewed the accompanying financial statements and, accordingly, do not express an opinion or any other form of assurance on them.

Management has elected to omit substantially all of the disclosures required by generally accepted accounting principles. If the omitted disclosures were included in the financial statements, they might influence the user's conclusions about the Company's financial position, results of operations, and cash flows. Accordingly, these financial statements are not designed for those who are not informed about such matters.

The balance sheet as of September 30, 2005, was audited by us, and we expressed an unqualified opinion on it in our report dated December 1, 2005, but we have not performed any auditing procedures since that date.

JONES SIMKINS, P.C.
Logan, Utah
February 15, 2006

PIONEER OIL AND GAS
BALANCE SHEETS

	<u>December 31,</u> 2005 (Compiled)	<u>September 30,</u> 2005 (Audited)
<u>Assets</u>		
Current assets:		
Cash	\$ 647,758	758,183
Investments, available for sale	47,500	122,533
Accounts receivable	388,846	353,902
Prepaid income taxes	-	39,000
Resale leases, at lower of cost or market	4,505,925	4,280,444
Total current assets	5,590,029	5,554,062
Property and equipment, net	482,856	501,870
Other assets	2,230	2,230
	\$ 6,075,115	6,058,162
<u>Liabilities and Stockholders' Equity</u>		
Current liabilities:		
Accounts payable	\$ 116,648	329,597
Payable - common stock repurchases	375,348	1,138,599
Accrued expenses	33,028	33,047
Income taxes payable	68,000	-
Line-of-credit	700,000	-
Total current liabilities	1,293,024	1,501,243
Deferred income taxes	18,000	96,000
Asset retirement obligation	113,697	112,852
Total liabilities	1,424,721	1,710,095
Commitments and contingencies		
Stockholders' equity:		
Common stock, par value \$.001 per share, 50,000,000 shares authorized; 7,278,556 and 7,280,556 shares issued and outstanding, respectively	7,279	7,281
Additional paid-in capital	1,057,367	1,058,107
Stock subscription receivable	(164,909)	(164,909)
Accumulated other comprehensive income	31,500	80,533
Retained earnings	3,719,157	3,367,055
Total stockholders' equity	4,650,394	4,348,067
	\$ 6,075,115	6,058,162

See Accountants' Report.

PIONEER OIL AND GAS
STATEMENTS OF INCOME
Three Months Ended December 31, 2005 and 2004

	<u>2005</u>	<u>2004</u>
Revenue:		
Oil and gas sales	\$ 310,580	303,083
Royalty revenue	294,764	205,363
Project and lease sales income	19,180	1,500
	<u>624,524</u>	<u>509,946</u>
Costs and expenses:		
Cost of operations	153,777	142,980
General and administrative expenses	97,531	87,084
Exploration costs	58,010	57,232
Lease rentals	18,848	12,417
Depreciation, depletion and amortization	20,925	23,093
	<u>349,091</u>	<u>322,806</u>
Income from operations	<u>275,433</u>	<u>187,140</u>
Other income (expense):		
Gain on sale of investments	130,079	-
Interest income	2,958	-
Interest expense	(5,522)	(590)
Other	4,154	84,288
	<u>131,669</u>	<u>83,698</u>
Income before provision for income taxes	407,102	270,838
Provision for income taxes	<u>(55,000)</u>	<u>-</u>
Net income	<u>\$ 352,102</u>	<u>270,838</u>
Net income per common share:		
Basic	<u>\$.05</u>	<u>.03</u>
Diluted	<u>\$.05</u>	<u>.03</u>
Weighted average common shares:		
Basic	<u>7,279,000</u>	<u>7,912,000</u>
Diluted	<u>7,331,000</u>	<u>7,912,000</u>

See Accountants' Report.

PIONEER OIL AND GAS
STATEMENTS OF CASH FLOWS
Three Months Ended December 31, 2005 and 2004

	<u>2005</u>	<u>2004</u>
Cash flows from operating activities:		
Net income	\$ 352,102	270,838
Adjustments to reconcile net income to net cash used in operating activities:		
Gain on sale of marketable securities	(130,079)	-
Depreciation, depletion and amortization	20,925	23,093
Accretion expense	845	1,187
Deferred income taxes	(52,000)	-
(Increase) decrease in:		
Accounts receivable	(34,944)	45,843
Prepaid income taxes	39,000	-
Resale leases	(225,481)	(360,312)
Increase (decrease) in:		
Accounts payable	(212,949)	65,927
Payable - common stock repurchases	(763,251)	
Accrued expenses	(19)	(12)
Advances on drilling costs	-	(236,658)
Deposits	-	100,000
Income taxes payable	68,000	-
	<u>(937,851)</u>	<u>(90,094)</u>
Net cash used in operating activities		
Cash flows from investing activities:		
Purchase of property and equipment	(1,911)	(67,719)
Proceeds from sale of marketable securities	130,079	-
	<u>128,168</u>	<u>(67,719)</u>
Net cash provided by (used in) investing activities		
Cash flows from financing activities:		
Increase in line-of-credit	700,000	200,000
Purchase and retirement of common stock	(742)	(874)
	<u>699,258</u>	<u>199,126</u>
Net cash provided by financing activities		
Net increase (decrease) in cash	(110,425)	41,313
Cash, beginning of year	<u>758,183</u>	<u>491,090</u>
Cash, end of year	<u>\$ 647,758</u>	<u>532,403</u>

See Accountants' Report.