# PIONEER OIL AND GAS

## FINANCIAL STATEMENTS

## September 30, 2009 and 2008

JONES SIMKINS P.C.

CERTIFIED PUBLIC ACCOUNTANTS

# PIONEER OIL AND GAS
# INDEX TO FINANCIAL STATEMENTS
# September 30, 2009 and 2008

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# INDEPENDENT AUDITORS' REPORT

To the Board of Directors and
Stockholders of Pioneer Oil and Gas

We have audited the accompanying balance sheets of Pioneer Oil and Gas as of September 30, 2009 and 2008, and the related statements of operations, stockholders' equity, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Pioneer Oil and Gas as of September 30, 2009 and 2008, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Jones Simkins, P.C.

JONES SIMKINS, P.C.
January 8, 2010

PIONEER OIL AND GAS
BALANCE SHEETS
September 30, 2009 and 2008

| Assets | | 2009 | 2008 |
|---|---|---|---|
| Current assets: | | | |
| Cash | $ | 5,343,604 | 10,443,315 |
| Investments, available for sale | | 395,962 | 1,678,855 |
| Accounts receivable | | 342,323 | 321,175 |
| Income taxes receivable and prepaid | | 40,261 | 131,200 |
| Resale leases, at lower of cost or market | | 4,117,203 | 3,958,609 |
| Deferred income tax asset | | 196,000 | 16,000 |
| Total current assets | | 10,435,353 | 16,549,154 |
| Property and equipment, net | | 400,621 | 416,354 |
| Other assets | | 2,230 | 2,230 |
| | $ | 10,838,204 | 16,967,738 |
| Liabilities and Stockholders' Equity | | | |
| Current liabilities: | | | |
| Accounts payable | $ | 6,552 | 41,600 |
| Accrued expenses | | 243,566 | 474,255 |
| Payable - common stock repurchases | | 315,183 | 323,739 |
| Dividends payable | | 79,529 | - |
| Total current liabilities | | 644,830 | 839,594 |
| Deferred income taxes | | 89,000 | 88,000 |
| Asset retirement obligation | | 50,777 | 49,298 |
| Total liabilities | | 784,607 | 976,892 |
| Commitments and contingencies | | | |
| Stockholders' equity: | | | |
| Common stock, par value $.001 per share, 50,000,000 shares authorized; 7,673,265 and 7,318,676 shares issued and outstanding, respectively | | 7,673 | 7,319 |
| Additional paid-in capital | | 1,585,543 | 1,063,507 |
| Stock subscription receivable | | (82,857) | (86,360) |
| Accumulated other comprehensive loss | | (3,038) | (30,145) |
| Retained earnings | | 8,548,276 | 15,093,030 |
| | | 10,055,597 | 16,047,351 |
| Less treasury stock, 2,000 and 28,900 shares at cost, respectively | | (2,000) | (56,505) |
| Total stockholders' equity | | 10,053,597 | 15,990,846 |
| | $ | 10,838,204 | 16,967,738 |

The accompanying notes are an integral part of these financial statements.

PIONEER OIL AND GAS
STATEMENTS OF OPERATIONS
Years Ended September 30, 2009 and 2008

| | 2009 | 2008 |
|---|---|---|
| Revenue: | | |
| Oil and gas sales | $ 552,409 | 1,069,037 |
| Royalty revenue | 697,146 | 819,688 |
| Project and lease sales income | - | 8,058,416 |
| | 1,249,555 | 9,947,141 |
| Costs and expenses: | | |
| Cost of operations | 495,218 | 459,689 |
| General and administrative expenses | 804,500 | 1,686,255 |
| Exploration costs | 293,506 | 247,228 |
| Lease rentals | 372,464 | 241,818 |
| Depreciation, depletion and amortization | 16,473 | 22,843 |
| | 1,982,161 | 2,657,833 |
| Income (loss) from operations | (732,606) | 7,289,308 |
| Other income (expense): | | |
| Gain on sale of producing properties | - | 271,303 |
| Loss on disposal of developing property | (260) | - |
| Gain on sale of property and equipment | 16,000 | - |
| Interest income | 116,289 | 211,504 |
| Interest expense | - | (214) |
| Other | 4,763 | 35,259 |
| | 136,792 | 517,852 |
| Income before provision (benefit) for income taxes | (595,814) | 7,807,160 |
| Provision (benefit) for income taxes | (194,000) | 2,841,000 |
| Net income (loss) | $ (401,814) | 4,966,160 |
| Net income (loss) per common share: | | |
| Basic | $ (0.05) | 0.68 |
| Diluted | $ (0.05) | 0.67 |
| Weighted average common shares: | | |
| Basic | 7,670,000 | 7,319,000 |
| Diluted | 7,670,000 | 7,464,000 |

The accompanying notes are an integral part of these financial statements.

PIONEER OIL AND GAS

STATEMENTS OF STOCKHOLDERS' EQUITY

Years Ended September 30, 2009 and 2008

| | Common Stock | | Additional | Stock | Accumulated Other | Retained | Treasury Stock | | |
|---|---|---|---|---|---|---|---|---|---|
| | Shares | Amount | Paid-in Capital | Subscription Receivable | Comprehensive Income (Loss) | Earnings | Shares | Amount | Total |
| Balance at October 1, 2007 | 7,318,676 | $ 7,319 | $ 1,063,507 | $ (253,918) | $ 2,000 | $ 10,126,870 | (5,000) | $ (10,000) | $ 10,935,778 |
| Comprehensive income: | | | | | | | | | |
| Net income | - | - | - | - | - | 4,966,160 | - | - | 4,966,160 |
| Unrealized holding loss, net of tax effects | - | - | - | - | (32,145) | - | - | - | (32,145) |
| Total comprehensive income | | | | | | | | | 4,934,015 |
| Purchase of treasury stock | - | - | - | - | - | - | (30,900) | (60,505) | (60,505) |
| Sale of treasury stock to ESOP | - | - | - | (14,000) | - | - | 7,000 | 14,000 | - |
| Payments on stock subscription receivable | - | - | - | 181,558 | - | - | - | - | 181,558 |
| Balance at September 30, 2008 | 7,318,676 | 7,319 | 1,063,507 | (86,360) | (30,145) | 15,093,030 | (28,900) | (56,505) | 15,990,846 |
| Comprehensive loss: | | | | | | | | | |
| Net loss | - | - | - | - | - | (401,814) | - | - | (401,814) |
| Unrealized holding gain, net of tax effects | - | - | - | - | 27,107 | - | - | - | 27,107 |
| Total comprehensive loss | | | | | | | | | (374,707) |
| Exercise of stock options | 360,000 | 360 | 431,640 | - | - | - | - | - | 432,000 |
| Stock option compensation expense | - | - | 98,507 | - | - | - | - | - | 98,507 |
| Purchase and retirement of common stock | (5,411) | (6) | (8,111) | - | - | - | - | - | (8,117) |
| Dividends | - | - | - | - | - | (6,142,940) | - | - | (6,142,940) |
| Purchase of treasury stock | - | - | - | - | - | - | (4,000) | (4,500) | (4,500) |
| Sale of treasury stock to ESOP | - | - | - | (59,005) | - | - | 30,900 | 59,005 | - |
| Payments on stock subscription receivable | - | - | - | 62,508 | - | - | - | - | 62,508 |
| Balance at September 30, 2009 | 7,673,265 | $ 7,673 | $ 1,585,543 | $ (82,857) | $ (3,038) | $ 8,548,276 | (2,000) | $ (2,000) | $ 10,053,597 |

The accompanying notes are an integral part of these financial statements.

PIONEER OIL AND GAS
STATEMENTS OF CASH FLOWS
Years Ended September 30, 2009 and 2008

| | 2009 | 2008 |
|---|---|---|
| Cash flows from operating activities: | | |
| Net income (loss) | $ (401,814) | 4,966,160 |
| Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities: | | |
| Reduction of ARO due to property sales | - | (20,433) |
| Gain on sale of property and equipment | (15,740) | (271,303) |
| Depreciation, depletion and amortization | 16,473 | 22,843 |
| Accretion expense | 1,479 | 2,177 |
| Stock based compensation | 98,507 | - |
| Employee benefit plan expense | 72,660 | 195,714 |
| Deferred income taxes | (194,000) | 16,000 |
| Interest income | (10,152) | (14,156) |
| (Increase) decrease in: | | |
| Accounts receivable | (21,148) | (225,613) |
| Income taxes receivable and prepaid | 90,939 | 22,800 |
| Resale leases | (158,594) | 603,885 |
| Increase (decrease) in: | | |
| Accounts payable | (35,048) | (131,030) |
| Accrued expenses | (230,689) | 324,605 |
| Net cash provided by (used in) operating activities | (787,127) | 5,491,649 |
| Cash flows from investing activities: | | |
| Proceeds from sale of investments available for sale | 1,325,000 | - |
| Acquisition of property and equipment | (1,000) | (6,701) |
| Proceeds from sale of property and equipment | 16,000 | - |
| Proceeds from sale of producing properties | - | 261,303 |
| Purchases of investments, available for sale | - | (1,725,000) |
| Net cash provided by (used in) investing activities | 1,340,000 | (1,470,398) |
| Cash flows from financing activities: | | |
| Payable - common stock repurchases | (16,673) | (8,700) |
| Purchase of treasury stock | (4,500) | (60,505) |
| Proceeds from issuance of common stock | 432,000 | - |
| Payment of dividends | (6,063,411) | - |
| Net cash used in financing activities | (5,652,584) | (69,205) |
| Net increase (decrease) in cash | (5,099,711) | 3,952,046 |
| Cash, beginning of year | 10,443,315 | 6,491,269 |
| Cash, end of year | $ 5,343,604 | 10,443,315 |

The accompanying notes are an integral part of these financial statements.

## Note 1 – Organization and Summary of Significant Accounting Policies

### Organization

The Company is incorporated under the laws of the state of Utah and is primarily engaged in the business of acquiring, developing, producing and selling oil and gas properties to companies located in the continental United States.

### Cash and Cash Equivalents

For purposes of the statement of cash flows, the Company considers all highly liquid investments with a maturity of three months or less to be cash equivalents.

### Investments

The Company classifies its investments as “available for sale.” Securities classified as “available for sale” are carried in the financial statements at fair value. Realized gains and losses, determined using the specific identification method, are included in operations; unrealized holding gains and losses are reported as a separate component of accumulated other comprehensive income. Declines in fair value below cost that are other than temporary are included in operations.

### Concentration of Credit Risk

The Company maintains its cash in bank deposit accounts, which, at times, may exceed federally insured limits. The Company has not experienced any losses in such accounts. The Company believes it is not exposed to any significant credit risk on cash and cash equivalents.

### Resale Leases

The Company capitalizes the costs of acquiring oil and gas leaseholds held for resale, including lease bonuses and any advance rentals required at the time of assignment of the lease to the Company. Advance rentals paid after assignment are charged to expense as carrying costs in the period incurred. Costs of oil and gas leases held for resale are valued at lower of cost or net realizable value and included in current assets since they could be sold within one year, although the holding period of individual leases may be in excess of one year. The cost of oil and gas leases sold is determined on a specific identification basis.

Note 1 – Organization and Summary of Significant Accounting Policies (continued)

Accounts Receivable

Accounts receivable are recorded when oil and gas is delivered and are presented net of the allowance for doubtful accounts and are generally unsecured. Accounts receivable are carried at their estimated collectible amounts. Credit is generally extended on a short-term basis; thus accounts receivable do not bear interest although a finance charge may be applied to such receivables that are more than thirty days past due. Accounts receivable are periodically evaluated for collectibility based on past credit history with customers. Provisions for losses on accounts receivable are determined based on loss experience, known and inherent risk in the account balance, current economic conditions, and the financial stability of customers.

Oil and Gas Producing Activities

The Company utilizes the successful efforts method of accounting for its oil and gas producing activities. Under this method, all costs associated with productive exploratory wells and productive or nonproductive development wells are capitalized while the costs of nonproductive exploratory wells are expensed.

If an exploratory well finds oil and gas reserves, but a determination that such reserves can be classified as proved is not made after one year following completion of drilling, the costs of drilling are charged to operations. Indirect exploratory expenditures, including geophysical costs and annual lease rentals are expensed as incurred. Unproved oil and gas properties that are individually significant are periodically assessed for impairment of value and a loss is recognized at the time of impairment by providing an impairment allowance. Other unproved properties are amortized based on the Company's experience of successful drillings and average holding period. Capitalized costs of producing oil and gas properties, after considering estimated dismantlement and abandonment costs and estimated salvage values, are depreciated and depleted by the units-of-production method. Support equipment and other property and equipment are depreciated over their estimated useful lives.

On the sale or retirement of a complete unit of a proved property, the cost and related accumulated depreciation, depletion and amortization are eliminated from the property accounts, and the resultant gain or loss is recognized. On the retirement or sale of a partial unit of proved property, the cost is charged to accumulated depreciation, depletion and amortization with a resulting gain or loss recognized in income.

On the sale of an entire interest in an unproved property for cash or cash equivalent, gain or loss on the sale is recognized, taking into consideration the amount of any recorded impairment if the property has been assessed individually. If a partial interest in an unproved property is sold, the amount received is treated as a reduction of the cost of the interest retained.

Note 1 – Organization and Summary of Significant Accounting Policies (continued)

## Property and Equipment

Property and equipment are stated at cost less accumulated depreciation. Depreciation is provided using the straight-line method over the estimated useful lives of the assets. Expenditures for maintenance and repairs are expensed when incurred and betterments are capitalized. When assets are sold, retired or otherwise disposed of the applicable costs and accumulated depreciation, depletion and amortization are removed from the accounts, and the resulting gain or loss is reflected in operations.

## Long-Lived Assets

The Company evaluates its long-lived assets in accordance with ASC Topic 360. Long-lived assets held and used by the Company are reviewed for impairment whenever events or changes in circumstances indicate that their net book value may not be recoverable. When such factors and circumstances exist, the Company compares the projected undiscounted future cash flows associated with the related asset or group of assets over their estimated useful lives against their respective carrying amounts. Impairment, if any, is based on the excess of the carrying amount over the fair value of those assets and is recorded in the period in which the determination was made.

## Revenue Recognition

Revenue is recognized from oil sales at such time as the oil is delivered to the buyer. Revenue is recognized from gas sales when the gas passes through the pipeline at the well head. Revenue from overriding royalty interests is recognized when earned.

The Company does not have any gas balancing arrangements.

## Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions primarily related to oil and gas property reserves and prices, that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Note 1 – Organization and Summary of Significant Accounting Policies (continued)

## Income Taxes

Deferred income taxes arise from temporary differences resulting from income and expense items reported for financial accounting and tax purposes in different periods. Deferred taxes are classified as current or non-current, depending on the classification of the assets and liabilities to which they relate. Deferred taxes arising from temporary differences that are not related to an asset or liability are classified as current or non-current depending on the periods in which the temporary differences are expected to reverse. Temporary differences result primarily from intangible drilling costs and depletion.

## Earnings Per Share

The computation of basic earnings per common share is based on the weighted average number of shares outstanding during each year.

The computation of diluted earnings per common share is based on the weighted average number of shares outstanding during the year plus the common stock equivalents which would arise from the exercise of stock options and warrants outstanding using the treasury stock method and the average market price per share during the year. Common stock equivalents are not included in the diluted earnings per share calculation when their effect is antidilutive. Common stock equivalents that could potentially dilute earnings per share are common stock options.

## Stock-Based Compensation

The Company has stock-based employee compensation plans, which are described more fully in Note 13. The Company accounts for stock-based compensation in accordance with ASC Topic 718. This topic requires the Company to recognize compensation cost based on the grant date fair value of options granted. In 2009 and 2008, the Company recognized $98,507 and $0, respectively, of compensation cost related to stock.

## Reclassifications

Certain accounts in the 2008 financial statements have been reclassified to conform with the presentation in the 2009 financial statements.

## Note 2 – Investments

Investments are recorded at fair value and consist of the following:

| | | 2009 | 2008 |
|---|---|---|---|
| Investments, at cost | $ | 400,000 | 1,725,000 |
| Unrealized holding loss | | (4,038) | (46,145) |
| Investments, at fair value | $ | 395,962 | 1,678,855 |

Changes in the unrealized holding gain (loss) on investments classified as available for sale and reported as a separate component of accumulated other comprehensive income are as follows:

| | | 2009 | 2008 |
|---|---|---|---|
| Balance, beginning of year | $ | (30,145) | 2,000 |
| Unrealized holding gain (loss) | | 42,107 | (49,145) |
| Increase (decrease) in deferred income taxes on unrealized holding gain (loss) | | (15,000) | 17,000 |
| Balance, end of year | $ | (3,038) | (30,145) |

## Note 3 – Fair Value Measurements

ASC Topic 820, “Fair Value Measurements and Disclosures” defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosures about fair value measurements. The Company adopted these requirements on October 1, 2008.

Note 3 – Fair Value Measurements (continued)

Financial assets carried at fair value are as follows:

| | | Fair Value Measurements Using | | |
|---|---|---|---|---|
| Description | Total Fair Value | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| Available for Sale Securities | $ 395,962 | 395,962 | - | - |

ASC Topic 820 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. This hierarchy consists of three broad levels: Level 1 inputs consist of unadjusted quoted prices in active markets for identical assets and have the highest priority, Level 2 inputs consist of observable inputs other than quoted prices for identical assets, and Level 3 inputs consist of unobservable inputs and have the lowest priority. The Company uses appropriate valuation techniques based on available inputs to measure the fair value of its investments.

Generally for available for sale securities, fair value is determined by reference to quoted market prices and other relevant information generated by market transactions.

## Note 4 – Property and Equipment

Property and equipment consists of the following:

| | 2009 | 2008 |
|---|---|---|
| Oil and gas properties (successful efforts method) | $ 1,069,316 | 1,160,186 |
| Capitalized asset retirement cost | 28,505 | 28,505 |
| Office furniture and equipment | 102,429 | 138,354 |
| | 1,200,250 | 1,327,045 |
| Less accumulated depreciation, depletion and amortization | (799,629) | (910,691) |
| | $ 400,621 | 416,354 |

## Note 5 – Asset Retirement Obligation

The Company has an obligation to plug and abandon certain oil and gas wells it owns. Accordingly, a liability has been established equal to the obligation.

Following is a reconciliation of the aggregate retirement liability associated with the Company's obligation to plug and abandon its oil and gas properties:

| | 2009 | 2008 |
|---|---|---|
| Balance, beginning of year | $ 49,298 | 72,606 |
| Reduction of obligation due to sale | - | (25,485) |
| Accretion expense | 1,479 | 2,177 |
| Balance, end of year | $ 50,777 | 49,298 |

## Note 6 – Stock Subscription Receivable

The stock subscription receivable consists of a six percent receivable due from the Company's ESOP. The receivable is reduced every six months by the amount of the obligation owed by the Company to the ESOP, less interest (see Note 13). During the years ended September 30, 2009 and 2008, the Company recognized $10,152 and $14,156 of interest income related to this note.

## Note 7 – Income Taxes

The income tax provision (benefit) consists of the following:

| | | 2009 | 2008 |
|---|---|---|---|
| Current | $ | - | 2,825,000 |
| Deferred | | (194,000) | 16,000 |
| | $ | (194,000) | 2,841,000 |

The provision (benefit) for income taxes differs from the amount computed at federal statutory rates as follows:

| | | | |
|---|---|---|---|
| Income tax provision (benefit) at statutory rate | $ | (195,000) | 2,654,000 |
| State tax (benefit), net of federal benefit | | (15,000) | 258,000 |
| Reduction of ARO due to sales | | - | (8,000) |
| Other | | 16,000 | (63,000) |
| | $ | (194,000) | 2,841,000 |

Deferred tax assets (liabilities) are comprised of the following:

| | | | |
|---|---|---|---|
| Intangible drilling costs and depletion | $ | (102,000) | (100,000) |
| Asset retirement obligation | | 13,000 | 12,000 |
| Unrealized holding loss on investments | | 1,000 | 16,000 |
| Accrued expenses | | 68,000 | - |
| Net operating loss carryforward | | 127,000 | - |
| | $ | 107,000 | (72,000) |

Presented in the financial statements as follows:

| | | | |
|---|---|---|---|
| Deferred income tax asset | $ | 196,000 | 16,000 |
| Deferred income taxes | | (89,000) | (88,000) |
| | $ | 107,000 | (72,000) |

## Note 8 – Sales to Major Customers

The Company had oil and gas sales to major customers during the years ended September 30, 2009 and 2008, which exceeded ten percent of total oil and gas sales as follows:

| | | 2009 | 2008 |
|---|---|---|---|
| Company A | $ | 872,000 | 1,007,000 |
| Company B | | 217,000 | 402,000 |
| Company C | | - | 203,000 |

## Note 9 – Related Party Transactions

The Company acts as the operator for several oil and gas properties in which employees, officers and other related and unrelated parties have a working or royalty interest. At September 30, 2009 and 2008 there was $0 and $10,795, respectively, included in accounts payable due to officers as a result of these activities. The Company also is a member in certain limited partnerships and the operator for certain joint ventures formed for the purpose of oil and gas exploration and development.

The Company leases its office space from certain officers of the Company on a month-to-month basis. The lease requires monthly rental payments of $2,500 plus all expenses pertaining to the office space. Rent expense for the years ended September 30, 2009 and 2008 was approximately $30,000 each year.

The Company has a stock subscription receivable from the ESOP (see Note 6).

## Note 10 – Supplemental Disclosures of Cash Flow Information

During the year ended September 30, 2009, the Company:

- Recorded an increase of investments of $42,107, a decrease in unrealized holding loss of $27,107, and a change in investment related deferred income taxes of $15,000.
- Sold 30,900 shares of treasury stock to the Company’s ESOP at a cost of $59,005 in exchange for a stock subscription receivable.
- Retired 5,411 shares of common stock in exchange for a payable of $8,117.

## Note 10 – Supplemental Disclosures of Cash Flow Information

During the year ended September 30, 2008, the Company:

- Recorded a reduction of investments of $49,145, an increase in unrealized holding loss of $32,145, and a change in investment related deferred income taxes of $17,000.
- Sold 7,000 shares of treasury stock to the Company's ESOP at a cost of $14,000 in exchange for a 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.

Operations reflect actual amounts paid for interest and income taxes approximately as follows:

| | | 2009 | 2008 |
|---|---|---|---|
| Interest | $ | - | - |
| Income taxes | $ | - | 2,803,000 |

## Note 11 – Fair Value of Financial Instruments

The Company's financial instruments consist of cash, receivables, and payables. The carrying amount of cash, receivables and payables approximates fair value because of the short-term nature of these items.

## Note 12 – Stock Options

The Company has adopted a stock option plan (the Plan). Under the Plan, the Company may issue shares of the Company's common stock or grant options to acquire the Company's common stock from time to time to employees, directors, officers, consultants or advisors of the Company on the terms and conditions set forth in the Plan.

Note 12 – Stock Options (continued)

The fair value of each option granted during 2009 was estimated on the date of grant using the Black-Scholes option pricing model with the following assumptions:

| | |
|---|---|
| Expected dividend yield | - |
| Expected stock price volatility | 92% |
| Risk-free interest rate | 1.35% |
| Expected life of options | 2.7 years |

The weighted average fair value of each option granted during 2009 was approximately $0.45.

A schedule of the options and warrants outstanding is as follows:

| | Number of Options | Exercise Price Per Share |
|---|---|---|
| Outstanding at October 1, 2007 and September 30, 2008 | 360,000 | $1.20 |
| Exercised | (360,000) | 1.20 |
| Issued | 220,000 | 0.80 |
| Outstanding at September 30, 2009 | 220,000 | $0.80 |

Note 13 – Stock Based Compensation

The following table summarizes information about common stock options outstanding at September 30, 2009:

| Outstanding | | | | Exercisable | |
|---|---|---|---|---|---|
| Exercise Price | Number Outstanding | Weighted Average Remaining Contractual Life (Years) | Weighted Average Exercise Price | Number Exercisable | Weighted Average Exercise Price |
| $0.80 | 220,000 | 1.86 | $0.80 | 220,000 | $0.80 |

## Note 13 – Stock Based Compensation (continued)

### Employee Stock Ownership Plan

The Company has adopted a noncontributory employee stock ownership plan (ESOP) covering all full-time employees who have met certain service requirements. It provides for discretionary contributions by the Company as determined annually by the Board of Directors, up to the maximum amount permitted under the Internal Revenue Code. The plan has received IRS approval under Section 401(A) and 501(A) of the Internal Revenue Code. Pension expense charged to operations for the years ended September 30, 2009 and 2008 was $72,660 and $195,715, respectively. All outstanding shares held by the ESOP are included in the calculation of earnings per share.

## Note 14 – Payable - Common Stock Repurchases

As of September 30, 2009 and 2008, the Company has a payable of $315,183 and $323,739, resulting from the purchase of fractional shares created in a prior year stock split. The Company has not yet been able to locate the beneficial owners. The payable is non-interest bearing and may be required to be paid within the current period.

## Note 15 – Commitments and Contingencies

### Limited Partnerships

The Company has an immaterial interest in a limited partnership drilling program and acts as the general partner. As the general partner, the Company is contingently liable for any obligations of the partnership and may be contingently liable for claims generally incidental to the conduct of its business as general partner. As of September 30, 2009, the Company was unaware of any such obligations or claims arising from this partnership.

### Employment Agreements

The Company has entered into severance pay agreements with employees and officers of the Company who also serve as board members. Under the terms of the agreements, a board member who is terminated shall receive severance pay equal to the amount such board member received in salary and bonus for the two years prior to termination.

Note 15 – Commitments and Contingencies (continued)

Litigation

The Company may become or is subject to investigations, claims or lawsuits ensuing out of the conduct of its business, including those related to environmental safety and health, commercial transactions, etc. As of September 30, 2009, the Company is subject to a claim of $200,000 related to title failures on resale leases sold in prior years.

Note 16 – Subsequent Events

The Company evaluated its September 30, 2009 financial statements for subsequent events through January 8, 2010, the date the financial statements were available to be issued. The Company is not aware of any subsequent events which would require recognition or disclosure in the financial statements.

Note 17 – Recent Accounting Pronouncements

In June 2009, the FASB issued SFAS No. 168, *The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles—a replacement of FASB Statement No. 162*, which is codified in FASB ASC 105, *Generally Accepted Accounting Principles* ("ASC 105"). ASC 105 establishes the Codification as the source of authoritative GAAP in the United States recognized by the FASB to be applied by nongovernmental entities. ASC 105 is effective for financial statements issued for annual periods ending after September 15, 2009. The adoption of ASC 105 has had no material effect on the Company's financial condition or results of operation.

The Company has elected to defer the application of Financial Accounting Standards Board Interpretation No. 48 (FIN 48) (ASC Topic 740), Accounting for Uncertainty in Income Taxes – an Interpretation of FASB Statement No. 109 as allowed by FIN No. 48-3. In accordance with its accounting policies, the Company is in the process of evaluating whether all of the positions taken while preparing federal and state tax returns meet a "more likely than not" (MLTN) threshold of certainty that the position would withstand challenge by the appropriate taxing authority, whether federal or state. In determining whether the tax positions taken meet the MLTN threshold, management reviews the advice of tax consultants, authoritative tax literature, and industry practices. Management does not believe the adoption of FIN 48 will have a material effect on the Company's financial position or results of operation.

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INDEPENDENT AUDITORS' REPORT
ON ADDITIONAL INFORMATION

To the Board of Directors and
Stockholders of Pioneer Oil and Gas

Our report on our audit of the basic financial statements of Pioneer Oil and Gas for September 30, 2009 and 2008 appears on page 1. That audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The Schedule of Supplementary Information is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information, except for that portion marked "unaudited," on which we express no opinion, has been subjected to the auditing procedures applied in the audit of the basic financial statements, and, in our opinion, the information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Jones Simkins, P.C.

JONES SIMKINS, P.C.
January 8, 2010

PIONEER OIL AND GAS
SCHEDULE OF SUPPLEMENTARY INFORMATION
ON OIL AND GAS OPERATIONS
September 30, 2009 and 2008

The information on the Company's oil and gas operations as shown in this schedule is based on the successful efforts method of accounting and is presented in conformity with the disclosure requirements of ASC Topic 932.

## Capitalized Costs Relating to Oil and Gas Producing Activities

| | | 2009 | 2008 |
|---|---|---|---|
| Proved oil and gas properties and related equipment | $ | 752,292 | 843,902 |
| Unproved oil and gas properties | | 317,024 | 316,284 |
| | | 1,069,316 | 1,160,186 |
| Accumulated depreciation, depletion and amortization and valuation allowances | | (683,151) | (762,559) |
| | $ | 386,165 | 397,627 |

## Costs Incurred in Oil and Gas Acquisition, Exploration and Development Activities

| | | 2009 | 2008 |
|---|---|---|---|
| Acquisition of properties: | | | |
| Proved | $ | - | - |
| Unproved | $ | - | - |
| Exploration costs | $ | - | - |
| Development costs | $ | 1,000 | 6,700 |

PIONEER OIL AND GAS
SCHEDULE OF SUPPLEMENTARY INFORMATION
ON OIL AND GAS OPERATIONS
September 30, 2009 and 2008

## Results of Operations for Producing Activities

| | | 2009 | 2008 |
|---|---|---|---|
| Oil and gas - sales | $ | 1,249,555 | 1,888,725 |
| Production costs net of reimbursements | | (867,682) | (701,507) |
| Exploration costs | | (293,506) | (247,228) |
| Depreciation, depletion and amortization and valuation provisions | | (12,201) | (14,355) |
| Net income before income taxes | | 76,166 | 925,635 |
| Income tax provision | | (26,000) | (315,000) |
| Results of operations from producing activities (excluding corporate overhead and interest costs) | $ | 50,166 | 610,635 |

PIONEER OIL AND GAS
SCHEDULE OF SUPPLEMENTARY INFORMATION
ON OIL AND GAS OPERATIONS
September 30, 2009 and 2008

## Reserve Quantity Information (Unaudited)

The estimated quantities of proved oil and gas reserves disclosed in the table below are based on appraisal of the proved developed properties by Fall Line Energy, Inc. Such estimates are inherently imprecise and may be subject to substantial revisions.

All quantities shown in the table are proved developed reserves and are located within the United States.

| | 2009 | | 2008 | |
|---|---|---|---|---|
| | Oil (bbls) | Gas (mcf) | Oil (bbls) | Gas (mcf) |
| Proved developed and undeveloped reserves: | | | | |
| Beginning of year | 29,136 | 1,001,190 | 33,413 | 917,430 |
| Revision in previous estimates | 1,591 | 66,264 | 10,107 | 226,035 |
| Discoveries and extensions | - | - | - | - |
| Purchase in place | - | - | - | - |
| Production | (5,959) | (110,808) | (7,287) | (126,242) |
| Sales in place | - | - | (7,097) | (16,033) |
| End of year | 24,768 | 956,646 | 29,136 | 1,001,190 |
| Proved developed reserves: | | | | |
| Beginning of year | 29,136 | 1,001,190 | 33,413 | 917,430 |
| End of year | 24,768 | 956,646 | 29,136 | 1,001,190 |

PIONEER OIL AND GAS
SCHEDULE OF SUPPLEMENTARY INFORMATION
ON OIL AND GAS OPERATIONS
September 30, 2009 and 2008

Standardized Measure of Discounted Future Net Cash Flows and Changes Therein Relating to Proved Oil and Gas Reserves (Unaudited)

| | 2009 | 2008 |
|---|---|---|
| Future cash inflows | $ 5,106,000 | 10,593,000 |
| Future production and development costs | (1,866,000) | (2,751,000) |
| Future income tax expense | (1,102,000) | (2,666,000) |
| | 2,138,000 | 5,176,000 |
| 10% annual discount for estimated timing of cash flows | (1,011,000) | (2,148,000) |
| Standardized measure of discounted future net cash flows | $ 1,127,000 | 3,028,000 |

The preceding table sets forth the estimated future net cash flows and related present value, discounted at a 10% annual rate, from the Company's proved reserves of oil, condense and gas. The estimated future net revenue is computed by applying the year end prices of oil and gas (including price changes that are fixed and determinable) and current costs of development production to estimated future production assuming continuation of existing economic conditions. The values expressed are estimates only, without actual long-term production to base the production flows, and may not reflect realizable values or fair market values of the oil and gas ultimately extracted and recovered. The ultimate year of realization is also subject to accessibility of petroleum reserves and the ability of the Company to market the products.

PIONEER OIL AND GAS
SCHEDULE OF SUPPLEMENTARY INFORMATION
ON OIL AND GAS OPERATIONS
September 30, 2009 and 2008

Changes in the Standardized Measure of
Discounted Future Cash Flows (Unaudited)

| | 2009 | 2008 |
|---|---|---|
| Balance, beginning of year | $ 3,028,000 | 2,007,000 |
| Sales of oil and gas produced net of production costs | (224,000) | (1,034,000) |
| Net changes in prices and production costs | (1,355,000) | 1,603,000 |
| Extensions and discoveries, less related costs | - | - |
| Purchase and sales of minerals in place | - | (813,000) |
| Revisions of estimated development costs | - | - |
| Revisions of pervious quantity estimate | (680,000) | 538,000 |
| Accretion of discount | 303,000 | 201,000 |
| Net changes in income taxes | 55,000 | 526,000 |
| Balance, end of year | $ 1,127,000 | 3,028,000 |