

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

**December 31, 2007**

**JONES SIMKINS P.C.**



CERTIFIED PUBLIC ACCOUNTANTS

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1011 West 400 North, Suite 100  
P.O. Box 747  
Logan, UT 84323-0747  
Phone: (435) 752-1510 • (877) 752-1510  
Fax: (435) 752-4878

**OFFICERS:**

*Paul D. Simkins, CPA  
Michael C. Kidman, CPA, MBA  
Brent S. Sandberg, CPA  
Brett C. Hugie, CPA  
Mark E. Low, CPA  
H. Paul Gibbons, CPA*

## 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, 2007, and the related statements of operations and cash flows for the three months ended December 31, 2007 and 2006, 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, 2007, was audited by us, and we expressed an unqualified opinion on it in our report dated December 13, 2007, but we have not performed any auditing procedures since that date.

JONES SIMKINS, P.C.  
Logan, Utah  
February 15, 2008

PIONEER OIL AND GAS  
BALANCE SHEETS

|   | <u>December 31,</u><br><u>2007</u><br><u>(Compiled)</u> | <u>September 30,</u><br><u>2007</u><br><u>(Audited)</u> |
|---|---|---|
| <u>Assets</u>   |   |   |
| Current assets:   |   |   |
| Cash  | \$ 6,196,062  | 6,491,269   |
| Investments, available for sale   | 2,000   | 3,000   |
| Accounts receivable   | 91,675  | 95,562  |
| Income taxes receivable and prepaid   | 156,200   | 154,000   |
| Resale leases, at lower of cost or market   | 4,626,483   | 4,562,494   |
| Total current assets  | 11,072,420  | 11,306,325  |
| Property and equipment, net   | 428,421   | 437,548   |
| Other assets  | 2,230   | 2,230   |
|   | <u>\$ 11,503,071</u>                                    | <u>11,746,103</u>                                       |
| <u>Liabilities and Stockholders' Equity</u>   |   |   |
| Current liabilities:  |   |   |
| Accounts payable  | \$ 44,327   | 172,630   |
| Payable - common stock repurchases  | 332,289   | 332,439   |
| Accrued expenses  | 161,940   | 159,650   |
| Total current liabilities   | 538,556   | 664,719   |
| Deferred income taxes   | 28,000  | 73,000  |
| Asset retirement obligation   | 73,150  | 72,606  |
| Total liabilities   | <u>639,706</u>  | <u>810,325</u>  |
| Commitments and contingencies   |   |   |
| Stockholders' equity:   |   |   |
| Common stock, par value \$.001 per share,<br>50,000,000 shares authorized; 7,318,676<br>shares issued and outstanding | 7,319   | 7,319   |
| Additional paid-in capital  | 1,063,507   | 1,063,507   |
| Stock subscription receivable   | (263,918)   | (253,918)   |
| Accumulated other comprehensive income  | 1,000   | 2,000   |
| Retained earnings   | 10,055,457  | 10,126,870  |
|   | <u>10,863,365</u>                                       | <u>10,945,778</u>                                       |
| Less treasury stock, 0 and 5,000 shares at<br>cost, respectively  | <u>-</u>  | <u>(10,000)</u>   |
| Total stockholders' equity  | <u>10,863,365</u>                                       | <u>10,935,778</u>                                       |
|   | <u>\$ 11,503,071</u>                                    | <u>11,746,103</u>                                       |

See Accountants' Report.

PIONEER OIL AND GAS  
STATEMENTS OF OPERATIONS  
Three Months Ended December 31, 2007 and 2006

|   | <u>2007</u>        | <u>2006</u>        |
|---|--------------------|--------------------|
| Revenue:  |                    |                    |
| Oil and gas sales   | \$ 169,491         | 138,110            |
| Royalty revenue   | 107,196            | 150,102            |
| Project and lease sales income                            | <u>(11,260)</u>    | <u>2,797,478</u>   |
|   | <u>265,427</u>     | <u>3,085,690</u>   |
| Costs and expenses:                                       |                    |                    |
| Cost of operations  | 176,975            | 73,724             |
| General and administrative expenses                       | 117,099            | 116,008            |
| Exploration costs   | 61,484             | 61,293             |
| Lease rentals   | 76,376             | 38,206             |
| Depreciation, depletion and amortization                  | <u>11,122</u>      | <u>17,806</u>      |
|   | <u>443,056</u>     | <u>307,037</u>     |
| Income (loss) from operations                             | <u>(177,629)</u>   | <u>2,778,653</u>   |
| Other income (expense):                                   |                    |                    |
| Interest income   | 58,828             | 6,424              |
| Interest expense  | -                  | (4,025)            |
| Other   | <u>2,388</u>       | <u>3,316</u>       |
|   | <u>61,216</u>      | <u>5,715</u>       |
| Income (loss) before provision (benefit) for income taxes | (116,413)          | 2,784,368          |
| Provision (benefit) for income taxes                      | <u>45,000</u>      | <u>(1,027,000)</u> |
| Net income (loss)   | <u>\$ (71,413)</u> | <u>1,757,368</u>   |
| Net income (loss) per common share:                       |                    |                    |
| Basic   | <u>\$ (0.01)</u>   | <u>0.24</u>        |
| Diluted   | <u>\$ (0.01)</u>   | <u>0.24</u>        |
| Weighted average common shares:                           |                    |                    |
| Basic   | <u>7,319,000</u>   | <u>7,259,000</u>   |
| Diluted   | <u>7,441,000</u>   | <u>7,350,000</u>   |

See Accountants' Report.

PIONEER OIL AND GAS  
STATEMENTS OF CASH FLOWS  
Three Months Ended December 31, 2007 and 2006

|  | <u>2007</u>         | <u>2006</u>      |
|--|---------------------|------------------|
| Cash flows from operating activities:  |                     |                  |
| Net income (loss)  | \$ (71,413)         | 1,757,368        |
| Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities: |                     |                  |
| Depreciation, depletion and amortization   | 11,122              | 17,806           |
| Accretion expense  | 544                 | 528              |
| Deferred income taxes  | (45,000)            | (2,000)          |
| (Increase) decrease in:  |                     |                  |
| Accounts receivable  | 3,887               | 46,082           |
| Income taxes receivable and prepaid  | (2,200)             | -                |
| Resale leases  | (63,989)            | 148,215          |
| Increase (decrease) in:  |                     |                  |
| Accounts payable   | (128,303)           | (63,882)         |
| Accrued expenses   | 2,290               | 232              |
| Income taxes payable   | -                   | 657,436          |
|  | <u>(293,062)</u>    | <u>2,561,785</u> |
| Cash flows from investing activities:  |                     |                  |
| Acquisition of property and equipment  | <u>(1,995)</u>      | <u>-</u>         |
|  | <u>(1,995)</u>      | <u>-</u>         |
| Cash flows from financing activities:  |                     |                  |
| Payable - common stock repurchases   | (150)               | (4,335)          |
| Payments on note payable   | -                   | (200,000)        |
| Purchase of treasury stock   | -                   | (60,000)         |
| Purchase and retirement of common stock  | -                   | (3,000)          |
|  | <u>(150)</u>        | <u>(267,335)</u> |
| Net cash used in financing activities  | <u>(150)</u>        | <u>(267,335)</u> |
| Net increase (decrease) in cash  | (295,207)           | 2,294,450        |
| Cash, beginning of period  | <u>6,491,269</u>    | <u>294,754</u>   |
| Cash, end of period  | <u>\$ 6,196,062</u> | <u>2,589,204</u> |

See Accountants' Report.

PIONEER OIL AND GAS  
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION  
Three Months Ended December 31, 2007 and 2006

During the three months ended December 31, 2007:

- Recorded a reduction in investments of \$1,000 and an unrealized holding loss of \$1,000.
- Sold 5,000 shares of treasury stock to the Company's ESOP at a cost of \$10,000 in exchange for a stock subscription receivable.

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.

See Accountants' Report.