

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

**June 30, 2008**

**JONES SIMKINS P.C.**



CERTIFIED PUBLIC ACCOUNTANTS

PIONEER OIL AND GAS  
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June 30, 2008

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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, 2008, and the related statements of income and cash flows for the three and nine months ended June 30, 2008 and 2007, 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  
August 15, 2008

PIONEER OIL AND GAS  
BALANCE SHEETS

<u>Assets</u>	June 30, 2008 <u>(Compiled)</u>	September 30, 2007 <u>(Audited)</u>
Current assets:		
Cash	\$ 10,445,067	6,491,269
Investments, available for sale	2,500	3,000
Accounts receivable	5,870,613	95,562
Income taxes receivable and prepaid	-	154,000
Resale leases, at lower of cost or market	<u>3,750,193</u>	<u>4,562,494</u>
Total current assets	20,068,373	11,306,325
Property and equipment, net	405,286	437,548
Other assets	<u>2,230</u>	<u>2,230</u>
	<u>\$ 20,475,889</u>	<u>11,746,103</u>
<u>Liabilities and Stockholders' Equity</u>		
Current liabilities:		
Accounts payable	\$ 338,186	172,630
Payable - common stock repurchases	328,989	332,439
Accrued expenses	798,508	159,650
Income taxes payable	<u>2,814,800</u>	<u>-</u>
Total current liabilities	4,280,483	664,719
Deferred income taxes	82,000	73,000
Asset retirement obligation	<u>48,754</u>	<u>72,606</u>
Total liabilities	<u>4,411,237</u>	<u>810,325</u>
Commitments and contingencies		
Stockholders' equity:		
Common stock, par value \$.001 per share, 50,000,000 shares authorized; 7,318,676 shares issued and outstanding	7,319	7,319
Additional paid-in capital	1,063,507	1,063,507
Stock subscription receivable	(212,629)	(253,918)
Accumulated other comprehensive income	1,500	2,000
Retained earnings	<u>15,257,460</u>	<u>10,126,870</u>
	16,117,157	10,945,778
Less treasury stock, 26,900 and 5,000 shares at cost, respectively	<u>(52,505)</u>	<u>(10,000)</u>
Total stockholders' equity	<u>16,064,652</u>	<u>10,935,778</u>
	<u>\$ 20,475,889</u>	<u>11,746,103</u>

See Accountants' Report.

PIONEER OIL AND GAS  
STATEMENTS OF INCOME

	<u>Three Months Ended</u>		<u>Nine Months Ended</u>	
	<u>June 30,</u>		<u>June 30,</u>	
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
Revenue:				
Oil and gas sales	\$ 385,829	156,812	767,055	464,449
Royalty revenue	203,195	180,142	419,397	441,699
Project and lease sales income	8,391,042	1,468,349	8,428,788	9,102,854
	<u>8,980,066</u>	<u>1,805,303</u>	<u>9,615,240</u>	<u>10,009,002</u>
Costs and expenses:				
Cost of operations	106,205	120,906	378,036	284,368
General and administrative expenses	841,081	125,896	1,201,158	833,683
Exploration costs	61,180	74,858	187,693	199,076
Lease rentals	2,344	102,717	130,439	175,475
Depreciation, depletion and amortization	11,122	17,809	33,367	53,422
	<u>1,021,932</u>	<u>442,186</u>	<u>1,930,693</u>	<u>1,546,024</u>
Income from operations	<u>7,958,134</u>	<u>1,363,117</u>	<u>7,684,547</u>	<u>8,462,978</u>
Other income (expense):				
Gain on sale of producing properties	-	-	261,303	-
Interest income	33,110	71,107	143,015	122,232
Interest expense	-	-	(214)	(4,025)
Other	(1,240)	2,809	20,939	7,625
	<u>31,870</u>	<u>73,916</u>	<u>425,043</u>	<u>125,832</u>
Income before provision for income taxes	7,990,004	1,437,033	8,109,590	8,588,810
Provision for income taxes	<u>2,955,000</u>	<u>531,000</u>	<u>2,979,000</u>	<u>3,171,000</u>
Net income	<u>\$ 5,035,004</u>	<u>906,033</u>	<u>5,130,590</u>	<u>5,417,810</u>
Net income per common share:				
Basic	<u>\$ 0.69</u>	<u>0.12</u>	<u>0.70</u>	<u>0.75</u>
Diluted	<u>\$ 0.67</u>	<u>0.12</u>	<u>0.69</u>	<u>0.73</u>
Weighted average common shares:				
Basic	<u>7,319,000</u>	<u>7,284,000</u>	<u>7,319,000</u>	<u>7,267,000</u>
Diluted	<u>7,484,000</u>	<u>7,434,000</u>	<u>7,456,000</u>	<u>7,388,000</u>

See Accountants' Report.

PIONEER OIL AND GAS  
STATEMENTS OF CASH FLOWS  
Nine Months Ended June 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>
Cash flows from operating activities:		
Net income	\$ 5,130,590	5,417,810
Adjustments to reconcile net income to net cash provided by operating activities:		
Gain on sale of producing properties	(261,303)	-
Reduction of ARO due to property sales	(20,433)	-
Depreciation, depletion and amortization	33,367	53,422
Accretion expense	1,633	1,585
Employee benefit plan expense	63,207	126,055
Deferred income taxes	9,000	-
Interest income	(7,918)	(7,498)
(Increase) decrease in:		
Accounts receivable	(5,775,051)	107,866
Income taxes receivable and prepaid	154,000	-
Resale leases	812,301	1,515,503
Increase (decrease) in:		
Accounts payable	165,556	(56,868)
Accrued expenses	638,858	6,875
Income taxes payable	2,814,800	245,913
	<u>3,758,607</u>	<u>7,410,663</u>
Cash flows from investing activities:		
Acquisition of property and equipment	(6,157)	(40,217)
Proceeds from sale of producing properties	261,303	-
	<u>255,146</u>	<u>(40,217)</u>
Cash flows from financing activities:		
Payable - common stock repurchases	(3,450)	(8,895)
Payments on note payable	-	(200,000)
Purchase of treasury stock	(56,505)	(176,448)
Proceeds from issuance of common stock	-	12,000
Purchase and retirement of common stock	-	(3,000)
	<u>(59,955)</u>	<u>(376,343)</u>
Net cash used in financing activities	<u>(59,955)</u>	<u>(376,343)</u>
Net increase in cash	3,953,798	6,994,103
Cash, beginning of period	<u>6,491,269</u>	<u>294,754</u>
Cash, end of period	<u>\$ 10,445,067</u>	<u>7,288,857</u>

See Accountants' Report.

PIONEER OIL AND GAS  
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION  
Nine Months Ended June 30, 2008 and 2007

During the nine months ended June 30, 2008:

- Recorded a reduction in investments of \$500 and an unrealized holding loss of \$500.
- Sold 7,000 shares of treasury stock to the Company's ESOP at a cost of \$14,000 in exchange for an increase in the stock subscription receivable.
- Reduced cost of operations by \$20,433 when properties with an asset retirement obligation of \$25,485 and net capitalized asset retirement costs of \$5,052 were sold.

During the nine months ended June 30, 2007:

- Recorded a reduction in investments of \$5,250, a reduction in unrealized holding loss of \$3,250, and a reduction in deferred income taxes of \$2,000.
- Sold 197,900 shares of treasury stock to the Company's ESOP at a cost of \$326,448 in exchange for a stock subscription receivable.

See Accountants' Report.