

PIONEER OIL AND GAS
FINANCIAL STATEMENTS
(UNAUDITED)

March 31, 2006

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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 March 31, 2006, and the related statements of income for the three and six months ended March 31, 2006 and 2005, and the statements of cash flows for the six months ended March 31, 2006 and 2005, 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
May 16, 2006

PIONEER OIL AND GAS
BALANCE SHEETS

	<u>March 31,</u> 2006 <u>(Compiled)</u>	<u>September 30,</u> 2005 <u>(Audited)</u>
<u>Assets</u>		
Current assets:		
Cash	\$ 243,480	758,183
Investments, available for sale	33,750	122,533
Accounts receivable	194,746	353,902
Prepaid income taxes	37,000	39,000
Resale leases, at lower of cost or market	<u>4,936,495</u>	<u>4,280,444</u>
Total current assets	5,445,471	5,554,062
Property and equipment, net	461,931	501,870
Other assets	<u>2,230</u>	<u>2,230</u>
	<u>\$ 5,909,632</u>	<u>6,058,162</u>
<u>Liabilities and Stockholders' Equity</u>		
Current liabilities:		
Accounts payable	\$ 42,838	329,597
Payable - common stock repurchases	345,984	1,138,599
Accrued expenses	31,291	33,047
Income taxes payable	10,000	-
Line-of-credit	<u>450,000</u>	<u>-</u>
Total current liabilities	880,113	1,501,243
Deferred income taxes	74,000	96,000
Asset retirement obligation	<u>114,543</u>	<u>112,852</u>
Total liabilities	<u>1,068,656</u>	<u>1,710,095</u>
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	(143,252)	(164,909)
Accumulated other comprehensive income	22,750	80,533
Retained earnings	<u>3,896,832</u>	<u>3,367,055</u>
Total stockholders' equity	<u>4,840,976</u>	<u>4,348,067</u>
	<u>\$ 5,909,632</u>	<u>6,058,162</u>

See Accountants' Report.

PIONEER OIL AND GAS
STATEMENTS OF INCOME

	Three Months Ended March 31,		Six Months Ended March 31,	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Revenue:				
Oil and gas sales	\$ 170,206	226,996	480,786	530,079
Royalty revenue	281,816	293,380	576,580	498,743
Project and lease sales income (loss)	-	2,260,528	19,180	2,260,528
	<u>452,022</u>	<u>2,780,904</u>	<u>1,076,546</u>	<u>3,289,350</u>
Costs and expenses:				
Cost of operations	185,425	238,345	339,202	381,325
General and administrative expenses	123,306	111,341	220,837	198,425
Exploration costs	55,971	80,096	113,981	137,328
Lease rentals	37,800	6,013	56,648	18,430
Depreciation, depletion and amortization	20,925	23,093	41,850	46,186
	<u>423,427</u>	<u>458,888</u>	<u>772,518</u>	<u>781,694</u>
Income from operations	<u>28,595</u>	<u>2,322,016</u>	<u>304,028</u>	<u>2,507,656</u>
Other income (expense):				
Gain on sale of investments	-	-	130,079	77,845
Gain on sale of producing properties	309,821	-	309,821	-
Interest income	6,495	9,515	9,453	10,141
Interest expense	(12,236)	(677)	(17,758)	(1,267)
Other	1,000	13,535	5,154	20,852
	<u>305,080</u>	<u>22,373</u>	<u>436,749</u>	<u>107,571</u>
Income before provision for income taxes	333,675	2,344,389	740,777	2,615,227
Provision for income taxes	<u>(156,000)</u>	<u>(454,000)</u>	<u>(211,000)</u>	<u>(454,000)</u>
Net income	<u>\$ 177,675</u>	<u>1,890,389</u>	<u>529,777</u>	<u>2,161,227</u>
Net income per common share:				
Basic	<u>\$ 0.02</u>	<u>0.24</u>	<u>0.07</u>	<u>0.27</u>
Diluted	<u>\$ 0.02</u>	<u>0.23</u>	<u>0.07</u>	<u>0.26</u>
Weighted average common shares:				
Basic	<u>7,281,000</u>	<u>7,912,000</u>	<u>7,279,000</u>	<u>7,912,000</u>
Diluted	<u>7,348,000</u>	<u>8,281,000</u>	<u>7,347,000</u>	<u>8,259,000</u>

See Accountants' Report.

PIONEER OIL AND GAS
STATEMENTS OF CASH FLOWS
Six Months Ended March 31, 2006 and 2005

	<u>2006</u>	<u>2005</u>
Cash flows from operating activities:		
Net income	\$ 529,777	2,161,227
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Gain on sale of marketable securities	(130,079)	-
Gain on sale of producing properties	(309,821)	-
Loss on assets sold, abandoned, and dry hole costs	-	112,321
Depreciation, depletion and amortization	41,850	46,186
Accretion expense	1,691	2,374
Employee benefit plan expense	26,605	25,199
Deferred income taxes	9,000	278,000
Interest income	(4,948)	(6,110)
(Increase) decrease in:		
Accounts receivable	159,156	97,897
Prepaid income taxes	2,000	-
Resale leases	(656,051)	(1,488,057)
Increase (decrease) in:		
Accounts payable	(286,759)	(57,716)
Accrued expenses	(1,756)	216
Advances on drilling costs	-	(556,573)
Income taxes payable	10,000	176,000
	<u>(609,335)</u>	<u>790,964</u>
Net cash provided by (used in) operating activities		
Cash flows from investing activities:		
Purchase of property and equipment	(1,911)	(277,411)
Proceeds from sale of marketable securities	130,079	-
Proceeds from sale of producing properties	309,821	-
	<u>437,989</u>	<u>(277,411)</u>
Net cash provided by (used in) investing activities		
Cash flows from financing activities:		
Payable - common stock repurchases	(792,615)	-
Increase in line-of-credit	450,000	-
Purchase and retirement of common stock	(742)	(2,524)
	<u>(343,357)</u>	<u>(2,524)</u>
Net cash used in financing activities		
Net increase (decrease) in cash	(514,703)	511,029
Cash, beginning of year	<u>758,183</u>	<u>491,090</u>
Cash, end of year	<u>\$ 243,480</u>	<u>1,002,119</u>

See Accountants' Report.