

PIONEER OIL AND GAS

FINANCIAL STATEMENTS
(UNAUDITED)

March 31, 2012



PIONEER OIL AND GAS
INDEX TO FINANCIAL STATEMENTS
March 31, 2012

	<u>Page</u>
Independent Accountants' Compilation Report	1
Balance Sheets	2
Statements of Operations	3
Statements of Cash Flows	4
Supplemental Disclosure of Cash Flow Information	5



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INDEPENDENT ACCOUNTANTS' COMPILATION REPORT

To the Board of Directors and
Stockholders of Pioneer Oil and Gas
South Jordan, Utah

We have compiled the accompanying balance sheet of Pioneer Oil and Gas (a corporation) as of March 31, 2012, and the related statements of operations for the three and six month periods ended March 31, 2012 and 2011, and the related statements of cash flows for the six month periods ended March 31, 2012 and 2011. We have not audited or reviewed the accompanying financial statements and, accordingly, do not express an opinion or provide any assurance about whether the financial statements are in accordance with accounting principles generally accepted in the United States of America.

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America and for designing, implementing, and maintaining internal control relevant to the preparation and fair presentation of the financial statements.

Our responsibility is to conduct the compilation in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. The objective of a compilation is to assist management in presenting financial information in the form of financial statements without undertaking to obtain or provide any assurance that there are no material modifications that should be made to the financial statements.

Management has elected to omit substantially all of the disclosures required by accounting principles generally accepted in the United States of America. If the omitted disclosures were included in the financial statements, they might influence the user's conclusions about the Company's financial position, results of operations, and cash flows. Accordingly, the financial statements are not designed for those who are not informed about such matters.

The balance sheet as of September 30, 2011, was audited by us, and we expressed an unqualified opinion on it in our report dated December 16, 2011, but we have not performed any auditing procedures since that date.

Jones Simkins, P.C.

JONES SIMKINS, P.C.
Logan, Utah
May 18, 2012

PIONEER OIL AND GAS
BALANCE SHEETS

<u>Assets</u>	March 31, 2012 (Compiled)	September 30, 2011 (Audited)
Current assets:		
Cash	\$ 3,754,076	3,522,165
Investments, available for sale	1,298,255	1,236,485
Receivables	105,267	906,114
Resale leases, at lower of cost or market	1,725,147	2,000,154
Total current assets	6,882,745	7,664,918
Property and equipment, net	316,225	81,915
Deferred income taxes	371,000	193,000
Other assets	660,217	660,217
	<u>\$ 8,230,187</u>	<u>8,600,050</u>
<u>Liabilities and Stockholders' Equity</u>		
Current liabilities:		
Payables and accrued expenses	\$ 406,021	476,247
Deferred income taxes	29,000	11,000
Total current liabilities	435,021	487,247
Asset retirement obligation	27,556	18,685
Total liabilities	462,577	505,932
Commitments and contingencies		
Stockholders' equity:		
Common stock, par value \$.001 per share, 50,000,000 shares authorized; 7,540,405 and 7,703,895 shares issued and outstanding, respectively	7,540	7,704
Additional paid-in capital	1,542,458	1,705,784
Stock subscription receivable	(370,507)	-
Accumulated other comprehensive income	55,829	20,414
Retained earnings	6,532,290	6,774,523
	7,767,610	8,508,425
Less treasury stock, 0 and 414,327 shares at cost, respectively	-	(414,307)
Total stockholders' equity	7,767,610	8,094,118
	<u>\$ 8,230,187</u>	<u>8,600,050</u>

See independent accountants' compilation report.

PIONEER OIL AND GAS
STATEMENTS OF OPERATIONS

	Three Months Ended March 31,		Six Months Ended March 31,	
	2012	2011	2012	2011
Revenue:				
Oil and gas sales	\$ 142,907	149,990	413,828	316,070
Royalty revenue	99,211	104,793	163,196	195,965
	<u>242,118</u>	<u>254,783</u>	<u>577,024</u>	<u>512,035</u>
Costs and expenses:				
Cost of operations	24,094	82,750	109,812	153,869
General and administrative expenses	240,808	222,696	396,285	381,196
Exploration costs	86,622	83,470	162,461	161,824
Lease rentals	2,965	14,627	22,845	33,823
Loss on impairment of resale leases	54,400	-	308,568	158,493
Depreciation, depletion and amortization	19,605	2,586	20,057	5,357
	<u>428,494</u>	<u>406,129</u>	<u>1,020,028</u>	<u>894,562</u>
Loss from operations	<u>(186,376)</u>	<u>(151,346)</u>	<u>(443,004)</u>	<u>(382,527)</u>
Other income (expense):				
Loss on disposal of developing property	-	-	-	(15,419)
Interest income	11,442	5,439	17,029	11,451
Other	687	1,412	5,742	11,066
	<u>12,129</u>	<u>6,851</u>	<u>22,771</u>	<u>7,098</u>
Loss before benefit for income taxes	(174,247)	(144,495)	(420,233)	(375,429)
Benefit for income taxes	<u>(92,000)</u>	<u>(50,000)</u>	<u>(178,000)</u>	<u>(133,000)</u>
Net loss	<u>\$ (82,247)</u>	<u>(94,495)</u>	<u>(242,233)</u>	<u>(242,429)</u>
Net loss per common share:				
Basic	<u>\$ (0.01)</u>	<u>(0.01)</u>	<u>(0.03)</u>	<u>(0.03)</u>
Diluted	<u>\$ (0.01)</u>	<u>(0.01)</u>	<u>(0.03)</u>	<u>(0.03)</u>
Weighted average common shares:				
Basic	<u>7,541,000</u>	<u>7,673,000</u>	<u>7,618,000</u>	<u>7,673,000</u>
Diluted	<u>7,541,000</u>	<u>7,673,000</u>	<u>7,618,000</u>	<u>7,673,000</u>

See independent accountants' compilation report.

PIONEER OIL AND GAS
STATEMENTS OF CASH FLOWS
Six Months Ended March 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Cash flows from operating activities:		
Net loss	\$ (242,233)	(242,429)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Loss on disposal of oil and gas properties	-	15,419
Depreciation, depletion and amortization	20,057	5,357
Accretion expense	603	784
Employee benefit plan expense	38,221	27,766
Deferred income taxes	(178,000)	(133,000)
Interest income	(6,040)	(809)
(Increase) decrease in:		
Receivables	800,847	10,504
Resale leases	275,007	103,617
Increase (decrease) in:		
Payables and accrued expenses	2,994	(34,004)
Net cash provided by (used in) operating activities	<u>711,456</u>	<u>(246,795)</u>
Cash flows from investing activities:		
Purchases of investments, available for sale	(8,355)	(287)
Acquisition of property and equipment	<u>(246,099)</u>	<u>-</u>
Net cash used in investing activities	<u>(254,454)</u>	<u>(287)</u>
Cash flows from financing activities:		
Payable - common stock repurchase	(60,001)	(2,375)
Purchase of treasury stock	(163,490)	-
Payment of dividends	<u>(1,600)</u>	<u>-</u>
Net cash used in financing activities	<u>(225,091)</u>	<u>(2,375)</u>
Net increase (decrease) in cash	231,911	(249,457)
Cash, beginning of period	<u>3,522,165</u>	<u>4,369,880</u>
Cash, end of period	<u>\$ 3,754,076</u>	<u>4,120,423</u>

See independent accountants' compilation report.

PIONEER OIL AND GAS
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION
Six Months Ended March 31, 2012 and 2011

During the six months ended March 31, 2012, the Company:

- Recorded an increase in investments of \$53,415, an increase in unrealized holding gain of \$35,415, and a change in investment related deferred income taxes of \$18,000.
- Sold 414,327 shares of treasury stock to the Company's ESOP at a cost of \$414,307 in exchange for a \$11,619 reduction to ESOP payable and a \$402,688 increase to stock subscription receivable.
- Recorded capitalized asset retirement costs and asset retirement obligation of \$8,268 due to drilling activities.
- Retired 163,490 shares of treasury stock that was purchased for \$1.00 per share.

During the six months ended March 31, 2011, the Company:

- Recorded an increase in investments of \$44,965, an increase in unrealized holding gain of \$29,965, and a change in investment related deferred income taxes of \$15,000.
- Sold 6,000 shares of treasury stock to the Company's ESOP at a cost of \$5,560 in exchange for a stock subscription receivable.

See independent accountants' compilation report.