

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

**June 30, 2006**

**JONES SIMKINS P.C.**



CERTIFIED PUBLIC ACCOUNTANTS

PIONEER OIL AND GAS  
FINANCIAL STATEMENTS

June 30, 2006

INDEX

	<u>Page</u>
Accountants' Report	1
Balance Sheets	2
Statements of Income	3
Statements of Cash Flows	4



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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 June 30, 2006, and the related statements of income for the three and nine months ended June 30, 2006 and 2005, and the statements of cash flows for the nine months ended June 30, 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  
August 8, 2006

PIONEER OIL AND GAS  
BALANCE SHEETS

	<u>June 30,</u> 2006 (Compiled)	<u>September 30,</u> 2005 (Audited)
<u>Assets</u>		
Current assets:		
Cash	\$ 165,788	758,183
Investments, available for sale	21,250	122,533
Accounts receivable	174,734	353,902
Prepaid income taxes	92,000	39,000
Resale leases, at lower of cost or market	<u>5,651,581</u>	<u>4,280,444</u>
Total current assets	6,105,353	5,554,062
Property and equipment, net	460,129	501,870
Other assets	<u>2,230</u>	<u>2,230</u>
	<u>\$ 6,567,712</u>	<u>6,058,162</u>
<u>Liabilities and Stockholders' Equity</u>		
Current liabilities:		
Accounts payable	\$ 42,541	329,597
Payable - common stock repurchases	345,234	1,138,599
Accrued expenses	26,131	33,047
Line-of-credit	50,000	-
Note Payable	<u>1,000,000</u>	<u>-</u>
Total current liabilities	1,463,906	1,501,243
Deferred income taxes	65,000	96,000
Asset retirement obligation	<u>115,389</u>	<u>112,852</u>
Total liabilities	<u>1,644,295</u>	<u>1,710,095</u>
Commitments and contingencies		
Stockholders' equity:		
Common stock, par value \$.001 per share, 50,000,000 shares authorized; 7,276,676 and 7,280,556 shares issued and outstanding, respectively	7,277	7,281
Additional paid-in capital	1,054,549	1,058,107
Stock subscription receivable	(143,252)	(164,909)
Accumulated other comprehensive income	14,250	80,533
Retained earnings	<u>3,990,593</u>	<u>3,367,055</u>
Total stockholders' equity	<u>4,923,417</u>	<u>4,348,067</u>
	<u>\$ 6,567,712</u>	<u>6,058,162</u>

See Accountants' Report.

PIONEER OIL AND GAS  
STATEMENTS OF INCOME

	Three Months Ended		Nine Months Ended	
	June 30,		June 30,	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Revenue:				
Oil and gas sales	\$ 172,418	335,211	653,204	865,290
Royalty revenue	209,249	192,746	785,829	691,488
Project and lease sales income	72,092	2,211,651	91,272	4,472,180
	<u>453,759</u>	<u>2,739,608</u>	<u>1,530,305</u>	<u>6,028,958</u>
Costs and expenses:				
Cost of operations	107,889	187,778	447,091	569,103
General and administrative expenses	83,420	94,929	304,257	293,354
Exploration costs	56,453	44,902	170,434	182,230
Lease rentals	51,403	9,361	108,051	27,791
Depreciation, depletion and amortization	20,981	23,094	62,831	69,280
	<u>320,146</u>	<u>360,064</u>	<u>1,092,664</u>	<u>1,141,758</u>
Income from operations	<u>133,613</u>	<u>2,379,544</u>	<u>437,641</u>	<u>4,887,200</u>
Other income (expense):				
Gain on sale of investments	-	-	130,079	77,845
Gain on sale of producing properties	-	-	309,821	-
Interest income	444	5,933	9,897	16,075
Interest expense	(17,632)	(190)	(35,390)	(1,457)
Other	2,336	1,500	7,490	22,352
	<u>(14,852)</u>	<u>7,243</u>	<u>421,897</u>	<u>114,815</u>
Income before provision for income taxes	118,761	2,386,787	859,538	5,002,015
Provision for income taxes	<u>(25,000)</u>	<u>(930,000)</u>	<u>(236,000)</u>	<u>(1,384,000)</u>
Net income	<u>\$ 93,761</u>	<u>1,456,787</u>	<u>623,538</u>	<u>3,618,015</u>
Net income per common share:				
Basic	<u>\$ 0.01</u>	<u>0.19</u>	<u>0.09</u>	<u>0.46</u>
Diluted	<u>\$ 0.01</u>	<u>0.18</u>	<u>0.08</u>	<u>0.44</u>
Weighted average common shares:				
Basic	<u>7,277,000</u>	<u>7,870,000</u>	<u>7,278,000</u>	<u>7,898,000</u>
Diluted	<u>7,357,000</u>	<u>8,232,000</u>	<u>7,359,000</u>	<u>8,250,000</u>

See Accountants' Report.

PIONEER OIL AND GAS  
STATEMENTS OF CASH FLOWS  
Nine Months Ended June 30, 2006 and 2005

	<u>2006</u>	<u>2005</u>
Cash flows from operating activities:		
Net income	\$ 623,538	3,618,015
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	-	167,645
Depreciation, depletion and amortization	62,831	69,280
Accretion expense	2,537	3,561
Employee benefit plan expense	26,605	25,198
Deferred income taxes	4,000	334,000
Interest income	(4,948)	(6,110)
(Increase) decrease in:		
Accounts receivable	179,168	88,918
Prepaid income taxes	(53,000)	-
Resale leases	(1,371,137)	(1,702,847)
Increase (decrease) in:		
Accounts payable	(287,056)	1,090,323
Accrued expenses	(6,916)	1
Advances on drilling costs	-	(556,573)
Income taxes payable	-	860,000
Net cash provided by (used in) operating activities	<u>(1,264,278)</u>	<u>3,991,411</u>
Cash flows from investing activities:		
Purchase of property and equipment	(21,090)	(279,005)
Proceeds from sale of marketable securities	130,079	-
Proceeds from sale of producing properties	309,821	-
Net cash provided by (used in) investing activities	<u>418,810</u>	<u>(279,005)</u>
Cash flows from financing activities:		
Payable - common stock repurchases	(793,365)	-
Increase in line-of-credit	50,000	-
Proceeds from note payable	1,000,000	-
Purchase and retirement of common stock	(3,562)	(125,662)
Net cash provided by (used in) financing activities	<u>253,073</u>	<u>(125,662)</u>
Net increase (decrease) in cash	(592,395)	3,586,744
Cash, beginning of year	<u>758,183</u>	<u>491,090</u>
Cash, end of year	<u>\$ 165,788</u>	<u>4,077,834</u>

See Accountants' Report.