

**PIONEER OIL AND GAS**  
**FINANCIAL STATEMENTS**  
**(UNAUDITED)**

**December 31, 2006**

**JONES SIMKINS P.C.**



CERTIFIED PUBLIC ACCOUNTANTS

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December 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 December 31, 2006, and the related statements of income and cash flows for the three months ended December 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, 2006, was audited by us, and we expressed an unqualified opinion on it in our report dated December 6, 2006, but we have not performed any auditing procedures since that date.

JONES SIMKINS, P.C.  
Logan, Utah  
February 21, 2007

PIONEER OIL AND GAS  
BALANCE SHEETS

	<u>December 31,</u> 2006 (Compiled)	<u>September 31,</u> 2006 (Audited)
<u>Assets</u>		
Current assets:		
Cash	\$ 2,589,204	294,754
Investments, available for sale	4,500	8,000
Accounts receivable	173,711	219,793
Resale leases, at lower of cost or market	5,732,170	5,880,385
Total current assets	8,499,585	6,402,932
Property and equipment, net	415,736	433,542
Other assets	2,230	2,230
	<u>\$ 8,917,551</u>	<u>6,838,704</u>
<u>Liabilities and Stockholders' Equity</u>		
Current liabilities:		
Accounts payable	\$ 66,487	130,369
Payable - common stock repurchases	336,999	341,334
Accrued expenses	26,720	26,488
Income taxes payable	1,004,436	347,000
Note payable	-	200,000
Total current liabilities	1,434,642	1,045,191
Deferred income taxes	65,500	69,000
Asset retirement obligation	71,021	70,493
Total liabilities	1,571,163	1,184,684
Commitments and contingencies		
Stockholders' equity:		
Common stock, par value \$.001 per share, 50,000,000 shares authorized; 7,258,676 and 7,260,676 shares issued and outstanding, respectively	7,259	7,261
Additional paid-in capital	1,051,567	1,054,565
Stock subscription receivable	(249,927)	(99,927)
Accumulated other comprehensive income	3,000	5,000
Retained earnings	6,594,489	4,837,121
	7,406,388	5,804,020
Less treasury stock, 40,000 shares at cost	(60,000)	(150,000)
Total stockholders' equity	7,346,388	5,654,020
	<u>\$ 8,917,551</u>	<u>6,838,704</u>

See Accountants' Report.

PIONEER OIL AND GAS  
STATEMENTS OF INCOME

Three Months Ended December 31, 2006 and 2005

	<u>2006</u>	<u>2005</u>
Revenue:		
Oil and gas sales	\$ 138,110	310,580
Royalty revenue	150,102	294,764
Project and lease sales income	<u>2,797,478</u>	<u>19,180</u>
	<u>3,085,690</u>	<u>624,524</u>
Costs and expenses:		
Cost of operations	73,724	153,777
General and administrative expenses	116,008	97,531
Exploration costs	61,293	58,010
Lease rentals	38,206	18,848
Depreciation, depletion and amortization	<u>17,806</u>	<u>20,925</u>
	<u>307,037</u>	<u>349,091</u>
Income from operations	<u>2,778,653</u>	<u>275,433</u>
Other income (expense):		
Gain on sale of investments	-	130,079
Interest income	6,424	2,958
Interest expense	(4,025)	(5,522)
Other	<u>3,316</u>	<u>4,154</u>
	<u>5,715</u>	<u>131,669</u>
Income before provision for income taxes	2,784,368	407,102
Provision for income taxes	<u>(1,027,000)</u>	<u>(55,000)</u>
Net income	<u>\$ 1,757,368</u>	<u>352,102</u>
Net income per common share:		
Basic	<u>\$ 0.24</u>	<u>0.05</u>
Diluted	<u>\$ 0.24</u>	<u>0.05</u>
Weighted average common shares:		
Basic	<u>7,259,000</u>	<u>7,279,000</u>
Diluted	<u>7,350,000</u>	<u>7,331,000</u>

See Accountants' Report.

PIONEER OIL AND GAS  
STATEMENTS OF CASH FLOWS  
Three Months Ended December 31, 2006 and 2005

	<u>2006</u>	<u>2005</u>
Cash flows from operating activities:		
Net income	\$ 1,757,368	352,102
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Gain on sale of investments	-	(130,079)
Depreciation, depletion and amortization	17,806	20,925
Accretion expense	528	845
Deferred income taxes	(2,000)	(52,000)
(Increase) decrease in:		
Accounts receivable	46,082	(34,944)
Prepaid income taxes	-	39,000
Resale leases	148,215	(225,481)
Increase (decrease) in:		
Accounts payable	(63,882)	(212,949)
Accrued expenses	232	(19)
Income taxes payable	657,436	68,000
	<u>2,561,785</u>	<u>(174,600)</u>
Cash flows from investing activities:		
Acquisition of property and equipment	-	(1,911)
Proceeds from sale of investments	-	130,079
	<u>-</u>	<u>128,168</u>
Cash flows from financing activities:		
Payable - common stock repurchases	(4,335)	(763,251)
Increase in line-of-credit	-	700,000
Payments on note payable	(200,000)	-
Purchase of treasury stock	(60,000)	-
Purchase and retirement of common stock	(3,000)	(742)
	<u>(267,335)</u>	<u>(63,993)</u>
Net cash used in financing activities	<u>(267,335)</u>	<u>(63,993)</u>
Net increase (decrease) in cash	2,294,450	(110,425)
Cash, beginning of period	<u>294,754</u>	<u>758,183</u>
Cash, end of period	<u>\$ 2,589,204</u>	<u>647,758</u>

See Accountants' Report.

PIONEER OIL AND GAS  
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION  
Three Months Ended December 31, 2006 and 2005

During the three months ended December 31, 2006:

- Recorded a reduction in the investments of \$3,500, an unrealized holding loss of \$2,000, and a reduction in the deferred income taxes of \$1,500.
- Sold 100,000 shares of treasury stock at a cost of \$150,000 in exchange for a stock subscription receivable.

During the three months ended December 31, 2005:

- Recorded an unrealized holding loss of \$75,033 and a decrease in deferred income taxes of \$26,000 on investments, available for sale.

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