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PIONEER OIL & GAS
Form PRE 14A
June 07, 2005

SCHEDULE 14A

INFORMATION REQUIRED IN PROXY STATEMENT

SCHEDULE 14A INFORMATION

Proxy Statement Pursuant to Section 14(a)
of the Securities Exchange Act of 1934

Filed by the Registrant Filed by a party other than the Registrant Check
the appropriate box:

- Preliminary Proxy Statement
- Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))
- Definitive Proxy Statement
- Definitive Additional Materials
- Soliciting Material Pursuant to Rule 14a-11(c) or Rule 14a-12

PIONEER OIL AND GAS

(Name of Registrant as Specified in Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

- No fee required
- Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1) Title of each class of securities to which transaction applies:

(2) Aggregate number of securities to which transaction applies:

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (Set forth the amount on which the filing fee is calculated and state how it was determined):

(4) Proposed maximum aggregate value of transaction:

(5) Total fee paid:

Fee paid previously with preliminary materials.

Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

(1) Amount previously paid:

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(2) Form, Schedule or Registration Statement No.:

(3) Filing party:

(4) Date Filed:

PIONEER OIL AND GAS
NOTICE OF ANNUAL MEETING OF SHAREHOLDERS

To the Shareholders:

Notice is hereby given that the Annual Meeting of Shareholders of Pioneer Oil and Gas (the "Company") will be held on Tuesday, July 19, 2005, starting at 10:00 A.M., Mountain Daylight Time, at the Company's office, 1206 W. South Jordan Parkway, Unit B, South Jordan, Utah 84095. The following matters are on the agenda for the Meeting:

1. To ratify the Board of Directors decision to effect a 1-for-2000 reverse stock split and the repurchase of all resulting fractional shares, followed immediately by a 2000-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 2000 common shares of the Company immediately before the Stock Splits will receive \$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 will no longer be a shareholder of the Company; and (b) each shareholder owning 2000 or more common shares immediately before the Stock Splits (i) will receive 2000 Common Shares after the Stock Splits in exchange for each lot of 2000 Common Shares held before the Stock Splits and (ii) any additional Common Shares held other than in a 2000 share lot will be cancelled and exchanged for \$1.50 in cash per share. The Stock Splits will allow the Company to file a Form 15 with the Securities and Exchange Commission ("SEC"), thereby causing the Company to no longer be subject to the Rules and Regulations of the Securities Act of 1934 and particularly the Sarbanes-Oxley Act of 2002. The Stock Splits is further outlined in the Proxy Statement enclosed with this Notice
2. To Elect the Board of Directors;
3. To ratify the appointment of Jones Simkins LLP ("Jones"), as independent auditors for the current fiscal year;
4. To transact any other business matters that may properly come before the meeting or any adjournment or postponement thereof.

The Directors have fixed the close of business on May 31, 2005, as the record date for the determination of shareholders entitled to notice of and to vote at

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the meeting or any adjournment or postponement thereof. A complete list of such shareholders will be available at the corporate office of the Company during normal business hours and shall be open to the examination of any such shareholder for any purpose relevant to the Meeting.

A record of the Company's activities during the year ending September 30, 2004 and financial statements for that year, are in the Company's annual report to shareholders, which this year is contained within the Proxy Statement that accompanies this notice.

NEITHER THE SECURITIES AND EXCHANGE COMMISSION NOR ANY STATE SECURITIES COMMISSION HAS APPROVED OR DISAPPROVED OF THE STOCK SPLITS, PASSED UPON THE MERITS OR FAIRNESS OF THE STOCK SPLITS, OR PASSED UPON THE ADEQUACY OR ACCURACY OF THE DISCLOSURE IN THIS DOCUMENT. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

The Company's Board of Directors carefully considered the terms of the proposed Stock Splits and has determined that the Stock Splits are fair to, and in the best interests of, the Company and its shareholders and encourages the shareholders to vote in favor of the Stock Splits.

You are cordially invited to attend the Meeting. Any shareholder that does not expect to attend the Meeting in person is requested to complete, date, and sign the enclosed form of Proxy and return it promptly to Pioneer Oil and Gas. Thank you for your cooperation.

BY ORDER OF THE BOARD OF DIRECTORS

DON J. COLTON, Chairman of the Board of Directors, and President

YOUR VOTE IS IMPORTANT TO PIONEER OIL AND GAS. EVEN IF YOU EXPECT TO ATTEND THE ANNUAL MEETING, WE URGE YOU TO COMPLETE, DATE, AND SIGN THE ENCLOSED PROXY AND RETURN IT PROMPTLY IN THE ENVELOPE PROVIDED. COMPLETING THE ENCLOSED PROXY WILL NOT PREVENT YOU FROM VOTING YOUR SHARES IN PERSON IF YOU DO ATTEND THE MEETING.

PROXY
PIONEER OIL AND GAS
1206 W. South Jordan Parkway, Unit B, South Jordan, Utah 84095-5512
Annual Meeting of Shareholders July 19th, 2005
THIS PROXY IS SOLICITED ON BEHALF OF THE BOARD OF DIRECTORS

The Undersigned hereby appoints the Board of Directors of Pioneer Oil and Gas, as proxies with full power of substitution, and hereby authorizes them to represent and to vote as designated below, all of the shares of common stock of Pioneer Oil and Gas, held of record by the undersigned on May 31st, 2005, at the Annual Meeting of Shareholders to be held on July 19th, 2005, or any adjournment thereof:

1. to ratify the Board of Directors decision to effect a 1-for-2000 reverse stock split and the repurchase of all resulting fractional shares, followed immediately by a 2000-for-1 forward stock split of the Company's common shares. As a result of the Stock Splits, (a) each shareholder owning fewer than 2000 common shares of the Company immediately before the Stock Splits will receive \$1.50 in cash, without interest, for each of the Company's common shares owned

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PIONEER OIL AND GAS
1206 W. South Jordan Parkway
Unit B
South Jordan, Utah 84095-5512

PROXY STATEMENT

Annual Meeting of Stockholders
To Be Held on July 19, 2005

GENERAL INFORMATION

This Proxy Statement is being furnished to the stockholders of Pioneer Oil and Gas (the "Company"), in connection with the solicitation of proxies on behalf of the Board of Directors of Pioneer Oil and Gas (the "Directors") for use at the Company's 2005 Annual Meeting of Stockholders and any and all adjournments or continuations thereof (the "Meeting"), to be held on Tuesday, July 19th, 2005 for the purposes set forth under the next paragraph. These materials will be first mailed to stockholders on or about May 31st, 2005. This Proxy Statement (the "Proxy Statement") provides detailed information about a proposal to be put forth before the shareholders of Pioneer Oil and Gas, a Utah corporation, (the "Company") to effect a 1-for-2000 reverse stock split and the repurchase of all resulting fractional shares at a price of \$1.50 per share before the reverse stock split, followed immediately by a 2000-for-1 forward stock split (together these are referred to as the "Stock Splits").

PURPOSE OF ANNUAL MEETING

At the Meeting, stockholders will be asked: (i) to ratify the Board of Directors decision to effect a 1-for-2000 reverse stock split and the repurchase of all resulting fractional shares, followed immediately by a 2000-for-1 forward stock split of the Company's common shares. As a result of the Stock Splits, (a) each shareholder owning fewer than 2000 common shares of the Company immediately before the Stock Splits will receive \$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 will no longer be a shareholder of the Company; and (b) each shareholder owning 2000 or more common shares immediately before the Stock Splits will receive 2000 Common Shares after the Stock Splits in exchange for each lot of 2000 Common Shares held before the Stock Splits and any additional Common Shares held other than in a 2000 share lot will be canceled and exchanged for \$1.50 in cash per share. The effective date of the Stock Splits will be July 25, 2005. The Stock Splits is further outlined in the Proxy Statement enclosed with this Notice; (ii) to elect a Board of Directors to serve until the next annual meeting of the stockholders, or until their successors are duly elected and qualified; (iii) to ratify the selection by the Directors of Jones as independent auditors of the Company for the fiscal year ending September 30th, 2005 ("Fiscal 2005"); and (iv) to transact such other business as may properly come before the Meeting or any adjournment or postponement thereof.

We urge you to read this Proxy Statement carefully in its entirety including the attached Exhibits. This Proxy Statement is first being mailed to the Company's shareholders on or about May 31, 2005.

NEITHER THE SECURITIES AND EXCHANGE COMMISSION NOR ANY STATE SECURITIES COMMISSION HAS APPROVED OR DISAPPROVED OF THE STOCK SPLITS, PASSED UPON THE

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MERITS OR FAIRNESS OF THE STOCK SPLITS, OR PASSED UPON THE ADEQUACY OR ACCURACY OF THE DISCLOSURE IN THIS DOCUMENT. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

NO PERSON IS AUTHORIZED TO GIVE ANY INFORMATION OR TO MAKE ANY REPRESENTATION NOT CONTAINED IN THIS PROXY STATEMENT AND, IF GIVEN OR MADE, SUCH INFORMATION OR REPRESENTATION SHOULD NOT BE RELIED UPON AS HAVING BEEN AUTHORIZED BY THE COMPANY.

SUMMARY TERM SHEET

The following is a summary of the material terms of the Stock Splits. The Board of Directors believe that Utah law does not require shareholder approval for the Stock Splits, only a Board of Directors meeting is necessary to effectuate the Stock Splits, however, the Board of Directors is asking for shareholder approval to ratify the action of the Board of Directors and the Company plans to effect the Stock Splits regardless of whether a majority of the outstanding stock of the Company votes in favor of the Stock Splits as long as a majority of the shares voting on the proposal vote in favor of the Stock Splits. In addition, Utah Code Section 16-10a-604(1)(a) allows the Company to pay the shareholders of the Company in money the value of fractional shares. The Proxy Statement is being provided to shareholders under Rule 13E-3 of the Securities Exchange Act of 1934. While this summary describes what we believe are the most material terms and conditions of the Stock Splits, this Proxy Statement contains a more detailed description of such terms and conditions. We urge you to carefully review, in their entirety, this Proxy Statement, the attached Exhibits and the documents incorporated by reference.

The Company does not plan presently on any material changes to the Company after the Stock Splits. Other than as described in this Proxy Statement, neither the Company, nor its management has any current plans or proposals to effect any extraordinary corporate transaction (such as a merger, reorganization or liquidation); to sell or transfer any material amount of the Company assets to change the composition of the management or to change materially the Company's capitalization; to change the Company's dividend policy; or otherwise to effect any material change in the Company's corporate structure or business other than has already been disclosed or in the normal course of business. The Company does not believe there will be material differences between affiliated and unaffiliated shareholders regarding the treatment under the Stock Splits except if a shareholder has less than 2000 common shares, those shares will be purchased pursuant to the Stock Splits while an affiliated shareholder may have some shares acquired by the Stock Splits but the majority of the shares owned by the affiliate will remain.

OTHER MATTERS

Management does not intend to present, and has no information as of the date of preparation of this Proxy Statement that others will present, any business at the Meeting other than business pertaining to matters required to be set forth in the Notice of Annual Meeting and Proxy Statement. However, if other matters requiring the vote of the stockholders properly come before the Meeting, it is the intention of the persons named in the enclosed proxy to vote the proxies held by them in accordance with their best judgment on such matters.

STOCK SPLITS

The Stock Splits will consist of the following steps:

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On July 25, 2005 (the "Effective Date") a 1-for-2000 reverse stock split of the Common Shares will occur, as a result of which:

Each holder of less than 2000 Common Shares immediately before the reverse stock split will receive from the Company cash in the amount of \$1.50, without interest, for each Common Share held immediately before the reverse stock split and will no longer be a shareholder of the Company; and

Each holder of 2000 or more Common Shares immediately prior to the reverse stock split will receive one whole Common Share for each lot of 2000 Common Shares held by the shareholder immediately before the reverse stock split and will receive cash from the Company in the amount of \$1.50 for each Common Share held immediately before the reverse stock split and not converted into one whole share.

After completion of the reverse stock split and the repurchase of all resulting fractional shares, the Company will effect a 2000-for-1 forward stock split of the Common Shares remaining outstanding after the reverse stock split. Each holder of 2000 or more Common Shares immediately before the reverse stock split will participate in the forward stock split, which will result in such holder holding a number of Common Shares equal to the number of whole shares remaining after the reverse stock split multiplied by 2000.

Please see the sections of this Proxy Statement entitled "Effects of the Stock Splits" and "Stock Splits Proposal - Summary and Structure" for a more detailed discussion of the Stock Splits.

PURPOSES AND REASONS FOR THE STOCK SPLITS

The Stock Splits are intended to reduce the number of record holders of the Common Shares below 300 and enable the Company to terminate the registration of, or deregister, the Common Shares under the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Deregistration would eliminate the Company's duty to file periodic reports and Proxy Statements with the Securities and Exchange Commission (the "SEC"), and as a result, the Company would no longer be a public reporting company. However, the Company will continue to be subject to the general anti-fraud provisions of federal and applicable state securities laws. The Company will also continue to trade electronically on the Pink Sheets(R) and quotes will be able to be obtained at pinksheets.com.

The following are the principal reasons for the Stock Splits:

Anticipated annual cost savings of approximately \$250,000 as a result of the deregistration of the Common Shares and the related elimination of periodic reporting requirements, including the cost savings resulting from no longer being subject to the public company provisions of the Sarbanes-Oxley Act of 2002, as amended (the "Sarbanes-Oxley Act") and the elimination of other costs related to a Company subject to the Securities Exchange Act of 1934 (the "Exchange Act");

Additional savings of management's and employees' time that will no longer be spent preparing the periodic reports required under the Exchange Act and complying with other provisions of the Exchange Act;

Decreased expenses resulting from no longer being required to service holders with small positions in the Common Shares;

The Stock Splits constitute the most expeditious, efficient, cost effective

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and fair method to convert the Company from a public reporting company to a privately-held, non-reporting company compared to other alternatives considered by the Board; and

The fact that the Company has not realized many of the benefits normally associated with being a public reporting company (such as access to capital markets, active trading market and use of company stock as currency for acquisitions).

Please see the sections of this Proxy Statement entitled " Purpose of the Stock Splits," " Effects of the Stock Splits" and " Reasons for the Stock Splits" for a more detailed discussion of the principal reasons for the Stock Splits.

FAIRNESS OF THE STOCK SPLITS

The Board has set \$1.50 per pre-split Common Share (the "Repurchase Price") as the cash consideration to be paid by the Company in lieu of issuing fractional Common Shares (i.e., less than one whole Common Share) in connection with the Stock Splits. The Board made this determination in good faith and received a Valuation Opinion (the "Valuation Opinion") prepared by Gate-Way Capital, Inc. ("Gate-Way"), an independent financial advisor. The Board also considered other factors the Board deemed relevant, as described in greater detail in this Proxy Statement.

The Valuation Opinion was delivered to the Board to assist the Board in establishing the terms and conditions of the Stock Splits. The Valuation Opinion states, that based upon and subject to the factors and assumptions set forth therein as of April 30, 2005, the fair market value of the Company with 100% of the Company's operations and assets is \$8,468,420. The Company has presently outstanding and issued 7,910,727 common shares and on a fully diluted basis with all options taken into account 8,330,727. The price of the stock based on Gate-Way's opinion before dilution would be \$1.07 and after dilution \$1.03. Therefore, the Repurchase Price offered by the Company is a premium of about 40% before dilution and about 45% after dilution. This is significant premium that the Company is willing to pay primarily because the Company's common stock has been trading close to a \$1.50.

A summary of the Valuation Opinion, dated April 30, 2005, is attached to this Proxy Statement as Exhibit A and a full text of the Valuation Opinion can be found on the SEC's edgar site by typing in Pioneer Oil at <http://www.sec.gov/edgar/searchedgar/companysearch.html>, and then accessing Exhibit B filed with the Proxy Statement. We urge you to read the Valuation Opinion in its entirety. Gate-Way Capital, Inc ("Gate-Way") provided the Valuation Opinion to assist the Board in connection with its consideration of the Stock Splits.

The Board believes that the Stock Splits are in the Company's best interests and are substantively and procedurally fair to both the affiliated and unaffiliated holders of the Common Shares, including both those holders whose Common Shares will be completely cashed out pursuant to the Stock Splits ("Cashed Out Holders") and those who will continue to hold Common Shares after the Stock Splits ("Continuing Holders").

The Board has reviewed and considered the analyses and conclusions of Gate-Way contained in the Valuation Opinion and has unanimously approved the Stock Splits. No voting is necessary by the shareholders to effectuate the Stock Splits, however, the Board of Directors are seeking shareholder approval to ratify the action of the Board of Directors. The Board of Directors intends to effectuate the Stock Splits even if it does not receive a majority of the

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outstanding stock of the Company voting in favor of the Stock Splits as long as majority of shares voting on the proposal vote in favor of the Stock Splits. Please see the sections of this Proxy Statement entitled "Fairness of the Stock Splits," "Opinion of Gate-Way," "Background of the Stock Splits" and "Recommendation of the Board" for a more detailed discussion of the foregoing.

CERTAIN FEDERAL TAX ASPECTS

The Company will not recognize any gain, loss or deduction for federal income tax purposes as a result of the Stock Splits.

The Company's shareholders will generally recognize a gain or loss for federal income tax purposes equal to the difference between the amount of cash received and the shareholder's tax basis in the Common Shares that are exchanged for the Repurchase Price in lieu of issuing fractional shares.

Please see the section of this Proxy Statement entitled "Federal Income Tax Consequences" for a more detailed discussion of the foregoing.

UNAVAILABILITY OF APPRAISAL AND DISSENTER'S RIGHTS

A holder of Common Shares does not have under Utah law or the Company's Articles of Incorporation or bylaws the right to assert dissenters' rights if the holder is against the transactions contemplated by the Stock Splits.

Please see the section of this Proxy Statement entitled "Proposed Stock Splits - Unavailability of Appraisal or Dissenters' Rights" for a more detailed discussion of the foregoing.

ESCHEAT

All unclaimed cash amounts payable to shareholders in lieu of issuing fractional shares will be subject to applicable state laws regarding abandoned property.

Please see the section of this Proxy Statement entitled "Proposed Stock Splits - Escheat Laws" for a more detailed discussion of the foregoing.

CAUTIONARY NOTICE REGARDING FORWARD-LOOKING STATEMENTS

When used in this Proxy Statement the words or phrases "will likely result," "are expected to," "will continue," "anticipate," "estimate," "project" or similar expressions are intended to identify "forward-looking statements". Such statements are subject to certain risks and uncertainties which could cause actual results to differ materially from results presently anticipated or projected. The Company cautions you not to place undue reliance on any such forward-looking statements, which speak only as of the date made. The Company advises readers that the Company's actual results may differ materially from any opinions or statements expressed with respect to future periods in any current statements in this Proxy Statement or in our other filings with the SEC.

The Company does not undertake, and specifically disclaims any obligation, to publicly release the result of any revisions, which may be made to any forward-looking statements to reflect events or circumstances after the date of such statements or to reflect the occurrence of anticipated or unanticipated events.

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PURPOSE OF THE STOCK SPLITS

The primary purpose of the Stock Splits is to terminate the Company's status as a public reporting company with the SEC. As a result of the Stock Splits and the repurchase of the resulting fractional shares from holders of fewer than 2000 shares, the Company expects to have approximately 200 holders of record of the Common Shares, which would enable the Company to terminate the registration of the Common Shares under the Exchange Act. If the Stock Splits are completed, the Company intends to file with the SEC to terminate the registration of the Common Shares. Upon deregistration, the Common Shares would no longer be quoted on the Bulletin Board and trades in the Common Shares would only be possible through privately negotiated transactions or in the Pink Sheets(R) (a centralized quotation service that collects and publishes market maker quotes for securities).

REASONS FOR THE STOCK SPLITS

Reduced Public Reporting Expenses. The Company incurs both direct and indirect costs to comply with the filing and reporting requirements imposed on the Company as a public reporting company. As described below, these costs include, among other things, management's time spent preparing and reviewing public filings and legal and accounting fees associated with the preparation and review of such filings. Compliance costs have increased significantly with the adoption and implementation of the Sarbanes-Oxley Act and related SEC and NASDAQ rules, and it is expected these costs to increase further in the future. For smaller publicly traded companies, such as the Company, those costs represent a larger portion of their revenues than for larger public companies.

Not all Reporting Costs will be Eliminated. The Company plans to continue to provide shareholders with annual audited financial statements and Proxy Statements by US mail, although not required to do so. If provided, these documents may not be as detailed, or contain the same level of disclosure, as those required of a public reporting company.

Reduced Costs of Expenses. The Board believes that by deregistering the Common Shares and suspending the Company's periodic reporting obligations under the Exchange Act, the Company will realize recurring annual cost savings of approximately \$250,000 in fees and expenses that that would be incurred to comply with the Sarbanes-Oxley Act and associated regulations. These estimated fees and expenses are described in greater detail below.

Estimated Cost Savings:

Legal and transfer fees	\$ 5,000
Printing, mailing and filing costs	\$ 5,000
Audit fees	\$ 15,000
Internal personnel fees	\$ 225,000

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Total \$250,000
=====

These estimated historical cost savings reflect, among other things: (i) a reduction in audit and related fees; (ii) a reduction in legal and transfer fees related to securities law compliance; (iii) the elimination of filing costs and expenses associated with electronically filing periodic reports and other documents (such as Proxy Statements) with the SEC on its Edgar database; (iv) the lower printing and mailing costs attributable to the reduction in the number of shareholders and the less complicated and extensive disclosure required by the private status; (v) a reduction in management time spent on compliance and disclosure matters attributable to Exchange Act filings; (vi) the lower risk of liability that is associated with non-reporting company status; (vii) the cost savings due to the Company not being subject to the public company provisions of the Sarbanes-Oxley Act, primarily the 404 internal audit controls that would require the Company to hire additional personnel to handle the responsibilities that are performed by one person in the Company; (viii) a reduction in direct miscellaneous clerical and other expenses.

In addition to the foregoing annual estimated cost savings, the consummation of the Stock Splits and the subsequent deregistration of the Common Shares would also result in a significant one-time cost savings of approximately \$75,000 in fees and expenses because the Company would not be subject to the new internal control audit requirements imposed by Section 404 of the Sarbanes-Oxley Act. Preparing to comply with Section 404 of the Sarbanes-Oxley Act would require significant expenditures, including fees to third parties for compliance planning, assessment, documentation and testing. Further, the Company would not need to hire up to another four personnel in the accounting department to comply with Section 404. The hiring of additional people is contained in the annual cost savings set forth above. It would also require a significant investment of time by the management and employees of the Company. These estimated costs for compliance with Section 404 are described in more detail below.

Non-Recurring Sarbanes-Oxley Act Compliance Costs:

Third party planning, testing and documentation	\$25,000
Audit fees	\$25,000
Internal personnel expenses	\$25,000

Total	\$75,000
	=====

The historical and non-recurring cost savings figures set forth above are only estimates. The actual savings we realize from going private may be higher or lower than these estimates. The estimates are based upon the (i) actual and estimated costs to the Company of the services and disbursements in each of the categories listed above that would be reflected on the financial statements and (ii) allocation to each category of management's estimates of the portion of the expenses and disbursements believed to be solely or primarily attributable to the Company's public reporting company status.

In some instances, these cost savings expectations were based on verifiable assumptions. For example, the auditing fees will be reduced if the Company ceases to be a public reporting company due to the elimination of fees for interim services.

Operational Flexibility. Another reason for the Stock Splits is the operational

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flexibility that completion of the Stock Splits and subsequent deregistration would provide. The Board believes that ceasing to be a public reporting company would enable management to focus more on the Company's long-term growth without the distraction of SEC reporting requirements and other aspects of being a public company, and that the Company will benefit if business decisions can be made with this added focus on long-term growth.

Benefits Normally Associated with Public Reporting Company Status have not been Realized. A further reason for the Stock Splits is that the Company does not realize many of the benefits normally associated with being a public reporting company. A typical advantage of being a public company comes from the ability to use company stock, as opposed to cash or other consideration, to effect acquisitions. Since the Company has been operating in the last few years with a positive cash flow there has not been an attraction to use stock for acquisitions. Further, due to the fact the Company is small compared to most public companies the opportunities for doing a stock acquisition are limited. The Company has not previously completed an acquisition using stock and, given the limited opportunities for such acquisitions, it is not likely that it would be able to do so in the future.

In addition, public companies can obtain financing by issuing securities in public offerings. The Company has historically had adequate capital or other means of obtaining necessary capital and has not needed to obtain financing through public offerings.

Conclusion. In light of the foregoing, the Board believes the benefits the Company receives from maintaining its status as a public reporting company and maintaining its small shareholder accounts are substantially outweighed by the associated costs. The Board believes that it is in the Company's best interests to eliminate the administrative burden and costs associated with maintaining its status as a public reporting company and its small shareholder accounts.

Reasons for the Forward Stock Split. The forward stock split will occur immediately after the reverse stock split and the repurchase of fractional shares resulting from the reverse split. The forward stock split is intended to prevent the Common Shares from having an unusually high per share value that would otherwise result from the reverse stock split, which would tend to further decrease the liquidity of the Common Shares.

EFFECTS OF THE STOCK SPLITS

The Stock Splits are expected to significantly reduce the number of holders of record of the Common Shares from approximately 980 to approximately 200. Upon the completion of the Stock Splits, the Company intends to apply with the SEC to deregister the Common Shares under the Exchange Act as soon as practicable. After deregistration, the Common Shares will no longer be quoted on the Bulletin Board. The completion of the Stock Splits and the termination of the Company's reporting obligations under the Exchange Act will cause the existing limited trading market for the Common Shares to be further reduced.

Effects on the Common Shares. There will be no differences with respect to dividend, voting, liquidation or other rights associated with the Common Shares before and after the Stock Splits. The Common Shares acquired by the Company for cash in lieu of issuing fractional shares will be retired.

Effects on All the Company Shareholders. All the Company shareholders:

Will not have the opportunity to liquidate, at a time and for a price of

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their choosing, the Common Shares that are exchanged for cash in lieu of issuing fractional shares;

Will not receive a fractional Common Share as a result of the Stock Splits, but will instead receive cash, in a taxable transaction, equal to \$1.50 for each Common Share held immediately before the Stock Splits that is exchanged for cash in accordance with the procedures described in this Proxy Statement;

Will not have to pay any brokerage commissions or other transaction fees in connection with the exchange of Common Shares for cash in lieu of issuing fractional shares; and

Will not receive any interest on cash payments owed as a result of the Stock Splits.

If you hold Common Shares other than in multiples of 2000, some of your Common Shares will be exchanged for cash in lieu of issuing fractional shares in connection with the Stock Splits. You will receive a letter of transmittal as soon as practicable after the Stock Splits are completed. The letter of transmittal will contain instructions on how to surrender your existing share certificate(s) to the Transfer Agent to receive your cash payment and, if applicable, a new share certificate evidencing the number of Common Shares you hold after the Stock Splits. You will not receive your cash payment or your new share certificate until you surrender your outstanding share certificate(s) to the Transfer Agent, along with a completed and executed copy of the letter of transmittal. Do not send your share certificate(s) in with your Proxy. Please wait until you receive your letter of transmittal to surrender your share certificate(s) to the Transfer Agent.

For a discussion of the federal income tax consequences of the Stock Splits, please see the section of this Proxy Statement entitled "Federal Income Tax Consequences."

Effects on Cashed Out Holders. Cashed Out Holders (i.e., holders of less than 2000 Common Shares immediately before the consummation of the Stock Splits) will have no further ownership interest in the Company and will not be able to participate in future earnings or growth of the Company.

If you hold less than 2000 Common Shares, but you would rather continue to hold Common Shares after the Stock Splits and not be completely cashed out, you may do so by taking either of the following actions far enough in advance so that it is complete by the Effective Date:

Purchase a sufficient number of additional Common Shares, to the extent available, on the open market and have them registered in your name and consolidated with your current record account, if you are a record holder, or have them entered in your account with a nominee (such as your broker or bank) in which you hold your current shares so that you hold at least 2000 Common Shares in your record account immediately before the Effective Date. Due to the limited market in the Common Shares, there is no assurance that you will be able to purchase enough Common Shares to remain a shareholder of the Company; or

If applicable, consolidate your accounts so that you hold at least 2000 Common Shares in one record account immediately before the Effective Date.

Effects on Continuing Holders. If the Stock Splits are consummated, Continuing Holders (i.e., holders of 2000 or more Common Shares immediately before the Stock Splits):

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Will likely hold fewer Common Shares after the Stock Splits than they held before the Stock Splits;

Will likely experience a change in their ownership percentage of the Company after completion of the Stock Splits;

Will likely experience a further reduction in liquidity of the Common Shares; and

Will have less publicly available information about the Company.

Upon the termination of the registration of the Common Shares under the Exchange Act, the Common Shares will no longer be eligible for trading or quotation on any securities market or quotation system, except the Pink Sheets(R). In order for the Common Shares to be quoted on the Pink Sheets(R), one or more broker-dealers would need to act as market maker and sponsor the Common Shares on the Pink Sheets(R). There can be no assurance that any broker-dealer will be willing to act as a market maker in Common Shares after the Stock Splits. There is also no assurance that you will be able to sell your Common Shares or purchase additional Common Shares after the Stock Splits.

If you hold 2000 or more Common Shares, but you would rather be completely cashed out in connection with the Stock Splits and not remain a shareholder of the Company, you may do so by selling a sufficient number of Common Shares in the open market so that you hold less than 2000 Common Shares as of the Effective Date. Any such sales should be made far enough in advance so they are complete by the Effective Date. Due to the limited market in the Common Shares, there is no assurance that you will be able to sell enough Common Shares to reduce your holdings to less than 2000 Common Shares.

Effect on Common Shares Held in Street Name. If you hold Common Shares in "street name," your nominee (such as your broker or bank) may have required procedures you must follow and you should contact your nominee to determine how the Stock Splits will affect you.

Effects on the Company. If the number of shareholders falls below 300, the Company will apply to the SEC to deregister the Common Shares as soon as practicable after completion of the Stock Splits. Upon deregistration of the Common Shares, the Company's duty to file periodic reports with the SEC will be suspended and the Company will no longer be classified as a public reporting company. In addition, the Company will be relieved of the obligation to comply with the requirements of the proxy rules under Section 14 of the Exchange Act. The Company will continue to be subject to the general anti-fraud provisions of federal and applicable state securities laws.

Although we will no longer be required to file periodic reports with the SEC, the Company currently intends to continue to provide annual audited financial statements and Proxy Statements to the Company's shareholders. Although the Company intends to continue to provide these documents to the shareholders, there is no SEC requirement that the Company do so, and there is no requirement that the level of the Company's disclosure in such financial statements or in the Proxy Statement remain at the level required by the current status as a public reporting company. These documents may not be as detailed or extensive as the information currently being filed with the SEC and the financial statements may not be accompanied by management's discussion and analysis in the same detail. It will be more difficult for shareholders to obtain information about the Company.

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The Company estimates that it will save approximately \$250,000 in annual costs associated with not being a public company as well as additional cost savings in time spent by management and employees associated with the SEC reporting activities. The Company also anticipates a one time cost savings of \$75,000 in expenses associated with the compliance with the internal controls audit requirements of Section 404 of the Sarbanes-Oxley Act. These anticipated savings are discussed under the heading entitled "Reasons for the Stock Splits -Reduced Costs and Expenses" above.

The termination of the reporting obligations under the Exchange Act will render the Common Shares ineligible for listing or quotation on any stock exchange or other automated quotation system, except the Pink Sheets(R). As a result, the Common Shares will no longer trade on the Bulletin Board and the existing limited trading market for the Common Shares will likely be further reduced. This reduction or elimination may result in the Company having less flexibility in attracting and retaining executives and other employees since equity-based incentives (such as stock options) tend to be viewed as having less value in a non-publicly traded company.

The Company has no current plans to issue Common Shares after the Stock Splits other than pursuant to the Company's Option Plan ("Option Plan"), but the Company reserves the right to do so at any time and from time to time at such prices and on such terms as the Board determines to be in the Company's best interests. If in the future the Board determines that the adoption of a new option plan would be beneficial to the Company, it may, in its discretion, adopt such a plan. The exercise of options granted under any newly adopted plan would reduce the ownership percentage of the Company's shareholders at the time. The Company will not be required to seek shareholder approval of new option plans or other equity compensation plans. Holders of Common Shares do not currently have, and will not have, any preemptive or other preferential rights to purchase any of the Company's equity securities that may issue in the future, unless such rights are specifically granted to such holders.

After the Stock Splits have been consummated, the Company may, from time-to-time, repurchase Common Shares pursuant to privately negotiated sales or other transactions. Whether or not the Company purchases shares in the future will depend on a number of factors, including the Company's financial condition, operating results and available capital at the time. The Company presently has plans to continue to repurchase up to 2,000,000 common shares of the Company stock pursuant to the approval of the Board of Directors. If a shareholder desires to sell their shares in the Company in the future without a broker's commission they may call the Company and find out if the Company is willing to purchase the shareholder's shares at the prevailing market value. The Company makes no promise on whether it will purchase the shares, however, all inquiries regarding the sale of the Company's stock will be considered based on the financial condition of the Company and the price of the stock.

The Company expects the business and operations to continue as they are presently conducted. The executive officers and directors of the Company will not change due to the Stock Splits. The Company expects to realize time and cost savings as a result of terminating its public company status, and intends to invest those savings in other areas of its business operations. Other than as described in this Proxy Statement, neither the Company, nor its management has any current plans or proposals to effect any extraordinary corporate transaction (such as a merger, reorganization or liquidation); to sell or transfer any material amount of the Company assets to change the composition of the management or to change materially the Company's capitalization; to change the Company's dividend policy; or otherwise to effect any material change in the Company's corporate structure or business other than has already been disclosed

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or in the normal course of business.

Effects on the Company's Executive Officers, Directors and Affiliates. The Company's affiliates, comprised of the executive officers, directors and any shareholders who own more than ten percent (10%) of the Common Shares, will be relieved from complying with the stock ownership reporting requirements and "short swing profit" trading restrictions under Section 16 of the Exchange Act, as well as many of the provisions of the Sarbanes-Oxley Act.

As is more thoroughly set forth under the heading entitled " Security Ownership of Certain Beneficial Owners and Management," the Company expects that upon the completion of the Stock Splits, the Common Shares beneficially owned and controlled by the Company's executive officers and directors will comprise approximately 44.0% of the then outstanding Common Shares, as compared to approximately 42.0% of the Common Shares outstanding immediately prior to the Stock Splits.

ALTERNATIVES TO STOCK SPLITS

In making the determination to proceed with the Stock Splits, the Board considered the potential feasibility of the alternative transactions described below but did not consider any transactions doing away with management or placing the Company up for sale: :

Issuer Tender Offer. The Board considered the feasibility of an issuer tender offer to repurchase Common Shares. The primary disadvantage of this type of transaction is that, due to its voluntary nature, the Company would have no assurance that a sufficient number of Common Shares would be tendered to sufficiently reduce the number of the Company's shareholders. In addition, the rules governing tender offers require equal treatment of all shareholders, including pro rata acceptance of offers from shareholders. These requirements make it difficult to ensure that the Company would be able to reduce the number of the holders of record of the Common Shares enough to permit the Company to deregister the Common Shares, and the Company could repurchase numerous Common Shares at a great expense and still be unable to deregister. A tender offer would likely take longer to complete than the Stock Splits. As a result of these disadvantages, the Board determined not to pursue this alternative. For the same reasons the Board rejected an odd-lot tender offer.

Traditional Stock Repurchase Program. The Board also considered a plan whereby the Company would periodically repurchase Common Shares on the open market at then-current market prices. The Board rejected this type of transaction since repurchasing enough shares in this manner to enable the Company to deregister the Common Shares would likely take an extended period of time, have no assurance of success and be of undeterminable cost.

Cash Out Merger. The alternative available to the Board, which was most similar to the Stock Splits, was coordinating a merger with a shell corporation and reissuing stock to the shareholders of the newly merged entity. The share exchange would be such that shareholders owning less than 2000 Common Shares prior to the merger would be cashed out, and shareholders owning more than 2000 Common Shares would become shareholders in the newly merged entity. The Board of Directors concluded that the Stock Splits were a better alternative since they do not require the formation of a new entity and allow the Company to avoid the regulatory issues and approvals associated with the merger of the Company into another corporation.

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Maintaining the Status Quo or Selling Company. The Board considered maintaining the status quo. In that case, the Company would continue to incur the expenses of being a public reporting company without enjoying the benefits traditionally associated with public company status. The Board believes that maintaining the status quo is not in the best interests of the Company and its shareholders and rejected this alternative. The Company did not consider selling the Company or changing its management because these alternatives did not apply to the reason for the Stock Splits namely being released from the burdens of a fully reporting company, particularly the requirements of the Sarbanes-Oxley Act.

FAIRNESS OF THE STOCK SPLITS

No independent committee of the Board has reviewed the fairness of the Stock Splits. Although three out of four of the directors own Common Shares, the 1-for-2000 reverse split ratio and the 2000-for-1 forward split ratio were determined without regard to their share ownership. As this was the sole potential conflict of interest and the directors will be treated identically to all other shareholders in the Stock Splits, the Board did not feel that the additional protections that may be afforded by an independent committee would be significant.

The Split ratio was determined because after review of the shareholder's list the Company determined that it was a high probability that the Company would have less than 300 shareholders. After a 1 for 2000 reverse stock split the Stock Transfer list showed the Company to have less than 100 shareholders of record if no shareholders with less than 2000 shares acquired additional shares to remain a shareholder prior to the split.

No unaffiliated representative acting solely on behalf of the shareholders for the purpose of negotiating the terms of the transaction proposal or preparing a report covering the fairness of the Stock Splits was retained by the Company or by a majority of directors who are not employees of the Company. The Board views the Valuation Opinion, and the other matters discussed in this Proxy Statement as affording adequate procedural safeguards to unaffiliated shareholders without the extraordinary expense of multiple financial or legal advisors.

The Company has not made any provision in connection with the Stock Splits to grant unaffiliated shareholders access to the Company's corporate files or to obtain counsel or appraisal services at the Company's expense. With respect to unaffiliated shareholders' access to the Company's corporate files, the Board determined that this Proxy Statement, together with the Company's other filings with the SEC, provide adequate information for unaffiliated shareholders with respect to the Stock Splits. The Board also considered the fact that under Utah law, subject to certain conditions, shareholders have the right to review the Company's relevant books and records.

The Board did not consider the steps discussed above necessary to ensure the fairness of the Stock Splits. The Board determined that such steps would be costly and would not provide any meaningful additional benefits. The Board noted the fact that the financial advisor engaged by the Company considered and rendered its opinion as to the fairness of the consideration payable in the Stock Splits, from a financial point of view, to the Company's shareholders.

The Board believes that the transaction is substantively and procedurally fair to affiliated and unaffiliated shareholders, notwithstanding the absence of an unaffiliated shareholder approval requirement, independent committee or unaffiliated representative. After consideration of all aspects of the proposed

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transaction as described above, all of the directors, including the director who is not an employee of the Company, approved the Stock Splits.

The Board also believed the Stock Splits to be fair to unaffiliated shareholders that are cashed out because they would be paid a price higher than Gate-Way determined the fair market value of the Company's stock on a per share price. Unaffiliated shareholders that are not cashed out would be treated the same as affiliated shareholders and remain shareholders of the Company on an ongoing basis. Unaffiliated shareholders would also have the ability to sell their stock if they no longer chose to be a shareholder of the Company prior to the Stock Splits taking effect.

The Board considered the factors in support of and in opposition to the Stock Splits discussed below in reaching its conclusion as to the substantive fairness of the Stock Splits. The Board did not assign specific weight to the following factors but did place emphasis on the opportunity for unaffiliated holders of Common Shares who will have fractional shares exchanged for cash to sell such Common Shares at a premium and without brokerage fees or commissions, as well as the significant cost and time savings the Company is expected to realize from deregistration of the Common Shares.

ADVANTAGES OF THE STOCK SPLITS

Opportunity for Shareholders to Sell Repurchased Common Shares at a Premium and Without Broker Fees or Commissions. The Repurchase Price of \$1.50 per Common Share represents (i) a premium based on Gate-Way's opinion of the share price before dilution of about 40% and after dilution of 45%. The price offered by the Company is also a premium of 3.45% over the average closing price of the Common Shares on May 2, 2005 of a \$1.45 (the date the Board approved the Stock Splits). The Board reviewed the proposal made by the Company's management that a \$1.50 per share be established as the Repurchase Price for the Common Shares. The Board, in the exercise of its business judgment, adopted such recommendation since the Repurchase Price for the Common Shares represented fair consideration at a premium to the current price of the Common Shares while also being a significant premium to the valuation analysis of Gate-Way. The Board believes that the Repurchase Price is fair to the Company's shareholders. The Board determined that the Stock Splits are fair in part because they provide Cashed Out Holders with an opportunity to liquidate all of their Common Shares, and for Continuing Holders to liquidate some Common Shares, without paying brokerage commissions or other transaction fees.

While performing its analysis for the Valuation Opinion, Gate-Way Capital selected the valuation analyses it deemed most relevant based on its knowledge of the Company and the Company's expressed intent to continue as an operating entity and not liquidate. Please see the section entitled "Opinion of Gate-Way" for a discussion of these analyses.

The Board did not deem the Company's liquidation value material or relevant in the context of the Stock Splits. The Board did not calculate the Company's liquidation value, on a per share basis or otherwise. Although not calculated by the Board, the liquidation value of the Company would likely reflect an arbitrarily low valuation, and thus using liquidation value to help set the Repurchase Price would have supported a price lower than the price the Board believed would be appropriate in light of its desire to ensure that shareholders who receive cash in lieu of fractional shares receive a fair price for their Common Shares that are exchanged for cash in connection with the Stock Splits.

The Board believes that the Company's net book value per share does not properly

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reflect the Company's earnings stream and cash flow, two factors it considers critical for a meaningful valuation of the Common Shares. Net book value is based upon the historical cost of a company's assets and ignores the value of a company as a going concern. The value of items such as a positive business reputation, a trained workforce and established customers are ignored in computing net book value. The Board believes that the proper valuation of the Company should be based on the Company's historical and prospective operating performance and Gate-Way's analysis was based upon this premise. The Company's book value per Common Share based on its 10QSB filed for the period ending March 31, 2005 was \$.53. The Board believes that the valuation of the Common Shares, as determined by Gate-Way, as well as the market price of the Common Shares on May 2, 2005 (\$1.45 per share), are significantly greater than the book value per Common Share.

Significant Cost and Time Savings for the Company. By deregistering the Common Shares and suspending the Company's periodic reporting obligations under the Exchange Act, the Company expects to realize recurring annual cost savings of approximately \$250,000 that it would have to expend in the future primarily for Section 404, the internal controls audit of the Sarbanes-Oxley Act. In addition, the Company expects to realize non-recurring savings of approximately \$75,000 in fees and expenses that would otherwise incur due to compliance with the internal controls audit requirements of Section 404 of the Sarbanes-Oxley Act. The termination of the Company's reporting obligations under the Exchange Act will also eliminate the significant amount of time and effort previously required of management to prepare and review the reports required to be filed under the Exchange Act. Please see the section entitled "Reasons for the Stock Splits" for a more detailed discussion of these cost savings.

Equal Treatment of Affiliated and Unaffiliated Holders of Common Shares. The Stock Splits will not impact affiliated holders of Common Shares differently than unaffiliated holders of Common Shares on the basis of affiliate status. The sole determining factor as to whether a holder of Common Shares will remain a shareholder of the Company and how many Common Shares will be repurchased by the Company in lieu of issuing fractional shares as a result of the Stock Splits is the number of Common Shares held by such holder immediately prior to the Stock Splits. Please see the section entitled "Stock Splits Proposal - Summary and Structure" for a more detailed discussion.

Minimum Effect on Voting Power. The Stock Splits will have minimum effect on the voting power of the Company's shareholders. The Common Shares are the Company's only voting shares and will continue to be the Company's only voting shares after the Stock Splits. The voting and other rights currently held by the Common Shares will not be affected by the Stock Splits. The only effect of the Stock Splits on the Company's voting power will be a change in the overall percentage of ownership of the Continuing Holders.

No Material Change in Percentage Ownership of Executive Officers and Directors. Since only an estimated 400,000 out of 7,910,727 outstanding Common Shares will be eliminated as a result of the Stock Splits, the percentage ownership of the Continuing Holders will be approximately the same as it was prior to the Stock Splits. For example, the executive officers and directors of the Company beneficially own approximately 28.58% of the outstanding Common Shares, and will beneficially own approximately 30.02% of the outstanding Common Shares following completion of the Stock Splits. All of the directors and executive officers that own stock currently have over 2000 shares and will remain shareholders of the Company after completion of the Stock Splits. Please see the section entitled "Security Ownership of Certain Beneficial Owners and Management."

Potential Ability to Control Decision to Remain a Holder of or Liquidate Common

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Shares. Another factor considered by the Board in determining the fairness of the Stock Splits to the holders of the Common Shares is that current holders of fewer than 2000 Common Shares can seek to remain shareholders of the Company following the Stock Splits by acquiring additional shares so that they own at least 2000 Common Shares immediately before the Stock Splits. However, if enough small shareholders decided to acquire shares to remain shareholders of the Company, the Company would not be able to file a Form 15 and deregister. The Company believes the likelihood of this happening is very remote and decided that the opportunity to deregister the Company far outweighed any remote possibility that the Company would have more than 300 shareholders after the Stock Splits. Conversely, stockholders that own 2000 or more Common Shares who desire to liquidate their shares in connection with the Stock Splits at the premium price offered can seek to reduce their holdings to less than 2000 Common Shares by selling shares prior to the Stock Splits. The Board did not place undue emphasis on this factor due to the limited trading market for the Common Shares. Please see the section entitled "Effects of the Stock Splits."

DISADVANTAGES OF THE STOCK SPLITS

Substantial or Complete Reduction of the Market for Common Shares. After the completion of the Stock Splits and deregistration of the Common Shares, the Company anticipates that the public market for the Common Shares will be substantially reduced or altogether eliminated. The Board, however, considered that potential trades in the Common Shares could be facilitated by a market maker in the Pink Sheets(R) following deregistration. Please see the section entitled "Effects of the Stock Splits".

Termination of Publicly Available Information About the Company. Upon termination of the registration of the Common Shares under the Exchange Act, the Company's duty to file periodic reports with the SEC will be suspended. Information regarding the Company's operations and financial results that is currently available to the general public and the investors will not be readily available after deregistration, and investors seeking information about the Company will have to contact the Company directly to receive such information. The Company may or may not provide investors with requested information that the Company is not required by law to provide. The Stock Splits will not affect the right of Continuing Holders to obtain certain information from the Company under Utah law. Under Utah law, a shareholder has the right to make a written request to inspect a company's books and records (including, without limitation, annual financial statements) and receive copies thereof for any purpose reasonably related to such person's interest as a shareholder.

While the Board realizes and acknowledges that the termination of publicly available information may be disadvantageous to the Company shareholders, the Board believes that the overall benefits to the Company of no longer being a public reporting company substantially outweigh the disadvantages associated with a lack of publicly available information about the Company. The Company currently intends to continue to provide annual audited financial statements and Proxy Statements to the Company's shareholders; however, these documents may not be as detailed or extensive as the information currently being filed with the SEC. Although the Company intends to continue to provide these documents, there is no SEC requirement that the Company does so or that it maintains the present level of disclosure contained in such documents. Please see the section entitled "Effects of the Stock Splits."

Possible Decline in Price of the Common Shares. After the completion of the Stock Splits, the liquidity of the Common Shares will be significantly reduced or eliminated. In addition, the lack of publicly available financial and other information about the Company and the diminished opportunity for the Company's

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shareholders to monitor the management of the Company due to the lack of such public information may cause the Continuing Holders to experience a decrease in the price at which they may sell their Common Shares. Please see "Disadvantages of the Stock Splits -Substantial or Complete Reduction of Public Sale Opportunities" and "Disadvantages of the Stock Splits - Termination of Publicly Available Information about the Company" above.

Inability to Participate in Future Increases in Value of the Common Shares or Payments of Dividends. Following the Stock Splits, Cashed Out Holders will have no further financial interest in the Company and will not have the opportunity to participate in the potential appreciation in the value of, or the payment of dividends on, the Common Shares.

OTHER FACTORS

The Board concluded the factors set forth below to be either inapplicable or not material to its assessment of the fairness of the Stock Splits.

Firm Offers. The Company is not aware of any firm offers to purchase the Company that have been made during the past two calendar years or during the current calendar year.

Prior Public Offerings. The Company has not made any underwritten public offering of the Common Shares or any other securities since its initial public offering in 1981.

Merger, Consolidation or Other Extraordinary Transaction. The Company is not engaged in a merger or consolidation with another company or in any other extraordinary transaction, such as the sale or other transfer of all, or a substantial part, of the Company's assets, during the past two calendar years or during the current calendar year.

Securities Purchases. There have not been any purchases of the Company's Common Shares that would enable the holder to exercise control of the Company.

Liquidation Value. The Company's liquidation value was not deemed relevant because the Company plans to continue to operate as a going concern following the Stock Splits.

CONCLUSION

The Board believes that all of the factors mentioned above, both favorable and unfavorable, when viewed together support a conclusion that the Stock Splits are substantively fair to the Company's shareholders, including the Cashed Out Holders and Continuing Holders.

OPINION OF GATE-WAY

The Board retained Gate-Way to provide an opinion on the value of the Company's common shares ("Valuation Opinion"). On April 30, 2005, Gate-Way delivered the Valuation Opinion to the Board. The Valuation Opinion states that, based upon and subject to the factors and assumptions set forth therein, the Repurchase Price to be paid to Cashed Out Holders pursuant to the Stock Splits is fair from a financial point of view as of April 30, 2005 since it is a premium of what Gate-Way considers the stock's valuation to be by 40-45%. Gate-Way also presented to the Board a summary of the analyses described below which is attached to this Proxy Statement as Exhibit A.

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The Valuation Opinion was prepared for use by the Board and was from a financial point of view, Gate-Way's opinion of the value of the Company. By determining the value of the Company, the Company's common shares could then be extrapolated based on the number issued and outstanding shares of the Company. Gate-Way was not involved in structuring the Stock Splits and its opinion does not compare the relative merits of the Stock Splits with those of any other transaction or business strategy which were or might have been available to or considered by the Company or the Board as alternatives to the Stock Splits and does not address the underlying business decision by the Board to proceed with or effect the Stock Splits. The Valuation Opinion is solely for the information of the valuation of the Company and was specifically addressed to the Board for its determination of a fair price of the Company's common stock for the reverse stock split. The information used by Gate-Way for making its determination was in large part provided by the Company and Gate-Way takes no responsibility for the underlying data presented in its report. The Valuation Opinion does not constitute a recommendation to the Board as to how it should vote on the Stock Splits. In furnishing the Valuation Opinion, Gate-Way did not admit that it is an expert within the meaning of the term "expert" as used in the Securities Act of 1933 nor did it admit that its opinion serves as a report or valuation within the meaning of the Securities Act. Gate-Way has valued other natural resource businesses in the past, but does not purport to be a guarantor of value.

The full text of the Valuation Opinion is attached as Exhibit B to the Proxy Statement that is filed with the SEC and is incorporated herein by reference. You may view the full text of the Valuation Opinion by typing in Pioneer Oil in the search engine after accessing the SEC's edgar site at <http://www.sec.gov/edgar/searchedgar/companysearch.html>. Once you have reached the filings for the Company enter the Proxy Statement and then access Exhibit B filed with the Proxy Statement. The summary of the Valuation Opinion set forth in this Proxy Statement and the summary attached to hereto as Exhibit A is qualified in its entirety by reference to the full text of the Valuation Opinion. Shareholders are urged to read the Valuation Opinion carefully and in its entirety for a discussion of the procedures followed, assumptions made, other matters considered and limits of the review by Gate-Way in connection with the Valuation Opinion.

The Board selected Gate-Way as its financial advisor because it is a recognized financial institution consulting firm that has substantial experience in the financial institutions industry and is knowledgeable and familiar with the operations of the Company and its business. As part of its business, Gate-Way is regularly engaged in the valuation of businesses and securities in connection with mergers, acquisitions, underwritings, sales and distributions of listed and unlisted securities, private placements and valuation for corporate and other purposes, particularly those of mineral companies.

In rendering the Valuation Opinion, Gate-Way reviewed the terms of the Stock Splits and also reviewed financial and other information that was publicly available, or furnished to Gate-Way by the Company's management. No projections or forecasts were furnished or provided to Gate-Way. The Company did provide Gate-Way with information related to its Central Utah acreage prospect. Gate-Way also reviewed certain publicly available operational, financial and stock market data relating to selected public companies and conducted other financial studies, analyses and investigations as Gate-Way deemed necessary or appropriate for purposes of rendering the Valuation Opinion, as more fully set forth therein. No limitations were imposed by the Board of the Company upon Gate-Way with respect to the investigations made or procedures followed by it in rendering its opinion.

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Gate-Way assumed and relied upon, without independent verification, the accuracy and completeness of all financial and other information that was publicly available, supplied or otherwise communicated to it by or on behalf of the Company. Gate-Way further relied upon the assurances of the Company's management that they are unaware of any facts that would make the information provided to it incomplete or misleading.

Gate-Way was not requested to make, and did not make, an independent evaluation or appraisal of the assets, properties, facilities or liabilities (contingent or otherwise) of the Company, and was not furnished with any such appraisals or evaluations other than the reserve study furnished in the Company's Form 10KSB filed for the period ending 9/30/2004. Gate-Way's opinion is necessarily based upon financial, economic, market and other conditions and circumstances existing and disclosed to Gate-Way on the date of the Valuation Opinion. Subsequent developments may affect the conclusions reached in the Valuation Opinion and Gate-Way has no obligation to update, revise or reaffirm the Valuation Opinion.

All of the factors and assumptions which were used by Gate-Way are disclosed in their full report. Some of the most important were the three valuation methods used which were the Asset Based approach, Market approach and Income approach. These are the valuations methods approved by the IRS and are standard industry practice and are consistent with Internal Revenue Ruling 59-60.

The fair market value determined by Gate-Way was based primarily on the historical income of the Company, the historical market for the Company's stock, the value of the Company as a going concern, and various risk factors such as no replacement people for key personnel and the wide swings in oil prices over the last four years. The value of the Company's central Utah project was an important factor in valuation and the Company made it clear to Gate-Way that the sale of these properties is an unusual event and it is unlikely that the Company will find a similarly profitable leasing opportunity in the foreseeable future.

In preparing the Valuation Opinion, Gate-Way conducted the following two principal analyses: (i) a comparison of the Company with certain publicly traded companies deemed comparable to the Company, and (ii) a review of the Company's historical earnings and financial statements and a projection of future earnings using an appropriate Cost-of -Capital.

No company used in any analysis as a comparison is identical to the Company, and they all differ in various ways. As a result, Gate-Way applied its experience and professional judgment in making such analyses. Accordingly, an analysis of the results is not mathematical; rather it involves complex considerations and judgments concerning differences in financial characteristics, performance characteristics and trading value of the comparable companies to which the Company is being compared. The preparation of a valuation opinion is a complex process and is not necessarily susceptible to partial analyses or summary description. In arriving at the Valuation Opinion, Gate-Way considered the results of all of its analyses as a whole and weighted the market approach 60% and the income approach 40%. Gate-Way believes that the summary provided and the analyses described above must be considered as a whole and that selecting portions of these analyses, without considering all of them, would create an incomplete view of the process underlying its analyses and opinion.

The following is a summary of the material financial analyses performed by Gate-Way in connection with the preparation of the Valuation Opinion. These summaries of financial analyses alone do not constitute a complete description of the financial analyses Gate-Way employed in reaching its conclusions. The order of analyses described does not represent relative importance or weight given to those analyses by Gate-Way. Except as otherwise noted, the following

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quantitative information, to the extent that it is based on market data, is based on market data as it existed on or before April 30, 2005 and is not necessarily indicative of current market conditions.

PUBLIC COMPARABLES ANALYSIS/MARKET APPROACH

In rendering its opinion, Gate-Way analyzed the pricing ratios of certain comparable oil and gas companies that had sold at a certain price. The analysis included a comparison of such key financial ratios as return on assets, return on investment and P.E. ratio before extraordinary items and such key pricing ratios as current ratio, and earnings before interest, depreciation and amortization. Gate-Way reviewed and compared selected financial and stock market information, ratios and multiples of the Company to corresponding financial and stock market information, ratios and multiples for a group of nine selected publicly-traded oil and gas companies as set forth in the full text of the Valuation Opinion attached as Exhibit B filed with the SEC.

Gate-Way considered the comparable group comparison of the Market Approach and analysis as the most appropriate basis for determining the price for the repurchase of the Company's stock and weighted 60% of the price using this method. Gate-Way stated that the weight given to the Market and Income approach was based on the professional judgment and experience of its analyst and not because of some system of prescribed formulas. The reason for giving a greater allocation toward the Market approach over the Income approach was not disclosed by the analyst other than the asset approach relies on the selection of truly comparable companies in the same industry which is challenging since few companies have the same financial structure, cost structure, organization, operational processes, product mixes, markets, etc. However, the approach does provide valuable perspective about the market.

The Market Approach uses comparable companies in the same industry as defined by a company's SIC or NAICS codes. Comparable data is extracted from public markets and from various data bases containing historical information for stock shares, earnings per share, equity price to annual sales, equity price to annual sales, and equity price to annual sales or assets, etc. The challenge with this method is locating and selecting appropriate similar or comparable companies. Two methods have been approved for the Market Approach namely the Guideline Publicly Traded Company Method and the Comparative Transaction Method. The Guideline Publicly Traded Company Method ("GTPCM") incorporates a best fit analysis and encompasses the concept of selecting those companies that are deemed most comparable or similar to the Company. Publicly held companies were used for the comparable analysis since closely-held companies have different foundations, both financially and organizationally, from those of most public companies. Gate-Way took information from 193 companies identified in SIC 1311 the same industrial code as Pioneer Oil and Gas and compared the same with Pioneer Oil and Gas. Several of the 193 companies in the sample were deleted for various reasons by Gate-Way with the Companies most close to the Company placed in the following table that was in Gate-Way's report:

Table: ADJUSTED COMPARISON SUMMARY WITH OTHER PUBLICLY TRADED COMPANIES
SIC 1311
Pioneer Oil and Gas
April 30, 2005

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DESCRIPTION	BETA	STOCK PRICE/ SALES/ SHARE	PE RATIO BEFORE XTR ITEMS	STOCK PRICE / CASH FLOW	DIV YIELD	PAY OUT RATIO	CUR RATIO
Pioneer Oil and Gas	-1.03	1.53	16.09	9.25	0.00	0.00	5.05
Total SIC 1311 Sample							
MEAN	0.49	2.51	15.87	6.36	0.61	1.23	1.36
MEDIAN	0.565	2.36	13.68	5.875	0.62	0	1
MAXIMUM	1.92	5.08	40.00	13.00	1.09	8.12	5.05
MINIMUM	-1.13	0.03	2.95	0.24	0.14	0.00	0.05
RANGE	3.05	5.05	37.05	12.76	0.95	8.12	5
STDEV	0.545	1.02	7.58	2.43	0.29	2.45	1.02
COEFVAR	1.105	0.41	0.48	0.38	0.48	2.00	0.75
COUNTA	64	64	64	64	17	66	66

Source: C-E-I-R 10,000 - Data extracted as of 31 December 2004.

The next table below presents Gate-Way's results of Valuations using the Ratios from the table above:

Table: SUMMARY OF VALUATION RESULTS
C-E-I-R 10,000 Data
Pioneer Oil and Gas

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April 30, 2005

DESCRIPTION	PER SHARE	CURRENTSHARES	MEAN	MEDIAN	HIGH	LOW
Stock Price to Sales	0.199	7,911,727	2.51	2.36	5.08	0.0
Ratios			.499	.47	1.011	0.0
Valuation			3,947,950	3,715,700	7,998,100	4,000,000
Price/Earnings	0.041	7,911,727	15.87	13.68	40.00	2.0
Ratios			.646	.557	1.629	0.1
Valuation			5,111,000	4,406,800	12,888,200	94,000,000
Price/Cash Flow	0.055	7,911,727	6.36	5.875	13.00	0.0
Ratios			0.35	0.323	0.715	0.0
Valuation			2,769,100	2,555,500	5,656,900	10,000,000
MEANS			3,942,700	3,559,300	8,847,700	36,000,000

Gate-Way gave careful consideration to the results of the analysis presented in the Table above. Gate-Way stated in its report that "A comparison between the Company and 'similar' companies in the same industry shows the Company to be above average performance wise." Therefore, Gate-Way concluded that an appropriate value should lie somewhere between the Mean/Median and the High. An average of those three values was used to derive the Grand Means, and by comparison Gate-Way selected the two highest values which were then averaged resulting in the selected value for this method. The derived values range from a low of \$366,500 to a high of \$8,847,700. The selected value using this method was the mean between the three highest valuations or \$7,179,000.

The Comparative Transaction Method compares selected ratios from the actual sales of other companies in the same industry. Data to support this method is generally found in a variety of databases which contain key information about similar companies recently sold. That data is adjusted, and selected financial ratios are derived from which values can be calculated using the subject Company's financial data. The challenge using this method is the identification

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of truly similar companies for the comparison, since it is rare to find two or more companies that have the exact same management, product, marketing, and financial structure, etc. Comparative data was extracted from DoneDeals for the Gate-Way opinion. The table below summarizes the nine transactions involving companies used for comparing with Pioneer Oil and Gas. Of the nine transactions, seven were sold by Private Companies and two by Public companies. Seven of the nine sellers were U.S. companies, and two were Canadian companies. A summary of the Sellers Description and the Terms of the sale are presented below:

Table: SUMMARY OF COMPARATIVE TRANSACTIONS - SIC 1311
DoneDeals Database
Pioneer Oil and Gas
April 30, 2005

BUYER'S CITY	PRIMARY SELLER (STATE)	SALE TYPE	BUS TYPE
Delray Beach, FL	Graham Energy (NV)	Stock	Private
Calgary, Alberta, Canada	Assure Oil and Gas Corp. (CANADA)	Stock	Private
New Orleans, LA	Hail-Houston Oil Company (TX)	Stock	Private
Calgary, Alberta, Canada	Westerra 2000 Inc. (ALBERTA)	Stock	Private
Benedict, KS	STP Cherokee, Inc. (OK)	Stock	Private
Denver, CO	Bravo Natural Resources, Inc. (OK)	Stock	Private
Houston, TX	EEX Corporation (TX)	Stock	Public
Denver, CO	Matador Petroleum Corp (TX)	Stock	Public
Oklahoma City, OK	Perkins Oil Enterprises, Inc. (KS)	Stock	Private

The Gate-Way opinion then summarized the sales transactions of the nine companies and identified valuation ratios for comparative purposes under the following tables:

Table: SUMMARY OF EQUITY PRICES, REVENUES AND VALUATION RATIOS
DoneDeals Database
Pioneer Oil and Gas
April 30, 2005

PRIMARY SELLER	EQUITY PRICE	REVENUE	EQUITY PRICE REVENUE	EBITDA	EQUITY PRICE EBITDA
Graham Energy	10,800,000	96,000	113	39,990	270
Assure Oil and Gas	2,100,000	39,000	54	(90,000)	-23
Hail-Houston Oil	94,600,000	36,000,000	3	(427,000)	-222
Westerra 2000	2,288,700	600,000	4	275,000	8
STP Cherokee	6,110,000	1,800,000	3	81,900	75
Bravo Natural Resources	119,000,000	17,466,670	7	12,266,670	10
EEX Corporation	742,900,000	151,733,337	5		
Matador Petroleum	407,700,000	59,900,000	7	40,100,000	10

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Perkins Oil Enterprises	3,040,000	5,520,000	1	506,400	6
MEAN	154,282,078	30,350,556	22	6,594,120	17
MEDIAN	10,800,000	5,520,000	5	178,450	9
MAXIMUM	742,900,000	151,733,337	113	40,100,000	270
MINIMUM	2,100,000	39,000	1	(427,000)	(222)
RANGE	740,800,000	151,694,337	112	40,527,000	492
STDEV	256,704,131	49,944,688	38	14,198,353	134
COEFVAR	1.66	1.65	1.75	2.15	8.02
SAMPSIZE	9	9	9	9	8

Table: ADJUSTED SUMMARY OF EQUITY PRICES, REVENUES AND VALUATION RATIOS
DoneDeals Database
Pioneer Oil and Gas
April 30, 2005

PRIMARY SELLER	EQUITY PRICE	REVENUE	EQUITY PRICE REVENUE	EBITDA	EQUITY PRICE EBITDA
Hail-Houston Oil	94,600,000	36,000,000	3	(427,000)	(222)
Westerra 2000	2,288,700	600,000	4	275,000	8
STP Cherokee	6,110,000	1,800,000	3	81,900	75
Bravo Natural REsources	119,000,000	17,466,670	7	12,266,670	10
EEX Corporation	742,900,000	151,733,337	5		
Matador Petroleum	407,700,000	59,900,000	7	40,100,000	10
Perkins Oil Enterprises	3,040,000	5,520,000	1	506,400	6
MEAN	196,519,814	39,002,858	4	8,800,495	(19)
MEDIAN	94,600,000	17,466,670	4	390,700	9
MAXIMUM	742,900,000	151,733,337	7	40,100,000	75
MINIMUM	2,288,700	600,000	1	(427,000)	(222)
RANGE	740,611,300	151,133,337	6	40,527,000	296
STDEV	280,161,088	54,156,578	2	16,089,189	103
COEFVAR	1.43	1.39	0.55	1.83	-5.47
SAMPSIZE	7	7	7	6	6

Table: SUMMARY OF COMPARATIVE TRANSACTIONS VALUATIONS
Pioneer Oil and Gas
April 30, 2005

DESCRIPTION	* REVENUE	* EBITDA	* NE
MEAN	\$1,590,900.00	\$404,300.00	\$2
MEDIAN	\$6,363,600.00	\$8,894,600.00	\$9,2
MAXIMUM	\$11,136,300.00	\$4,043,000.00	\$9,5
MINIMUM	\$1,590,900.00	\$30,322,500.00	\$11,9
MEAN	\$6,363,600.00	\$2,425,800.00	\$5,3
		\$11,421,475.00	\$9,0

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GRAND MEAN

\$8,931,175.00

\$8,931,175.00

\$8,9

* = Valuation Ratio used for calculation

Gate-Way's results using the Comparative Transactions Method was \$8,931,200. The Table presented below considers the valuations selected from each Market Approach Method, and derives a single value for the Market Approach.

Table: OPINION OF VALUE FOR MARKET APPROACH
Pioneer Oil and Gas
April 30, 2005

Publicly Traded Companies	\$7,179,000
Comparative Transaction Companies	\$8,931,200
OPINION OF VALUE - MARKET APPROACH	\$8,055,100

INCOME APPROACH

The Income Approach is a discounted earnings method used to calculate the present value of a Company's future earnings potential. The earnings are derived using statistical projection models of the Company's adjusted historical Income Statements. Gate-Way in its opinion stated that this method is highly regarded by the Valuation community as an excellent method for deriving the Sales or Equity Price of an on-going business. It permits the use of various definitions of earnings including Net Earnings, Earnings Before Taxes, and Net Cash Flow. The determination of value then is based on the present value of a stream of benefits, or earnings, into the future, plus a Terminal Value that represents the Company's residual value into the future at the end of the earnings stream. The strengths of this method are that it considers the Company's operational processes and profits based on historical experience. Its major weakness though is that it relies on the selection of an appropriate Cost of Capital expressed as Discount and Capitalization rates, on an appropriately selected long-term growth rate, and on accurate projections of earnings throughout the analysis period. Hence, variances from those selections and actual rates and earnings will result in differences between derived and actual values, and those differences may be material.

Using this method, Gate-Way determined Pioneer Oil and Gas to have a long term sustainable growth after taxes of 6.0%. With the exception of 2005, Revenues were derived from five-year historical information (2000-2004). Expenses were determined using a ratio of revenues to expenses over the same period. General and Administrative expenses for fiscal year 2005 were set as the same as fiscal year 2004, and then were inflated at 2.0% per year for the next five years. The resulting Net Income derived by Gate-Way was used in the Discounted Future Earnings model presented in the Table below.

For their report, Gate-Way considered 2005 as the base year. Financial results were available for the first half of the year, and an estimate was made for the second half. Also, unusual income from the sale of acreage from the Central Utah Overthrust was included into the 2005 results. Projected Revenues and Expenses for the subsequent five years were made as described above, and the present value of that earnings stream was calculated using the long term sustainable growth number of 6.0%.

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Table: PROJECTED FUTURE EARNINGS SUMMARY
Pioneer Oil and Gas
April 30, 2005

REVENUES (\$s)		2005	2006	2007	
Oil and gas sales	0.56	955,000	1,694,280	2,237,424	2,8
Royalty revenue	0.30	850,000	907,650	1,198,620	1,5
Production Operations (OGRR)		1,805,000	2,601,930	3,436,044	4,4
Operational reimbursements	0.00	0	0	0	
Project/lease sales income	0.14	5,860,263	423,570	559,356	7
TOTAL REVENUES	1.00	7,665,263	3,025,500	3,995,400	5,1
EXPENSES					
Cost of Operations f(OGRR)	0.44	794,899	1,145,857	1,513,190	1,9
General & Admin *	0.02	346,970	353,909	360,988	3
Exploration Costs f(OGRR)	0.13	238,525	343,837	454,062	5
Lease rentals	0.20	55,000	83,154	109,811	1
Total Expenses		1,435,394	1,926,757	2,438,051	3,0
EBITDA		6,229,869	1,098,743	1,557,349	2,0
Depre., Deple, Amort. f(OGRR)	0.08	623,184	245,973	324,825	4
TOTAL OPERATING EXP		2,058,578	2,172,729	2,762,876	3,4
EBIT (OPERATING PROFIT)		5,606,684	852,771	1,232,524	1,6
Other Income (Expenses)					
Interest Income	0.01	76,653	30,255	39,954	
Interest Expenses	(0.01)	(76,653)	(30,255)	(39,954)	(
Other Income (Expenses)	0.01	76,653	30,255	39,954	
Total Other Income		76,653	30,255	39,954	
Earnings Before Taxes		5,683,337	883,026	1,272,478	1,7
Estimated Federal Taxes (1)		1,932,334	300,229	432,643	5
Estimated Utah Corporate Taxes (2)		187,550	29,140	41,992	
NET INCOME		3,563,452	553,657	797,844	1,0

(1) 2004 Corporate Income Tax Rates for 'C' Corporations - Does not consider dividends or other deductions.

34% Tax bracket	0.34	113,900	113,900	113,900	1
Plus 34% of earnings over 335,000		1,818,434	186,329	318,743	4
Total estimated Federal Tax		1,932,334	300,229	432,643	5
(2) 2005 Utah Flat Corporate Tax rate - 5%					
5% Flat Corporate Tax Rate	0.05	187,550	29,140	41,992	
Total Estimated Taxes		2,119,885	329,369	474,634	6

Table: PRESENT VALUE OF DISCOUNTED FUTURE EARNINGS

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Pioneer Oil and Gas
April 30, 2005

DESCRIPTION	VALUES	Projected 30-Apr-05	Projected 2006	Projected 2007	Projected 2008	Projected 2008
Net Income (\$s)		3,563,452	553,657	797,844	1,085,545	1,085,545
		0	1	2	3	3
Discount Factor		1.000000	0.795482	0.632791	0.503374	0.503374
PV of Discounted Earnings	6,193,137.00	3,563,452	440,424	504,868	546,435	546,435
 Terminal Value	 1,791,516.00	 <=The 11th year of operations, or 5th complete years past the Valuation Date.				
Capitalization of Terminal Value	9,089,376.00	<=Result from dividing by the After -tax Capitalization Rate shown below.				
PV of Capitalized	2,895,242.00					