

PIONEER OIL AND GAS

FINANCIAL STATEMENTS
(UNAUDITED)

June 30, 2012



PIONEER OIL AND GAS
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June 30, 2012

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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 June 30, 2012, and the related statements of operations for the three and nine month periods ended June 30, 2012 and 2011, and the related statements of cash flows for the nine month periods ended June 30, 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
August 31, 2012

PIONEER OIL AND GAS
BALANCE SHEETS

<u>Assets</u>	June 30, 2012 (Compiled)	September 30, 2011 (Audited)
Current assets:		
Cash	\$ 3,579,062	3,522,165
Investments, available for sale	1,267,941	1,236,485
Receivables	78,645	906,114
Resale leases, at lower of cost or market	1,601,810	2,000,154
Total current assets	6,527,458	7,664,918
Property and equipment, net	373,892	81,915
Deferred income taxes	486,000	193,000
Other assets	660,217	660,217
	<u>\$ 8,047,567</u>	<u>8,600,050</u>
<u>Liabilities and Stockholders' Equity</u>		
Current liabilities:		
Payables and accrued expenses	\$ 468,823	476,247
Deferred income taxes	25,000	11,000
Total current liabilities	493,823	487,247
Asset retirement obligation	27,858	18,685
Total liabilities	521,681	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	48,386	20,414
Retained earnings	6,358,009	6,774,523
	7,585,886	8,508,425
Less treasury stock, 60,000 and 414,327 shares at cost, respectively	(60,000)	(414,307)
Total stockholders' equity	7,525,886	8,094,118
	<u>\$ 8,047,567</u>	<u>8,600,050</u>

See independent accountants' compilation report.

PIONEER OIL AND GAS
STATEMENTS OF OPERATIONS

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2012	2011	2012	2011
Revenue:				
Oil and gas sales	\$ 138,196	207,361	552,024	523,431
Royalty revenue	66,513	107,409	229,709	303,374
	<u>204,709</u>	<u>314,770</u>	<u>781,733</u>	<u>826,805</u>
Costs and expenses:				
Cost of operations	88,365	92,721	198,177	246,590
General and administrative expenses	170,143	184,373	566,428	565,569
Exploration costs	84,506	85,881	246,967	247,705
Lease rentals	14,128	53,770	36,973	87,593
Loss on impairment of resale leases	123,337	334,160	431,905	492,653
Depreciation, depletion and amortization	18,528	2,541	38,585	7,898
	<u>499,007</u>	<u>753,446</u>	<u>1,519,035</u>	<u>1,648,008</u>
Loss from operations	<u>(294,298)</u>	<u>(438,676)</u>	<u>(737,302)</u>	<u>(821,203)</u>
Other income (expense):				
Loss on disposal of developing property	-	-	-	(15,419)
Interest income	6,029	4,257	23,058	15,708
Other	<u>(1,012)</u>	<u>75</u>	<u>4,730</u>	<u>11,141</u>
	<u>5,017</u>	<u>4,332</u>	<u>27,788</u>	<u>11,430</u>
Loss before benefit from income taxes	(289,281)	(434,344)	(709,514)	(809,773)
Benefit from income taxes	<u>(115,000)</u>	<u>(146,000)</u>	<u>(293,000)</u>	<u>(279,000)</u>
Net loss	<u>\$ (174,281)</u>	<u>(288,344)</u>	<u>(416,514)</u>	<u>(530,773)</u>
Net loss per common share - basic and diluted	<u>\$ (0.02)</u>	<u>(0.04)</u>	<u>(0.05)</u>	<u>(0.07)</u>
Weighted average common shares - basic and diluted	<u>7,540,000</u>	<u>7,704,000</u>	<u>7,592,000</u>	<u>7,683,000</u>

See independent accountants' compilation report.

PIONEER OIL AND GAS
STATEMENTS OF CASH FLOWS
Nine Months Ended June 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Cash flows from operating activities:		
Net loss	\$ (416,514)	(530,773)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Loss on disposal of oil and gas properties	-	15,419
Loss on sale of investments, available for sale	1,012	-
Depreciation, depletion and amortization	38,585	7,898
Accretion expense	905	1,176
Employee benefit plan expense	38,221	36,401
Deferred income taxes	(293,000)	(279,000)
Interest income	(6,040)	(809)
(Increase) decrease in:		
Receivables	827,469	38,346
Resale leases	398,344	437,281
Increase (decrease) in:		
Payables and accrued expenses	<u>114,167</u>	<u>(21,413)</u>
Net cash provided by (used in) operating activities	<u>703,149</u>	<u>(295,474)</u>
Cash flows from investing activities:		
Purchases of investments, available for sale	(17,369)	(439)
Proceeds from sale of investments, available for sale	26,873	-
Acquisition of property and equipment	<u>(322,294)</u>	<u>-</u>
Net cash used in investing activities	<u>(312,790)</u>	<u>(439)</u>
Cash flows from financing activities:		
Payable - common stock repurchase	(105,172)	(5,825)
Purchase of treasury stock	(60,000)	(1,980)
Purchase and retirement of common stock	(163,490)	-
Payment of dividends	<u>(4,800)</u>	<u>(6,400)</u>
Net cash used in financing activities	<u>(333,462)</u>	<u>(14,205)</u>
Net increase (decrease) in cash	56,897	(310,118)
Cash, beginning of period	<u>3,522,165</u>	<u>4,369,880</u>
Cash, end of period	<u>\$ 3,579,062</u>	<u>4,059,762</u>

See independent accountants' compilation report.

PIONEER OIL AND GAS
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION
Nine Months Ended June 30, 2012 and 2011

During the nine months ended June 30, 2012, the Company:

- Recorded an increase in investments of \$41,972, an increase in unrealized holding gain of \$27,972, and a change in investment related deferred income taxes of \$14,000.
- 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 nine months ended June 30, 2011, the Company:

- Recorded an increase in investments of \$100,918, an increase in unrealized holding gain of \$66,918, and a change in investment related to deferred income taxes of \$34,000.
- 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.
- Issued 30,630 shares of common stock to the Company's ESOP at a cost of \$25,423 in exchange for a stock subscription receivable.

See independent accountants' compilation report.