PIONEER OIL AND GAS

FINANCIAL STATEMENTS

September 30, 2007 and 2006

JONES SIMKINS P.C.

CERTIFIED PUBLIC ACCOUNTANTS

PIONEER OIL AND GAS

FINANCIAL STATEMENTS

September 30, 2007 and 2006

INDEX

JONES SIMKINS P.C.
Certified Public Accountants

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

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

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, 2007 and 2006, 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, 2007 and 2006, 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 13, 2007

PIONEER OIL AND GAS

BALANCE SHEETS

September 30, 2007 and 2006

		2007	2006
Assets			
Current assets:			
Cash	$	6,491,269	294,754
Investments, available for sale		3,000	8,000
Accounts receivable		95,562	219,793
Prepaid income taxes		154,000	-
Resale leases, at lower of cost or market		4,562,494	5,880,385
Total current assets		11,306,325	6,402,932
Property and equipment, net		437,548	433,542
Other assets		2,230	2,230
	$	11,746,103	6,838,704
Liabilities and Stockholders' Equity			
Current liabilities:			
Accounts payable	$	172,630	130,369
Payable - common stock repurchases		332,439	341,334
Accrued expenses		159,650	26,488
Income taxes payable		-	347,000
Note payable		-	200,000
Total current liabilities		664,719	1,045,191
Deferred income taxes		73,000	69,000
Asset retirement obligation		72,606	70,493
Total liabilities		810,325	1,184,684
Commitments and contingencies			
Stockholders' equity:			
Common stock, par value $.001 per share, 50,000,000 shares authorized; 7,318,676 and 7,260,676 shares issued and outstanding, respectively		7,319	7,261
Additional paid-in capital		1,063,507	1,054,565
Stock subscription receivable		(253,918)	(99,927)
Accumulated other comprehensive income		2,000	5,000
Retained earnings		10,126,870	4,837,121
		10,945,778	5,804,020
Less treasury stock, 5,000 and 100,000 shares at cost, respectively		(10,000)	(150,000)
Total stockholders' equity		10,935,778	5,654,020
	$	11,746,103	6,838,704

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

PIONEER OIL AND GAS
STATEMENTS OF INCOME
Years Ended September 30, 2007 and 2006

	2007	2006
Revenue:		
Oil and gas sales	$ 627,188	884,268
Royalty revenue	604,614	1,047,639
Project and lease sales income	8,946,681	1,276,524
	10,178,483	3,208,431
Costs and expenses:		
Cost of operations	492,899	464,288
General and administrative expenses	996,798	470,588
Exploration costs	258,350	239,724
Lease rentals	307,651	203,922
Depreciation, depletion and amortization	45,418	73,050
	2,101,116	1,451,572
Income from operations	8,077,367	1,756,859
Other income (expense):		
Gain on sale of investments	-	130,079
Gain on sale of producing properties	-	309,821
Interest income	208,281	14,894
Interest expense	(4,025)	(54,730)
Other	9,126	9,143
	213,382	409,207
Income before provision for income taxes	8,290,749	2,166,066
Provision for income taxes	(3,001,000)	(696,000)
Net income	$ 5,289,749	1,470,066
Net income per common share:		
Basic	$ 0.73	0.20
Diluted	$ 0.71	0.20
Weighted average common shares:		
Basic	7,280,000	7,269,000
Diluted	7,401,000	7,350,000

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

PIONEER OIL AND GAS
STATEMENTS OF STOCKHOLDERS' EQUITY
Years Ended September 30, 2007 and 2006

	Common Stock		Additional Paid-in Capital	Stock Subscription Receivable	Accumulated Other Comprehensive Income	Retained Earnings	Treasury Stock		Total
	Shares	Amount					Shares	Amount	
Balance at October 1, 2005	7,280,556	$ 7,281	$ 1,058,107	$ (164,909)	$ 80,533	$ 3,367,055	-	$ -	$ 4,348,067
Purchase and retirement of common stock	(19,880)	(20)	(3,542)	-	-	-	-	-	(3,562)
Purchase of treasury stock	-	-	-	-	-	-	(100,000)	(150,000)	(150,000)
Payments on stock subscription receivable	-	-	-	64,982	-	-	-	-	64,982
Unrealized holding loss	-	-	-	-	(75,533)	-	-	-	(75,533)
Net income	-	-	-	-	-	1,470,066	-	-	1,470,066
Balance at September 30, 2006	7,260,676	7,261	1,054,565	(99,927)	5,000	4,837,121	(100,000)	(150,000)	5,654,020
Stock options exercised	60,000	60	11,940	-	-	-	-	-	12,000
Purchase and retirement of common stock	(2,000)	(2)	(2,998)	-	-	-	-	-	(3,000)
Purchase of treasury stock	-	-	-	-	-	-	(102,900)	(186,448)	(186,448)
Sale of treasury stock to ESOP	-	-	-	(326,448)	-	-	197,900	326,448	-
Payments on stock subscription receivable	-	-	-	172,457	-	-	-	-	172,457
Unrealized holding loss	-	-	-	-	(3,000)	-	-	-	(3,000)
Net income	-	-	-	-	-	5,289,749	-	-	5,289,749
Balance at September 30, 2007	7,318,676	$ 7,319	$ 1,063,507	$ (253,918)	$ 2,000	$ 10,126,870	(5,000)	$ (10,000)	$ 10,935,778

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

PIONEER OIL AND GAS
STATEMENTS OF CASH FLOWS
Years Ended September 30, 2007 and 2006

	2007	2006
Cash flows from operating activities:		
Net income	$ 5,289,749	1,470,066
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Gain on sale of investments	-	(130,079)
Gain on sale of producing properties	-	(309,821)
Gain on assets sold, abandoned, and dry hole costs	-	(31,729)
Depreciation, depletion and amortization	45,418	73,050
Accretion expense	2,113	3,383
Employee benefit plan expense	188,759	74,227
Deferred income taxes	6,000	12,000
Interest income	(16,302)	(9,245)
(Increase) decrease in:		
Accounts receivable	124,231	134,109
Prepaid income taxes	(154,000)	39,000
Resale leases	1,317,891	(1,599,941)
Increase (decrease) in:		
Accounts payable	42,261	(199,228)
Accrued expenses	133,162	(6,559)
Income taxes payable	(347,000)	347,000
Net cash provided by (used in) operating activities	6,632,282	(133,767)
Cash flows from investing activities:		
Acquisition of property and equipment	(49,424)	(18,735)
Proceeds from sale of marketable securities	-	130,079
Proceeds from sale of producing properties	-	309,821
Net cash provided by (used in) investing activities	(49,424)	421,165
Cash flows from financing activities:		
Payable - common stock repurchases	(8,895)	(797,265)
Proceeds from note payable	-	1,000,000
Payments on note payable	(200,000)	(800,000)
Purchase of treasury stock	(186,448)	(150,000)
Proceeds from issuance of common stock	12,000	-
Purchase and retirement of common stock	(3,000)	(3,562)
Net cash used in financing activities	(386,343)	(750,827)
Net increase (decrease) in cash	6,196,515	(463,429)
Cash, beginning of year	294,754	758,183
Cash, end of year	$ 6,491,269	294,754

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.

Stock-Based Compensation

The Company has stock-based employee compensation plans, which are described more fully in Note 13. Effective October 1, 2006, the Company adopted Statement of Financial Accounting Standards (SFAS) 123R, *Share-Based Payment*, using the modified prospective method. This statement requires the Company to recognize compensation cost based on the grant date fair value of options granted to employees and directors. In 2007, the Company, recognized no compensation cost related to adoption of the statement. Prior to October 1, 2006, the Company accounted for its stock-based employee compensation plans under the recognition and measurement principles of APB Opinion No. 25, *Accounting for Stock Issued to Employees*, and related Interpretations, and had adopted the disclosure-only provisions of SFAS No. 123, *Accounting for Stock-Based Compensation*. Accordingly no compensation cost was recognized in the financial statements prior to 2007 for options granted to employees, as all options granted under those plans had exercise prices equal to or greater than the market value of the underlying common stock on the date of grant.

Had compensation cost for the Company's stock options been determined based on the fair value method at the grant date consistent with the provisions of SFAS 123, the Company's net income would have been reduced to the pro forma amounts shown below:

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

Stock-Based Compensation (continued)

		2006
Net income as reported	$	1,470,066
Deduct:		
Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects		(175,000)
Net income pro forma	$	1,295,066
Income per share:		
As reported:		
Basic	$	0.20
Diluted	$	0.20
Pro forma:		
Basic	$	0.18
Diluted	$	0.18

Note 2 – Investments

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

		2007	2006
Investments, at cost	$	-	-
Unrealized holding gain		3,000	8,000
Investments, at fair value	$	3,000	8,000

Changes in the unrealized holding gain on investments are as follows:

		2007	2006
Balance, beginning of year	$	5,000	80,533
Unrealized holding loss		(5,000)	(114,533)
Decrease in deferred income taxes on unrealized holding loss		2,000	39,000
Balance, end of year	$	2,000	5,000

Note 3 – Property and Equipment

Property and equipment consists of the following:

	2007	2006
Oil and gas properties (successful efforts method)	$ 1,342,624	1,298,658
Capitalized asset retirement cost	45,359	45,359
Office furniture and equipment	138,354	136,950
	1,526,337	1,480,967
Less accumulated depreciation, depletion and amortization	(1,088,789)	(1,047,425)
	$ 437,548	433,542

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:

	2007	2006
Balance at beginning of year	$ 70,493	112,852
Reduction of obligation due to sale	-	(45,742)
Accretion expense	2,113	3,383
Balance at end of year	$ 72,606	70,493

Note 5 – Notes 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, 2007 and had no outstanding balance at September 30, 2007 and 2006.

Note 5 – Notes Payable (continued)

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 1.5 percent and is unsecured. The line-of-credit matures on December 31, 2007 and had no outstanding balance at September 30, 2007.

The Company had a promissory note to a bank with an outstanding balance at September 30, 2006 of $200,000, which was repaid during fiscal year 2007. The note bore interest at the bank's prime rate plus 1 percent and was unsecured with no guarantees.

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, 2007 and 2006, the Company recognized $16,302 and $9,245 of interest income related to this note.

Note 7 – Income Taxes

The income tax provision consists of the following:

	2007	2006
Current	$ 2,995,000	723,000
Deferred	6,000	(27,000)
	$ 3,001,000	696,000

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

	2007	2006
Income tax provision at statutory rate	$ 2,819,000	700,000
State tax, net of federal benefit	273,000	70,000
Reduction of ARO due to sales	-	(20,000)
Other	(91,000)	(54,000)
	$ 3,001,000	696,000

Note 7 – Income Taxes (continued)

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

		2007	2006
Intangible drilling costs and depletion	$	(89,000)	(83,000)
Asset retirement obligation		17,000	17,000
Unrealized holding gain on investments		(1,000)	(3,000)
		(73,000)	(69,000)
Valuation allowance		-	-
	$	(73,000)	(69,000)

Note 8 – Sales to Major Customers

The Company had oil and gas sales to major customers during the years ended September 30, 2007 and 2006, which exceeded ten percent of total oil and gas sales as follows:

		2007	2006
Company A	$	766,000	1,268,000
Company B		219,000	195,000
Company C		127,000	-
Company D		-	194,000

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, 2007 and 2006 there was $5,898 and $25,278, 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, 2007 and 2006 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, 2007:

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

During the year ended September 30, 2006:

- Realized a gain of $31,729 when properties with an asset retirement obligation of $45,742 and net capitalized asset retirement costs of $14,013 were sold.
- Recorded an unrealized holding loss of $114,533 and a decrease in deferred income taxes of $39,000 on investments, available-for-sale.

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

	2007	2006
Interest	$ 4,000	55,000
Income taxes	$ 3,124,000	298,000

Note 11 – Fair Value of Financial Instruments

The Company's financial instruments consist of cash, receivables, payables and notes 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 notes payable approximates fair value as the notes bear interest at floating market interest rates.

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)

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

	Number of Options	Exercise Price Per Share
Outstanding at October 1, 2005	60,000	$ 0.20
Granted	360,000	1.20
Outstanding at September 30, 2006	420,000	0.20–1.20
Exercised	(60,000)	0.20
Outstanding at September 30, 2007	360,000	$ 1.20

Note 13 – Stock Based Compensation

The fair value of each option granted during 2006 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	65%
Risk-free interest rate	5%
Expected life of options or warrants	5.5 years

The weighted average fair value of each option granted during 2006 was approximately $0.74.

Information related to these options at September 30, 2007 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
$ 1.20	360,000	3.9	$ 1.20	360,000	$ 1.20

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, 2007 and 2006 was $188,759 and $74,227 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, 2007 and 2006, the Company has a payable of $332,439 and $341,334, 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, 2007, 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. The Company is currently not aware of any such item, which it believes could have a material adverse affect on its financial position.

Note 16– Subsequent Events

On October 1, 2007 the Company sold 5,000 shares of treasury stock for $2.00 per share to the Company's ESOP in exchange for a six percent receivable due from the ESOP.

Note 17– Recent Accounting Pronouncements

In June 2006, the FASB issued FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes-an interpretation of FASB Statement No. 109" ("FIN 48"), which clarifies the accounting for uncertainty in tax positions. Under FIN 48, the tax effects of a position should be recognized only if it is "more-likely-than-not" to be sustained based solely on its technical merits as of the reporting date. FIN 48 also requires significant new annual disclosures in the notes to the financial statements. The effect of adjustments at adoption should be recorded directly to beginning retained earnings in the period of adoption and reported as a change in accounting principle. Retroactive application is prohibited under FIN 48. We are required to adopt FIN 48 at the beginning of fiscal 2008. Management is currently evaluating the impact of FIN 48 on the financial statements.

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements* (SFAS No. 157), which defines fair value, establishes guidelines for measuring fair value and expands disclosure regarding fair value measurements. SFAS No. 157 does not require new fair value measurements but rather eliminates inconsistencies in guidance found in various prior accounting pronouncements. SFAS No. 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, on a prospective basis. The Company does not expect the adoption of SFAS No. 157 to have a material effect on our financial statements.

JONES SIMKINS P.C.
Certified Public Accountants

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

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

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, 2007 and 2006 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 13, 2007

PIONEER OIL AND GAS
SCHEDULE OF SUPPLEMENTARY INFORMATION
ON OIL AND GAS OPERATIONS
September 30, 2007 and 2006

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

	2007	2006
Proved oil and gas properties and related equipment	$ 1,033,041	1,033,041
Unproved oil and gas properties	309,583	265,617
Subtotal	1,342,624	1,298,658
Accumulated depreciation, depletion and amortization and valuation allowances	(937,344)	(900,246)
	$ 405,280	398,412

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

	2007	2006
Acquisition of properties:		
Proved	$ -	-
Unproved	$ -	-
Exploration costs	$ -	-
Development costs	$ 43,967	18,735

PIONEER OIL AND GAS
SCHEDULE OF SUPPLEMENTARY INFORMATION
ON OIL AND GAS OPERATIONS
September 30, 2007 and 2006

Results of Operations for Producing Activities

	2007	2006
Oil and gas – sales	$ 1,231,802	1,931,907
Production costs net of reimbursements	(800,550)	(668,210)
Exploration costs	(258,350)	(239,724)
Depreciation, depletion and amortization and valuation provisions	(37,097)	(61,350)
Net income before income taxes	135,805	962,623
Income tax provision	(46,000)	(327,000)
Results of operations from producing activities (excluding corporate overhead and interest costs)	$ 89,805	635,623

PIONEER OIL AND GAS
SCHEDULE OF SUPPLEMENTARY INFORMATION
ON OIL AND GAS OPERATIONS
September 30, 2007 and 2006

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.

	2007		2006	
	Oil (bbls)	Gas (mcf)	Oil (bbls)	Gas (mcf)
Proved developed and undeveloped reserves:				
Beginning of year	39,311	1,147,136	67,729	1,274,127
Revision in previous estimates	(13)	(115,523)	(7,213)	25,573
Discoveries and extensions	-	-	-	-
Purchase in place	-	-	-	-
Production	(5,885)	(114,183)	(7,341)	(133,141)
Sales in place	-	-	(13,864)	(19,423)
End of year	33,413	917,430	39,311	1,147,136
Proved developed reserves:				
Beginning of year	39,311	1,147,136	67,729	1,274,127
End of year	33,413	917,430	39,311	1,147,136

PIONEER OIL AND GAS
SCHEDULE OF SUPPLEMENTARY INFORMATION
ON OIL AND GAS OPERATIONS
September 30, 2007 and 2006

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

		2007	2006
Future cash inflows	$	7,433,000	8,350,000
Future production and development costs		(1,468,000)	(1,627,000)
Future income tax expenses		(2,028,000)	(2,286,000)
		3,937,000	4,437,000
10% annual discount for estimated timing of cash flows		(1,930,000)	(2,131,000)
Standardized measure of discounted future net cash flows	$	2,007,000	2,306,000

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, 2007 and 2006

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

	2007	2006
Balance, beginning of year	$ 2,306,000	5,310,000
Sales of oil and gas produced net of production costs	(353,000)	(730,000)
Net changes in prices and production costs	547,000	(2,991,000)
Extensions and discoveries, less related costs	-	-
Purchase and sales of minerals in place	-	(842,000)
Revisions of estimated development costs	-	-
Revisions of previous quantity estimate	(570,000)	(2,575,000)
Accretion of discount	231,000	531,000
Net changes in income taxes	(154,000)	(1,547,000)
Balance, end of year	$ 2,007,000	2,306,000