PIONEER OIL AND GAS

FINANCIAL STATEMENTS

September 30, 2005 and 2004

PIONEER OIL AND GAS

FINANCIAL STATEMENTS

September 30, 2005 and 2004

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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, 2005 and 2004, and the related statements of income, 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 audited 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, 2005 and 2004, 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
December 1, 2005

PIONEER OIL AND GAS
BALANCE SHEETS
September 30, 2005 and 2004

	2005	2004
Assets		
Current assets:		
Cash	$ 758,183	491,090
Investments, available for sale	122,533	-
Accounts receivable	353,902	301,450
Prepaid income taxes	39,000	-
Resale leases, at lower of cost or market	4,280,444	1,052,292
Total current assets	5,554,062	1,844,832
Property and equipment, net	501,870	537,969
Other assets	2,230	2,230
	$ 6,058,162	2,385,031
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$ 329,597	108,208
Payable - common stock repurchases	1,138,599	-
Accrued expenses	33,047	28,565
Advances on drilling costs	-	556,573
Total current liabilities	1,501,243	693,346
Deferred income tax	96,000	-
Asset retirement obligation	112,852	158,350
Total liabilities	1,710,095	851,696
Commitments and contingencies		
Stockholders' equity:		
Common stock, par value $.001 per share, 50,000,000 shares authorized; 7,280,556 and 7,912,819 shares issued and outstanding, respectively	7,281	7,912
Additional paid-in capital	1,058,107	2,473,256
Stock subscription receivable	(164,909)	(203,659)
Accumulated other comprehensive income	80,533	-
Retained earnings (deficit)	3,367,055	(744,174)
Total stockholders' equity	4,348,067	1,533,335
	$ 6,058,162	2,385,031

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

PIONEER OIL AND GAS
STATEMENTS OF INCOME
Years Ended September 30, 2005 and 2004

	2005	2004
Revenue:		
Oil and gas sales	$ 1,294,348	954,970
Royalty revenue	856,735	850,107
Project and lease sales income	4,748,903	113,195
	6,899,986	1,918,272
Costs and expenses:		
Cost of operations	777,762	679,132
General and administrative expenses	420,879	346,970
Exploration costs	351,222	208,309
Lease rentals	23,466	54,083
Depreciation, depletion and amortization	134,713	87,770
	1,708,042	1,376,264
Income from operations	5,191,944	542,008
Other income (expense):		
Loss on assets sold or abandoned	(27,012)	-
Interest income	34,410	15,287
Interest expense	(1,458)	(3,059)
Other	83,345	19,629
	89,285	31,857
Income before provision for income taxes	5,281,229	573,865
Provision for income taxes	(1,170,000)	-
Net income before cumulative effect of a change in accounting principle	4,111,229	573,865
Cumulative effect of a change in accounting principle - asset retirement obligation	-	(81,521)
Net income	$ 4,111,229	492,344
Net income per common share:		
Basic		
Income before cumulative effect of accounting change	$ .52	.07
Loss from cumulative effect of change in accounting principle	-	(.01)
	$ .52	.06
Diluted		
Income before cumulative effect of accounting change	$ .50	.07
Loss from cumulative effect of change in accounting principle	-	(.01)
	$ .50	.06

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

PIONEER OIL AND GAS

STATEMENTS OF STOCKHOLDERS' EQUITY

Years Ended September 30, 2005 and 2004

	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Stock Subscription Receivable	Accumulated Other Comprehensive Income	Retained Earnings (Deficit)	Total
Balance at October 1, 2003	7,961,618	$ 7,961	$ 2,495,292	$ (231,927)	$ -	$ (1,236,518)	$ 1,034,808
Payments on stock subscription receivable	-	-	-	28,268	-	-	28,268
Purchase and retirement of common stock	(48,799)	(49)	(22,036)	-	-	-	(22,085)
Net income	-	-	-	-	-	492,344	492,344
Balance at September 30, 2004	7,912,819	7,912	2,473,256	(203,659)	-	(744,174)	1,533,335
Payments on stock subscription receivable	-	-	-	38,750	-	-	38,750
Purchase and retirement of common stock	(215,805)	(216)	(322,878)	-	-	-	(323,094)
Common stock retired through stock split	(776,458)	(775)	(1,163,911)	-	-	-	(1,164,686)
Stock options exercised	360,000	360	71,640	-	-	-	72,000
Unrealized holding gain	-	-	-	-	80,533	-	80,533
Net income	-	-	-	-	-	4,111,229	4,111,229
Balance at September 30, 2005	7,280,556	$ 7,281	$ 1,058,107	$ (164,909)	80,533	$ 3,367,055	$ 4,348,067

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

PIONEER OIL AND GAS
STATEMENTS OF CASH FLOWS
Years Ended September 30, 2005 and 2004

		2005	2004
Cash flows from operating activities:			
Net income	$	4,111,229	492,344
Adjustments to reconcile net income to net cash provided by operating activities:			
Loss (gain) on assets sold, abandoned, and dry hole costs		(148,037)	19,984
Depreciation, depletion and amortization		134,713	87,770
Accretion expense		4,748	4,609
Cumulative effect of change in accounting principle		-	81,521
Employee benefit plan expense		50,397	41,772
Deferred income taxes		54,000	-
Interest income		(11,647)	(13,504)
(Increase) decrease in:			
Accounts receivable		87,548	(151,657)
Prepaid income taxes		(39,000)	-
Resale leases		(3,228,152)	(833,982)
Increase (decrease) in:			
Accounts payable		221,389	(13,885)
Accrued expenses		4,482	3,358
Advances on drilling costs		(556,573)	556,573
Net cash provided by operating activities		685,097	274,903
Cash flows from investing activities:			
Acquisition of property and equipment		(150,823)	(133,255)
Proceeds from sale of property and equipment		10,000	-
Net cash used in investing activities		(140,823)	(133,255)
Cash flows from financing activities:			
Proceeds from sale of common stock		72,000	-
Purchase of common stock		(349,181)	(22,085)
Net cash used in financing activities		(277,181)	(22,085)
Net increase in cash		267,093	119,563
Cash, beginning of year		491,090	371,527
Cash, end of year	$	758,183	491,090

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 SFAS No. 144, "Accounting for the Impairment of Long-Lived Assets". 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.

The weighted average common shares are as follows:

	2005	2004
Basic	7,905,000	7,931,000
Diluted	8,182,227	7,931,000

Stock-Based Compensation

The Company accounts for stock options granted to employees under the recognition and measurement principles of APB Opinion No. 25, Accounting for Stock Issued to Employees, and related Interpretations, and has adopted the disclosure-only provisions of Statement of Financial Accounting Standards (SFAS) No. 123, "Accounting for Stock-Based Compensation." Accordingly, no compensation cost has been recognized in the financial statements, as all options granted under those plans had an exercise price equal to or greater than the market value of the underlying common stock on the date of grant. Had the Company's options been determined based on the fair value method, the results of operations would have remained unchanged as all options were vested in prior years.

Note 2 – Investments

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

		September 30, 2005	September 30, 2004
Investments, at cost	$	-	-
Unrealized holding gain		122,533	-
Investments, at fair value	$	122,533	-

Changes in the unrealized holding gain on investments and reported as a separate component of accumulated other comprehensive income are as follows:

		September 30, 2005	September 30, 2004
Balance, beginning of year	$	-	-
Unrealized holding gain		122,533	-
Deferred income taxes on unrealized holding gain		(42,000)	-
Balance, end of year	$	80,533	-

Note 3 – Property and Equipment

Property and equipment consists of the following:

		September 30, 2005	September 30, 2004
Oil and gas properties (successful efforts method)	$	1,810,050	1,987,099
Capitalized asset retirement cost		74,293	116,376
Office furniture and equipment		139,360	139,360
		2,023,703	2,242,835
Less accumulated depreciation, depletion and amortization		(1,521,833)	(1,704,866)
	$	501,870	537,969

Note 4 – 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:

		September 30, 2005	September 30, 2004
Balance at beginning of year	$	158,350	-
Initial amount recorded for ARO		-	116,376
Cumulative effect of accounting change		-	37,365
Reduction of obligation due to sale		(50,246)	-
Revisions of estimate		-	-
Accretion expense		4,748	4,609
Balance at end of year	$	112,852	158,350

Note 5 – Cumulative Effect of Change In Accounting Principle

In 2004 the Company adopted the provisions of SFAS 143 "Accounting for Asset Retirement Obligations" which requires entities to record the fair value of a legal liability for an asset retirement obligation in the period in which it is incurred. The Company recognized a liability based on the present value of the estimated costs related to its obligation to plug and abandon the oil and gas wells it owns. The Company also capitalized the costs of the liability through increasing the carrying amount of its oil and gas properties. The liability is accreted to its estimated present value each period, and the capitalized cost is amortized over the useful life of the related asset. Upon settlement of the liability, the Company will settle the obligation for its recorded amount or incur a gain or loss upon settlement.

The effect of adopting SFAS 143 in 2004 was recorded as the cumulative effect of a change in accounting principle as follows:

Amortization	$	44,156
Accretion of asset retirement obligation		37,365
Cumulative effect of change	$	81,521

Note 6 – Note Payable

The Company has a bank revolving line-of-credit agreement, which allows the Company to borrow a maximum amount of $750,000. This agreement bears interest at the bank's prime rate plus 1 percent and is secured by accounts receivable and producing properties. The line-of-credit matures on December 31, 2005 and had no outstanding balance at September 30, 2005 and 2004. Also, as of September 30, 2005, $20,000 of the $750,000 was reserved for an outstanding letter of credit.

Note 7 – 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, 2005 and 2004, the Company recognized $11,647 and $13,504 of interest income related to this note.

Note 8 – Income Taxes

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

	Years Ended September 30, 2005	2004
Income tax provision at statutory rate	$ 1,726,000	160,000
Change in valuation allowance	(556,000)	(160,000)
	$ 1,170,000	-

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

	September 30, 2005	2004
Intangible drilling costs and depletion	$ (89,000)	129,000
Asset Retirement Obligation	35,000	31,000
Unrealized holding gain on investments	(42,000)	-
Net operating loss carryforwards	-	396,000
	(96,000)	556,000
Valuation allowance	-	(556,000)
	$ (96,000)	-

Note 9 – Sales to Major Customers

The Company had sales to major customers during the years ended September 30, 2005 and 2004, which exceeded ten percent of total sales as follows:

	September 30, 2005	September 30, 2004
Company A	$ 1,072,000	788,000
Company B	475,000	434,000
Company C	-	207,000

Note 10 – 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, 2005 and 2004 there was $16,879 and $14,016, respectively, included in accounts payable due to officers as a result of these activities. Also at September 30, 2005 and 2004 there was $0 and $26,673, respectively, included in accounts receivable due from 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. The lease requires monthly rental payments of $2,500 plus all expenses pertaining to the office space and expires in September 2006. Future minimum lease payments for the next year are $30,000. Rent expense for the years ended September 30, 2005 and 2004 was approximately $30,000 each year.

Company has a stock subscription receivable from the ESOP (see Note 7).

Note 11 – Supplemental Disclosures of Cash Flow Information

During the year ended September 30, 2005, the Company:

- Sold producing properties with a net book value of $4,156 for $150,000, of which $140,000 is included in accounts receivable at September 30, 2005.
- Canceled 776,458 shares of common stock as a result of stock splits (see Note 14). The shares were canceled in exchange for a payable of $1,164,687, of which $1,138,599 remains payable at September 30, 2005.
- Recorded an unrealized holding gain of $80,533 and deferred income taxes of $42,000 on investments, available-for-sale.
- Realized a gain of $29,205 when a property with an asset retirement obligation of $50,246 and net capitalized asset retirement costs of $21,041 were sold.

During the year ended September 30, 2004:

- The Company recorded an asset retirement obligation and increased oil and gas properties in the amount of $116,376.
- The Company transferred property from Leases for Resale to Developing Properties in the amount of $1,367.

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

	September 30, 2005	September 30, 2004
Interest	$ 1,500	3,000
Income taxes	$ 1,155,000	-

Note 12 – Fair Value of Financial Instruments

The Company’s financial instruments consist of cash, receivables, payables and a note payable. The carrying amount of cash, receivables and payables approximates fair value because of the short-term nature of these items. The carrying amount of the note payable approximates fair value as the note bears interest at floating market interest rates.

Note 13 – Stock Options

The Company has granted stock options to the members of the Board of Directors and the officers and employees of the Company to purchase shares of the Company's common stock. The exercise price of the options is equal to or in excess of the fair market value of the stock on the date of grant. All options were granted and vested in years prior to 2004.

Information related to these options at September 30, 2005 is as follows:

Outstanding				Exercisable	
Exercise Price	Number Outstanding	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
$.20	60,000	5.9	$.20	60,000	$.20

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, 2005 and 2004 was $50,396 and $41,772 respectively. All outstanding shares held by the ESOP are included in the calculation of earnings per share.

Note 14 – Stock Splits

On September 26, 2005, the Board of Directors authorized a 1-for-2,000 reverse stock split and the repurchase of all resulting fractional shares, followed immediately by a 2,000-for-1 forward stock split of the Company's common shares (collectively, the "Stock Splits"). As a result of the Stock Splits, (a) each shareholder owning fewer than 2,000 common shares of the Company immediately before the Stock Splits received $1.50 in cash, without interest, for each of the Company's common shares owned by such shareholder immediately prior to the Stock Splits and was no longer a shareholder of the Company; and (b) each shareholder owning 2,000 or more common shares immediately before the Stock Splits (i) received 2,000 Common Shares after the Stock Splits in exchange for each lot of 2,000 Common Shares held before the Stock Splits and (ii) any additional Common Shares held other than in a 2,000 share lot were cancelled and exchanged for $1.50 in cash per share.

Note 15 – Payable - Common Stock Repurchases

As of September 30, 2005, the Company has a payable of $1,138,599, resulting from the purchase of shares by the Company through the Stock Splits (See Note 14). The payable is non-interest bearing and may be required to be paid within the current period.

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, 2005, 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.

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. The Company is currently not aware of any such item, which it believes could have a material adverse affect on its financial position.

Letter-of-Credit

The Company has a $20,000 letter-of-credit related to its oil and gas operations. The letter-of-credit was issued in connection with the Company's line-of-credit (see Note 6).

JONES SIMKINS P.C.
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, 2005 and 2004 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
December 1, 2005

PIONEER OIL AND GAS
SCHEDULE OF SUPPLEMENTARY INFORMATION
ON OIL AND GAS OPERATIONS
September 30, 2005 and 2004

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 the Statement of Financial Accounting Standards No. 69 “Disclosures about Oil and Gas Producing Activities.”

Capitalized Costs Relating to Oil and Gas Producing Activities

	September 30, 2005	September 30, 2004
Proved oil and gas properties and related equipment	$ 1,462,941	1,763,802
Unproved oil and gas properties	347,109	223,298
Subtotal	1,810,050	1,987,099
Accumulated depreciation, depletion and amortization and valuation allowances	(1,369,023)	(1,553,389)
	$ 441,027	433,710

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

	September 30, 2005	September 30, 2004
Acquisition of properties:		
Proved	$ -	-
Unproved	$ -	-
Exploration costs	$ -	-
Development costs	$ 150,823	91,081

PIONEER OIL AND GAS
SCHEDULE OF SUPPLEMENTARY INFORMATION
ON OIL AND GAS OPERATIONS
September 30, 2005 and 2004

Results of Operations for Producing Activities

	Years Ended September 30, 2005	Years Ended September 30, 2004
Oil and gas – sales	$ 2,151,083	1,805,077
Production costs net of reimbursements	(801,228)	(733,215)
Exploration costs	(351,222)	(208,309)
Depreciation, depletion and amortization and valuation provisions	(112,339)	(69,397)
Net income before income taxes	886,294	794,156
Income tax provision	(301,000)	(270,000)
Results of operations from producing activities (excluding corporate overhead and interest costs)	$ 585,294	524,156

PIONEER OIL AND GAS
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Reserve Quantity Information (Unaudited)

The estimated quantities of proved oil and gas reserves disclosed in the table below are based upon 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.

	Years Ended September 30,			
	2005		2004	
	Oil (bbls)	Gas (mcf)	Oil (bbls)	Gas (mcf)
Proved developed and undeveloped reserves:				
Beginning of year	93,656	1,381,211	116,486	879,320
Revision in previous estimates	(11,908)	149,214	(9,212)	682,220
Discoveries and extensions	-	-	-	-
Purchase in place	-	-	-	-
Production	(13,659)	(174,797)	(13,618)	(180,329)
Sales in place	(360)	(81,501)	-	-
End of year	67,729	1,274,127	93,656	1,381,211
Proved developed reserves:				
Beginning of year	93,656	1,381,211	116,486	879,320
End of year	67,729	1,274,127	93,656	1,381,211

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

	Years Ended September 30, 2005	Years Ended September 30, 2004
Future cash inflows	$ 17,163,000	10,409,000
Future production and development costs	(2,799,000)	(2,586,000)
Future income tax expenses	(4,884,000)	(2,660,000)
	9,480,000	5,163,000
10% annual discount for estimated timing of cash flows	(4,170,000)	(1,953,000)
Standardized measure of discounted future net cash flows	$ 5,310,000	3,210,000

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.

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

	Years Ended September 30, 2005	2004
Balance, beginning of year	$ 3,210,000	2,172,000
Sales of oil and gas produced net of production costs	(1,627,000)	(839,000)
Net changes in prices and production costs	6,067,000	1,424,000)
Extensions and discoveries, less related costs	-	-
Purchase and sales of minerals in place	(862,000)	-
Revisions of estimated development costs	-	-
Revisions of previous quantity estimate	(718,000)	771,000
Accretion of discount	321,000	217,000
Net changes in income taxes	(1,081,000)	(535,000)
Balance, end of year	$ 5,310,000	3,210,000