PIONEER OIL AND GAS

FINANCIAL STATEMENTS

September 30, 2010 and 2009

JONES P.C. SIMKINS

Certified Public Accountants

PIONEER OIL AND GAS
INDEX TO FINANCIAL STATEMENTS
September 30, 2010 and 2009

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Certified Public Accountants

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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, 2010 and 2009, 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, 2010 and 2009, 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.
Logan, Utah
March 04, 2011

PIONEER OIL AND GAS
BALANCE SHEETS
September 30, 2010 and 2009

Assets		2010	2009
Current assets:			
Cash	$	4,369,880	5,343,604
Investments, available for sale		1,244,921	395,962
Accounts receivable		119,874	342,323
Income taxes receivable and prepaid		-	167,261
Resale leases, at lower of cost or market		2,691,175	4,117,203
Deferred income tax asset		56,000	69,000
Total current assets		8,481,850	10,435,353
Property and equipment, net		405,373	400,621
Income taxes receivable		711,000	-
Other assets		2,230	2,230
	$	9,600,453	10,838,204
Liabilities and Stockholders' Equity			
Current liabilities:			
Accounts payable	$	53,488	6,552
Accrued expenses		261,055	243,566
Payable - common stock repurchases		309,738	315,183
Dividends payable		77,929	79,529
Total current liabilities		702,210	644,830
Deferred income taxes		93,000	89,000
Asset retirement obligation		52,299	50,777
Total liabilities		847,509	784,607
Commitments and contingencies			
Stockholders' equity:			
Common stock, par value $.001 per share, 50,000,000 shares authorized; 7,673,265 shares issued and outstanding		7,673	7,673
Additional paid-in capital		1,585,543	1,585,543
Stock subscription receivable		(21,397)	(82,857)
Accumulated other comprehensive income (loss)		23,261	(3,038)
Retained earnings		7,163,424	8,548,276
		8,758,504	10,055,597
Less treasury stock, 6,000 and 2,000 shares at cost, respectively		(5,560)	(2,000)
Total stockholders' equity		8,752,944	10,053,597
	$	9,600,453	10,838,204

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

PIONEER OIL AND GAS
STATEMENTS OF OPERATIONS
Years Ended September 30, 2010 and 2009

		2010	2009
Revenue:			
Oil and gas sales	$	615,508	552,409
Royalty revenue		501,327	697,146
		1,116,835	1,249,555
Costs and expenses:			
Cost of operations		454,060	495,218
General and administrative expenses		658,269	804,500
Exploration costs		304,303	293,506
Lease rentals		465,386	372,464
Loss on impairment of resale leases		1,363,572	-
Depreciation, depletion and amortization		11,902	16,473
		3,257,492	1,982,161
Loss from operations		(2,140,657)	(732,606)
Other income (expense):			
Loss on disposal of developing property		-	(260)
Gain on sale of property and equipment		-	16,000
Interest income		30,711	116,289
Other		18,094	4,763
		48,805	136,792
Loss before benefit for income taxes		(2,091,852)	(595,814)
Benefit for income taxes		(707,000)	(194,000)
Net loss	$	(1,384,852)	(401,814)
Net loss per common share:			
Basic	$	(0.18)	(0.05)
Diluted	$	(0.18)	(0.05)
Weighted average common shares:			
Basic		7,673,000	7,670,000
Diluted		7,673,000	7,670,000

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

PIONEER OIL AND GAS
STATEMENTS OF STOCKHOLDERS' EQUITY
Years Ended September 30, 2010 and 2009

	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, 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
Comprehensive loss:									
Net loss	-	-	-	-	-	(1,384,852)	-	-	(1,384,852)
Unrealized holding gain, net of tax effects	-	-	-	-	26,299	-	-	-	26,299
Total comprehensive loss									(1,358,553)
Purchase of treasury stock	-	-	-	-	-	-	(24,500)	(26,835)	(26,835)
Sale of treasury stock to ESOP	-	-	-	(23,275)	-	-	20,500	23,275	-
Payments on stock subscription receivable	-	-	-	84,735	-	-	-	-	84,735
Balance at September 30, 2010	7,673,265	$ 7,673	$ 1,585,543	$ (21,397)	$ 23,261	$ 7,163,424	(6,000)	$ (5,560)	$ 8,752,944

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

PIONEER OIL AND GAS
STATEMENTS OF CASH FLOWS
Years Ended September 30, 2010 and 2009

	2010	2009
Cash flows from operating activities:		
Net loss	$ (1,384,852)	(401,814)
Adjustments to reconcile net loss to net cash used in operating activities:		
Gain on sale of property and equipment	-	(15,740)
Depreciation, depletion and amortization	11,902	16,473
Accretion expense	1,522	1,479
Stock based compensation	-	98,507
Employee benefit plan expense	88,692	72,660
Deferred income taxes	4,000	(67,000)
Interest income	(3,957)	(10,152)
(Increase) decrease in:		
Accounts receivable	222,449	(21,148)
Income taxes receivable and prepaid	(543,739)	(36,061)
Resale leases	1,426,028	(158,594)
Increase (decrease) in:		
Accounts payable	46,936	(35,048)
Accrued expenses	17,489	(230,689)
Net cash used in operating activities	(113,530)	(787,127)
Cash flows from investing activities:		
Purchases of investments, available for sale	(1,009,660)	-
Proceeds from sale of investments, available for sale	200,000	1,325,000
Acquisition of property and equipment	(16,654)	(1,000)
Proceeds from sale of property and equipment	-	16,000
Net cash provided by (used in) investing activities	(826,314)	1,340,000
Cash flows from financing activities:		
Payable - common stock repurchase	(5,445)	(16,673)
Purchase of treasury stock	(26,835)	(4,500)
Proceeds from issuance of common stock	-	432,000
Payment of dividends	(1,600)	(6,063,411)
Net cash used in financing activities	(33,880)	(5,652,584)
Net decrease in cash	(973,724)	(5,099,711)
Cash, beginning of year	5,343,604	10,443,315
Cash, end of year	$ 4,369,880	5,343,604

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 (loss). 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

The Company files Federal and state income tax returns in states in which it operates. Deferred income taxes arise from temporary differences resulting from income and expense items reported for financial accounting and tax purposes in different periods. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. Deferred taxes are classified as current or noncurrent, 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 noncurrent depending on the periods in which the temporary differences are expected to reverse. As changes in tax laws or rates are enacted, deferred tax assets and liabilities are adjusted through the provision for income taxes. Temporary differences result primarily from intangible drilling costs and depletion, and certain accrued expenses.

The Company considers many factors when evaluating and estimating its tax positions and tax benefits. Tax positions are recognized only when it is more likely than not (likelihood of greater than 50%), based on technical merits, that the positions will be sustained upon examination. Reserves are established if it is believed certain positions may be challenged and potentially disallowed. If facts and circumstances change, reserves are adjusted through income tax expense. The Company recognizes interest expense and penalties related to unrecognized tax benefits in the provision for income taxes.

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.

Presentation of Sales and Similar Taxes

Sales tax on revenue-producing transactions is recorded as a liability when the sale occurs.

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

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 2010 and 2009, the Company recognized $0 and $98,507, respectively, of compensation cost related to stock.

Reclassifications

Certain accounts in the 2009 financial statements have been reclassified to conform with the presentation in the 2010 financial statements.

Note 2 – Investments

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

		2010	2009
Investments, at cost	$	1,209,660	400,000
Unrealized holding gain (loss)		35,261	(4,038)
Investments, at fair value	$	1,244,921	395,962

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

		2010	2009
Balance, beginning of year	$	(3,038)	(30,145)
Change in unrealized holding gain (loss)		39,299	42,107
Decrease in deferred income taxes on unrealized holding gain (loss)		(13,000)	(15,000)
Balance, end of year	$	23,261	(3,038)

Note 3 – Fair Value Measurements

The Company's investments are reported at fair value in the accompanying balance sheets. The methods used to measure fair value may produce an amount that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Company believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The fair value measurement accounting literature 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 significant unobservable inputs and have the lowest priority. The Company uses appropriate valuation techniques based on the 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.

The following tables provide financial assets carried at fair value:

	2010		
	Level 1	Level 2 & 3	Total
Mutual Funds:			
Large Cap Value	$ 9,753	-	9,753
Market-Linked Certificates of Deposit	197,668	-	197,668
Three Year PIC Linked to BANC	1,036,900	-	1,036,900
Common stocks:			
Business services	600	-	600
Total assets at fair value	$ 1,244,921	-	1,244,921

Note 3 – Fair Value Measurements (continued)

	2009		
	Level 1	Level 2 & 3	Total
Market Linked Certificates of Deposit	$ 394,112	-	394,112
Common stocks:			
Business services	1,850	-	1,850
Total assets at fair value	$ 395,962	-	395,962

Note 4 – Property and Equipment

Property and equipment consists of the following:

	2010	2009
Oil and gas properties (successful efforts method)	$ 1,085,970	1,069,316
Capitalized asset retirement cost	28,505	28,505
Office furniture and equipment	102,429	102,429
	1,216,904	1,200,250
Less accumulated depreciation, depletion and amortization	(811,531)	(799,629)
	$ 405,373	400,621

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:

		2010	2009
Balance, beginning of year	$	50,777	49,298
Accretion expense		1,522	1,479
Balance, end of year	$	52,299	50,777

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, 2010 and 2009, the Company recognized $3,957 and $10,152 of interest income related to this note.

Note 7 – Income Taxes

The income tax benefit consists of the following:

		2010	2009
Current	$	(711,000)	(127,000)
Deferred		4,000	(67,000)
	$	(707,000)	(194,000)

Note 7 – Income Taxes (continued)

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

		2010	2009
Income tax benefit at statutory rate	$	(705,000)	(195,000)
State benefit, net of federal benefit		(67,000)	(15,000)
Other		65,000	16,000
	$	(707,000)	(194,000)

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

Intangible drilling costs and depletion	$	(107,000)	(102,000)
Asset retirement obligation		14,000	13,000
Unrealized holding (gain) loss on investments		(12,000)	1,000
Accrued expenses		68,000	68,000
	$	(37,000)	(20,000)

Presented in the financial statements as follows:

Deferred income tax asset	$	56,000	69,000
Deferred income taxes		(93,000)	(89,000)
	$	(37,000)	(20,000)

Tax years 2006, 2007, and 2008 remain open to examination by the Federal Internal Revenue Service and for state taxing authorities.

Note 8 – Sales to Major Customers

The Company had oil and gas sales to major customers during the years ended September 30, 2010 and 2009, which exceeded ten percent of total oil and gas sales as follows:

		2010	2009
Company A	$	608,000	872,000
Company B		289,000	217,000

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, 2010 and 2009 there were no related party balances 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, 2010 and 2009 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, 2010, the Company:

- Recorded an increase of investments of $39,299, a change in unrealized holding (gain) loss of $26,299, and a change in investment related deferred income taxes of $13,000.

- Sold 20,500 shares of treasury stock to the Company's ESOP at a cost of $23,275 in exchange for a stock subscription receivable.

Note 10 – Supplemental Disclosures of Cash Flow Information (continued)

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.

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

		2010	2009
Interest	$	-	-
Income taxes	$	-	-

Note 11 – Fair Value of Financial Instruments

None of the Company's financial instruments, which are current assets and liabilities that could be readily traded, are held for trading purposes. Detail on investments is provided in Note 3. The Company estimates that the fair value of all financial instruments at September 30, 2010 and 2009 does not differ materially from the aggregate carrying value of its financial instruments recorded in the accompanying balance sheet.

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, 2008	360,000	$1.20
Exercised	(360,000)	1.20
Issued	220,000	0.80
Outstanding at September 30, 2009 and at September 30, 2010	220,000	$0.80

Note 13 – Stock Based Compensation

The following table summarizes information about common stock options outstanding at September 30, 2010:

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	0.86	$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, 2010 and 2009 was $88,692 and $72,660, 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, 2010 and 2009, the Company has a payable of $309,738 and $315,183, 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 – Employee Benefit Plan

The Company sponsors a 401(k) deferred compensation plan that covers all eligible employees. The Company makes non-elective contributions on behalf of employees at the discretion of management. The amount of pension expense for the year ended September 30, 2010 and 2009, was approximately $32,000 and $0, respectively.

Note 16 – 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, 2010, the Company is unaware of any such obligations or claims arising from this partnership.

Note 16 – Commitments and Contingencies (continued)

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.

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, 2010, the Company is subject to a claim of $200,000 related to title failures on resale leases sold in prior years. This amount has been accrued and is reflected in the financial statements.

Income Taxes

The IRS is currently examining the Company's federal income tax return for the fiscal year ended September 30, 2008. The IRS has proposed certain adjustments to the return that aggregate to approximately $628,000 of possible additional income tax and related penalties and interest. The Company is contesting these proposed adjustments, and in the opinion of special tax counsel, any additional amounts due would not be material. The financial statements do not reflect any adjustments that may result from a negative outcome.

Note 17 – Subsequent Events

The Company evaluated its September 30, 2010 financial statements for subsequent events through March 04, 2011, 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.

JONES P.C. SIMKINS
Certified Public Accountants

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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, 2010 and 2009 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.
Logan, Utah
March 04, 2011

PIONEER OIL AND GAS
SCHEDULE OF SUPPLEMENTARY INFORMATION
ON OIL AND GAS OPERATIONS
September 30, 2010 and 2009

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

		2010	2009
Proved oil and gas properties and related equipment	$	752,352	752,292
Unproved oil and gas properties		333,618	317,024
		1,085,970	1,069,316
Accumulated depreciation, depletion and amortization and valuation allowances		(693,581)	(683,151)
	$	392,389	386,165

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

		2010	2009
Acquisition of properties:			
Proved	$	-	-
Unproved	$	-	-
Exploration costs	$	-	-
Development costs	$	16,700	1,000

PIONEER OIL AND GAS
SCHEDULE OF SUPPLEMENTARY INFORMATION
ON OIL AND GAS OPERATIONS
September 30, 2010 and 2009

Results of Operations for Producing Activities

		2010	2009
Oil and gas - sales	$	1,116,835	1,249,555
Production costs net of reimbursements		(919,446)	(867,682)
Exploration costs		(304,303)	(293,506)
Depreciation, depletion and amortization and valuation provisions		(10,431)	(12,201)
Net income (loss) before income taxes		(117,345)	76,166
Income tax provision (benefit)		(40,000)	26,000
Results of operations from producing activities (excluding corporate overhead and interest costs)	$	(77,345)	50,166

PIONEER OIL AND GAS
SCHEDULE OF SUPPLEMENTARY INFORMATION
ON OIL AND GAS OPERATIONS
September 30, 2010 and 2009

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.

	2010		2009	
	Oil (bbls)	Gas (mcf)	Oil (bbls)	Gas (mcf)
Proved developed and undeveloped reserves:				
Beginning of year	24,768	956,646	29,136	1,001,190
Revision in previous estimates	7,578	255,910	1,591	66,264
Discoveries and extensions	-	-	-	-
Purchase in place	-	-	-	-
Production	(8,038)	(141,817)	(5,959)	(110,808)
Sales in place	-	-	-	-
End of year	24,308	1,070,739	24,768	956,646
Proved developed reserves:				
Beginning of year	24,768	956,646	29,136	1,001,190
End of year	24,308	1,070,739	24,768	956,646

PIONEER OIL AND GAS
SCHEDULE OF SUPPLEMENTARY INFORMATION
ON OIL AND GAS OPERATIONS
September 30, 2010 and 2009

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

		2010	2009
Future cash inflows	$	6,650,000	5,106,000
Future production and development costs		(2,048,000)	(1,866,000)
Future income tax expense		(1,565,000)	(1,102,000)
		3,037,000	2,138,000
10% annual discount for estimated timing of cash flows		(1,430,000)	(1,011,000)
Standardized measure of discounted future net cash flows	$	1,607,000	1,127,000

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 average prices of oil and gas (including price changes that are fixed and determinable) based upon the prior 12-month period 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, 2010 and 2009

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

	2010	2009
Balance, beginning of year	$ 1,127,000	3,028,000
Sales of oil and gas produced net of production costs	(209,000)	(224,000)
Net changes in prices and production costs	185,000	(1,355,000)
Extensions and discoveries, less related costs	-	-
Purchase and sales of minerals in place	-	-
Revisions of estimated development costs	-	-
Revisions of previous quantity estimate	144,000	(680,000)
Accretion of discount	113,000	303,000
Net changes in income taxes	247,000	55,000
Balance, end of year	$ 1,607,000	1,127,000