

# Central Natural Resources, Inc.

2016 ANNUAL REPORT

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**For The Year Ended December 31, 2016**

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1044 Main Street, Suite 502 • Kansas City, Missouri 64105  
816/842-2430 • [www.centralholdings.com](http://www.centralholdings.com)

Dear Shareholder,

The commodity price drop that began in 2015, continued into 2016 before prices finally began to experience a recovery mid-way through the year. The entire industry was impacted by average oil and gas prices for 2016 that were significantly below the prior year's already low averages. Due to low commodity prices and a decline in Central's oil and gas production, in 2016 Central's operating revenue dropped to \$768,495 and the Company experienced a net loss of \$846,932.

In 2016 Central continued the cost reduction efforts begun in 2015, lowering corporate overhead substantially. Accounting, legal and insurance costs have all been reviewed and lowered where possible. Additionally, in 2016 the Board of Directors suspended board fees and no corporate cash bonuses or equity grants were made. We continue to examine and continue to consider any and all warranted expense reductions and remain debt free.

In 2016, the industry experienced average oil prices lower than the prior year (oil averaged \$43.15 a barrel in 2016 versus \$48.67 a barrel in 2015<sup>1</sup>). Natural gas prices averaged \$2.46 in 2016 versus the prior year's average of \$2.66 although differentials improved across Central's properties, resulting in slightly higher realized prices for the Company's gas production<sup>2</sup>. Most of Central's production has a high BTU value and natural gas liquids accounted for over 10% of revenue for the year with a slight improvement in price in 2016 over 2015 levels.

The charts below show breakdowns of the Company's production volumes, average prices realized and impact on working interest revenue in each of 2016 and 2015.

<b>2016</b>	<b>Oil<sup>3</sup></b>	<b>NGLs<sup>3</sup></b>	<b>Natural Gas</b>	<b>Total</b>
Volume (Mcf)	13,305	16,241	75,344	104,890
<i>% of total Volume</i>	<i>12.7%</i>	<i>15.5%</i>	<i>71.8%</i>	<i>100%</i>
Revenue / Mcf	\$5.92	\$2.22	\$2.39	\$2.81
Total Revenue	\$78,821	\$35,978	\$179,838	\$294,637
<i>% of total Revenue</i>	<i>26.8%</i>	<i>12.2%</i>	<i>61.0%</i>	<i>100%</i>

<sup>1</sup> Oil prices used are based on West Texas Intermediate (WTI) quotes.

<sup>2</sup> Natural Gas prices are based on NYMEX average monthly settlement prices.

<sup>3</sup> Oil and Natural Gas Liquids (NGLs) are expressed on the tables in Mcf equivalents.

<b>2015</b>	<b>Oil</b>	<b>NGLs</b>	<b>Natural Gas</b>	<b>Total</b>
Volume (Mcf)	13,804	22,212	84,113	120,129
<i>% of total Volume</i>	<i>11.5%</i>	<i>18.5%</i>	<i>70%</i>	<i>100%</i>
Revenue / Mcf	\$6.84	\$1.84	\$2.27	\$2.63
Total Revenue	\$94,481	\$40,826	\$190,698	\$326,005
<i>% of total Revenue</i>	<i>29%</i>	<i>12.5%</i>	<i>58.5%</i>	<i>100%</i>

## PROPERTIES / RESERVES

The following table presents the Company's estimated net proved natural gas reserves (unaudited) at December 31, 2016 based on reserve reports prepared by T.J. Smith & Company, Inc., an independent, third party reserve engineering firm using SEC pricing parameters (SEC pricing for 2016 was \$42.75 per Barrel WTI oil and \$2.49 per MMBtu Henry Hub).

As of Dec. 31, 2016	Proved Reserves		
	Developed	Undeveloped	Total
Natural Gas Reserves, MMcf equiv.	1,427	367	1,794

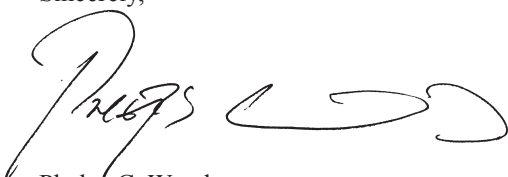
*Note: MMcf is defined as one thousand mcf, or one million cubic feet. MMcfe is defined as MMcf equivalents, which expresses oil and NGL volumes in their natural gas volume equivalents.*

(For a complete description of oil, gas, coal and surface properties, please see the Company's website at [www.centralholdings.com](http://www.centralholdings.com).)

## ACCOUNTING

Mayer Hoffman McCann (MHM) has been Central's auditing firm since 2015. Central has selected to use tax basis accounting, an Other Comprehensive Basis of Accounting, beginning with the year end 2015 audited financials. The conversion to tax basis accounting accomplished substantial savings in the cost of preparation and audit of the Company's financials. The financial statements we report to shareholders are identical to what the Company reports for tax purposes, allowing shareholders, and management, a clearer view of the actual cash receipts and outflows during the periods examined. The reduction in the time and cost to prepare the Company's statements allows management to complete the year-end audit more quickly, file its tax returns earlier and provide shareholders with substantial financial savings.

Sincerely,



Phelps C. Wood  
Chief Executive Officer

## FORWARD-LOOKING STATEMENTS

This report contains forward-looking statements that are based on current expectations, estimates, forecasts, and projections about the business segment in which the Company operates, Management's beliefs, and assumptions made by Management. These and other written or oral statements that constitute forward-looking statements may be made by or on behalf of the Company. These statements are not guarantees of future performance and involve assumptions and certain risks and uncertainties that are difficult to predict, such as future changes in energy prices, including fluctuations in prevailing prices for oil and gas, the Company's ability to participate in successful exploration or production of natural resources (such as oil, gas, coal and other minerals), results of drilling and other exploration and development activities, uncertainties regarding future political, economic, regulatory, fiscal, and tax policies and practices as well as assumptions concerning a relatively stable national economy, and the absence of a major disruption such as a domestic act of terrorism and the uncertainties of litigation in which the Company is involved from time-to-time in the ordinary course of its business operations. In addition, the Company relies on professional and management services provided by third parties in certain of its operating activities. Therefore, actual outcomes and results may differ materially from what is expressed, implied, or forecast in such forward-looking statements. The Company does not, by including this statement, assume any obligation to review or revise any particular forward-looking statement referenced herein in light of future events.



## INDEPENDENT AUDITORS' REPORT

To The Board of Directors

### CENTRAL NATURAL RESOURCES, INC. AND SUBSIDIARIES:

We have audited the accompanying consolidated financial statements of Central Natural Resources, Inc. and Subsidiaries, which comprise the consolidated balance sheets (income tax basis) as of December 31, 2016 and 2015, and the related consolidated statements of operations (income tax basis), stockholders' equity (income tax basis), and cash flows (income tax basis) for the years then ended, and the related notes to the consolidated financial statements.

#### *Management's Responsibility for the Consolidated Financial Statements*

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with the income tax basis of accounting described in Note 1; this includes determining that the income tax basis of accounting is an acceptable basis for the preparation of the consolidated financial statements in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal controls relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

#### *Auditors' Responsibility*

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### *Opinion*

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Central Natural Resources, Inc. and Subsidiaries as of December 31, 2016 and 2015, and the results of their operations and their cash flows for the years then ended in accordance with the income tax basis of accounting as described in Note 1.

#### *Basis of Accounting*

We draw attention to Note 1 of the consolidated financial statements, which describes the basis of accounting. The consolidated financial statements are prepared on the income tax basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America (U.S. GAAP). Our opinion is not modified with respect to this matter.

Kansas City, Missouri  
April 26, 2017



**CENTRAL NATURAL RESOURCES, INC. AND SUBSIDIARIES**

**Consolidated Balance Sheets  
(INCOME TAX BASIS)**

**December 31, 2016 and 2015**

	2016	2015
<b><u>ASSETS</u></b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents.....	\$ 1,234,230	\$ 1,657,201
Accounts receivable .....	122,498	100,231
Other receivable .....	38,202	—
Total current assets.....	1,394,930	1,757,432
<b>PROPERTY, PLANT AND EQUIPMENT</b>		
Oil and gas producing properties (successful efforts).....	10,325,409	10,325,409
Mineral interest properties .....	1,668,137	1,668,137
	11,993,546	11,993,546
Less: accumulated depletion and depreciation.....	(6,274,156)	(5,623,244)
Net property, plant, and equipment.....	5,719,390	6,370,302
<b>TOTAL ASSETS.....</b>	<b>\$ 7,114,320</b>	<b>\$ 8,127,734</b>
<b><u>LIABILITIES AND STOCKHOLDERS' EQUITY</u></b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable and accrued expenses.....	\$ 28,003	\$ 26,985
<b>STOCKHOLDERS' EQUITY</b>		
Preferred stock of \$1 par value, 100,000 shares authorized, no shares issued .....	—	—
Common stock, voting, par value of \$1 per share, 2,500,000 authorized, 523,545 and 519,295 shares issued as of December 31, 2016 and 2015, respectively, with 493,247 and 498,997 outstanding as of December 31, 2016 and 2015, respectively .....	523,545	519,295
Additional paid-in capital.....	2,471,001	2,475,251
Treasury stock, 30,298 and 20,298 common shares, at cost, at December 31, 2016 and 2015, respectively .....	(685,751)	(518,251)
Retained earnings.....	4,777,522	5,624,454
<b>TOTAL STOCKHOLDERS' EQUITY.....</b>	7,086,317	8,100,749
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY .....</b>	<b>\$ 7,114,320</b>	<b>\$ 8,127,734</b>

*See Notes to Consolidated Financial Statements*

**CENTRAL NATURAL RESOURCES, INC. AND SUBSIDIARIES**

**Consolidated Statement of Operations  
(INCOME TAX BASIS)**

**For the Years Ended December 31, 2016 and 2015**

	<u>2016</u>	<u>2015</u>
<b>OPERATING REVENUES</b>		
Mineral royalties .....	\$ 465,358	\$ 600,400
Oil and gas production .....	294,637	326,005
Land lease and rental .....	8,500	
<b>TOTAL REVENUES .....</b>	<u>768,495</u>	<u>926,405</u>
<b>OPERATING EXPENSES</b>		
Oil and gas operating expenses .....	225,886	273,904
Depreciation and depletion .....	650,912	1,028,633
Abandonment of wells .....	7,743	23,380
General and administrative expenses .....	733,098	1,192,764
<b>TOTAL OPERATING EXPENSES .....</b>	<u>1,617,639</u>	<u>2,518,681</u>
<b>OPERATING LOSS .....</b>	<u>(849,144)</u>	<u>(1,592,276)</u>
<b>NON-OPERATING INCOME (EXPENSE)</b>		
Interest expense .....	(48,211)	(55,716)
Interest income .....	50,343	48,188
Other .....	80	(117,014)
<b>TOTAL NON-OPERATING INCOME (EXPENSE) .....</b>	<u>2,212</u>	<u>(124,542)</u>
<b>LOSS BEFORE INCOME TAXES .....</b>	<u>(846,932)</u>	<u>(1,716,818)</u>
Income tax benefit .....	-	187,675
<b>NET LOSS .....</b>	<u>\$ (846,932)</u>	<u>\$ (1,529,143)</u>

*See Notes to Consolidated Financial Statements*

**CENTRAL NATURAL RESOURCES, INC. AND SUBSIDIARIES**

**Consolidated Statement of Stockholders' Equity  
(INCOME TAX BASIS)**

**For the Years Ended December 31, 2016 and 2015**

	<u>Common stock</u>	<u>Additional paid-in capital</u>	<u>Retained earnings</u>	<u>Treasury stock</u>	<u>Total stockholders' equity</u>
Balance January 1, 2015	\$ 515,445	\$ 2,479,101	\$ 7,153,597	\$ (397,244)	\$ 9,750,899
Net loss	-	-	(1,529,143)	-	(1,529,143)
Purchase of 4,950 common shares	-	-	-	(121,007)	(121,007)
Issuance of restricted stock units	3,850	(3,850)	-	-	-
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Balance December 31, 2015	\$ 519,295	\$ 2,475,251	\$ 5,624,454	\$ (518,251)	\$ 8,100,749
Net loss	-	-	(846,932)	-	(846,932)
Purchase of 10,000 common shares	-	-	-	(167,500)	(167,500)
Issuance of restricted stock units	4,250	(4,250)	-	-	-
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Balance December 31, 2016	\$ 523,545	\$ 2,471,001	\$ 4,777,522	\$ (685,751)	\$ 7,086,317
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

*See Notes to Consolidated Financial Statements*

**CENTRAL NATURAL RESOURCES, INC. AND SUBSIDIARIES**

**Consolidated Statement of Cash Flows  
(INCOME TAX BASIS)**

**Years Ended December 31, 2016 and 2015**

	<b>2016</b>	<b>2015</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net loss .....	\$ (846,932)	\$ (1,529,143)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and depletion .....	650,912	1,032,992
Abandonment of wells .....	7,743	-
Net change in operating assets and liabilities		
Accounts receivable .....	(22,267)	96,813
Other receivable .....	(45,945)	-
Current income taxes .....	-	142,880
Accounts payable and accrued expenses .....	1,018	(157,593)
Other .....	-	9,862
	<u>(255,471)</u>	<u>(404,189)</u>
 <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Oil and gas capital expenditures .....	-	(2,467)
 <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Purchases of treasury stock .....	(167,500)	(121,007)
Bank loan payment .....	-	(650,000)
	<u>(167,500)</u>	<u>(771,007)</u>
NET CASH FLOWS FROM OPERATING ACTIVITIES .....	<u>(255,471)</u>	<u>(404,189)</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS .....	<u>(422,971)</u>	<u>(1,177,663)</u>
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR .....	<u>1,657,201</u>	<u>2,834,864</u>
CASH AND CASH EQUIVALENTS, END OF YEAR .....	<u>\$ 1,234,230</u>	<u>\$ 1,657,201</u>
 <b>SUPPLEMENTAL CASH FLOW INFORMATION:</b>		
Income taxes paid during the year .....	\$ -	\$ 330,555
Interest paid during the year .....	\$ 48,211	\$ 55,716
Non-cash financing activities:		
Issuance of restricted stock units from additional paid-in capital .....	\$ 4,250	\$ 3,850

*See Notes to Consolidated Financial Statements*



**CENTRAL NATURAL RESOURCES, INC. AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements**  
**Years Ended December 31, 2016**

**(1) Summary of significant accounting policies**

***Nature of operations***

Central Natural Resources, Inc. and Subsidiaries (the Company) operate in the energy industry. The business consists of the exploration and production of oil and gas, as well as the leasing of real properties and mineral interests in the mid-western and southern United States. The Company has no foreign revenues.

***Principles of consolidation***

The accompanying consolidated financial statements include the accounts of Central Natural Resources, Inc. (CNR) and its wholly owned subsidiaries, CNR Production, LLC and CTNR Properties, LLC. All significant intercompany balances and transactions have been eliminated in consolidation.

***Income tax basis of accounting***

The accompanying consolidated financial statements for the Company have been prepared on an income tax basis used by the Company for federal income tax purposes. Primary differences between the income tax basis of accounting and accounting principles generally accepted in the United States of America (U.S. GAAP) include:

- *Receivables* – The Company uses the direct write-off method for bad debts instead of the reserve method under U.S. GAAP.
- *Prepaid expenses* – The Company has elected to expense certain prepaid expenses when paid, which is allowed under the Internal Revenue Code (IRC). U.S. GAAP requires that prepaid expenses be reflected on the consolidated balance sheet when paid and amortized over the period when the benefits are received.
- *Fixed assets* – The Company utilizes accelerated depreciation methods, including the use of bonus depreciation and section 179 expenses, for all asset additions which are under the applicable IRC limit. Both of these methods are acceptable under the income tax basis of accounting, and taken in accordance with Internal Revenue Service (IRS) guidelines. For asset additions above the IRC limit, the Company uses the depreciation and amortization methods as described in the depreciation and depletion policy. Under U.S. GAAP, fixed assets are depreciated over the estimated useful life of the asset, typically using the straight-line method.
- *Impairment of long-lived assets* – Long-lived assets are depleted or depreciated under methods prescribed by the IRC instead of being reviewed for impairment annually under U.S. GAAP.
- *Income taxes* – The Company records income tax expense based on the IRC. U.S. GAAP requires that the Company recognize deferred income tax assets or liabilities arising from the differences between U.S. GAAP and income tax returns. The Company also does not contemplate its uncertain tax positions, which would be required under U.S. GAAP.
- *Deferred income* – The Company records revenue for oil and gas lease bonuses when received. U.S. GAAP requires that the Company record oil and gas lease bonuses that relate to future periods as deferred income.
- *Stock-based compensation* – The Company has issued stock options and restricted stock units to certain employees and directors, which are not recorded until they are exercised under the IRC. U.S. GAAP would require the Company to record the fair value of all stock options through compensation expense based on the terms of the options.
- *Going concern* – The Company has not performed an assessment of the entity's ability to continue as a going concern. U.S. GAAP would require the Company to assess the entity's ability to continue as a going concern and to provide related disclosure in certain circumstances.

***Use of estimates***

The preparation of these consolidated financial statements in conformity with the Company's income tax basis of accounting requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

***Cash and cash equivalents***

The Company considers all liquid investments with original maturities of three months or less to be cash equivalents. Cash equivalents consist of demand deposit accounts and federally insured certificates of deposit. Interest income from cash equivalents is recognized when received. At times, the Company maintains deposits in certain financial institutions in excess of federally insured limits. The Company had cash balances in excess of this limit of \$0 and \$340,348 at December 31, 2016 and 2015, respectively. The Company had money market account balances in excess of this limit of \$311,124 and \$308,782 at December 31, 2016 and 2015, respectively. Management monitors the soundness of these financial institutions and feels the Company's risk is negligible.

### ***Coal deposits and real estate***

Coal deposits, mineral rights, and surface land are stated at cost and are classified as mineral interest properties on the consolidated balance sheets (income tax basis). Coal deposits with a net carrying value of approximately \$600,000 at December 31, 2016 and 2015 are not presently leased or producing coal in commercial quantities.

### ***Successful efforts method***

The Company uses the successful efforts method of accounting for revenue and expenses from oil and gas production. Revenue and expenses associated with oil and gas production are accrued in the period the revenue or expenses are generated.

*Exploration costs* – Geological and geophysical costs and the costs of carrying and retaining undeveloped properties are expensed as incurred. Exploratory well costs are capitalized, or “suspended”, on the consolidated balance sheet (income tax basis) pending further evaluation of whether economically recoverable reserves have been found. If economically recoverable reserves are not found, exploratory well costs are expensed as dry holes. If exploratory wells encounter potentially economic quantities of oil and gas, the well costs remain capitalized on the consolidated balance sheet (income tax basis) as long as sufficient progress assessing the reserve and the economic and operating viability of the project is being made. Costs of successful exploratory wells and related production equipment are capitalized and amortized by field using the unit-of-production method as oil and gas are produced. Intangible drilling costs are expensed as incurred.

*Development Costs* – Costs incurred to drill and equip development wells, including unsuccessful development wells, are capitalized.

### ***Depreciation and depletion***

Leasehold costs of producing properties are depleted using the unit-of-production method based on estimated proved oil and gas reserves. Equipment is depreciated under normal Modified Accelerated Cost Recovery System (MACRS) depreciation in accordance with the IRC. Substantially all of reported depletion and depreciation expense is attributable to oil and gas producing properties.

### ***Operating Revenue***

Royalties from coal, oil and gas as well as oil and gas lease bonuses are presented as “Mineral royalties” under Operating Revenues on the consolidated statements of operations (income tax basis). Oil and gas revenues from working interests in producing oil and gas assets are included on the line “Oil and gas production” under Operating Revenues on the consolidated statements of operations (income tax basis).

Coal royalties are based on a percentage of the production of land leased from the Company or, in the case of no production, the minimum annual royalty. Oil and gas royalties are based on a percentage of the production on land leased from the Company. Oil and other mineral lease rentals and bonuses are derived from the leasing of land and mineral rights prior to production.

### ***Income Taxes***

CNR and its subsidiaries file a consolidated federal income tax return. The Company is no longer subject to U.S. Federal, state or local income tax examinations by tax authorities for years before 2013.

## **(2) Operating leases**

The Company leases two office facilities under operating leases expiring at various times through November 2020. The future minimum lease payments required under operating leases that have initial or remaining non-cancellable lease terms in excess of one year are as follows:

<b>Years Ending December 31,</b>	
2017 .....	18,600
2018 .....	17,900
2019 .....	9,600
2020 .....	4,800
	\$ 50,900

Rent expense under these operating leases was \$19,077 and \$17,691 during the years ended December 31, 2016 and 2015, respectively.

## **(3) Share-based compensation plans**

In February 2001, the Company adopted a stock incentive plan pursuant to which the Company’s board of directors may issue stock awards to key employees and directors of the Company. This plan allowed for stock options, stock appreciation rights, restricted stock, stock bonuses, performance share awards, dividend equivalents, or deferred payment rights (the 2001 Plan). Although equity grants made under this plan remain outstanding, the ability to issue new stock incentives under this plan terminated February 6, 2011. At December 31, 2016 and 2015, there were 25,000 and 27,250 restricted stock units, respectively, outstanding under this plan, all of which are fully vested as of the date of this report.

In May 2010, stockholders approved a stock incentive plan adopted by the Board of Directors to replace the plan adopted in 2001 that expired in 2011. This new plan, the 2011 Equity Incentive Plan (2011 Plan), effective as of February 7, 2011, permits a maximum issuance of 50,000 shares of common stock (with no more than 30,000 shares of these in the form of Incentive Stock Options (ISOs)). The 2011 Plan is discussed in detail in the 2010 Proxy Statement issued by the Company. As of December 31, 2016 and 2015, 20,975 and 16,725 shares, respectively, had been issued under the 2011 Plan.

In 2016 and 2015, the Company issued 4,250 and 2,450 shares, respectively, of restricted stock under the 2011 Plan to two employees of the Company, each vesting over one year. Also in 2016 and 2015, the Company issued 0 and 1,600 restricted stock units (RSUs), respectively, under the 2011 Plan to nonemployee directors of the Company, which became fully vested as of December 31, 2016 and 2015, respectively. During the years ended December 31, 2016 and 2015, 0 and 200 shares, respectively, were canceled due to the death of a holder prior to the RSUs being exercised.

A summary of stock option activity, including incentive stock options, during 2016 and 2015 follows:

	Years ended December 31,			
	2016		2015	
	Shares	Weighted average exercise price	Shares	Weighted average exercise price
Options outstanding, beginning of period . . . . .	2,000	\$ 27.00	3,000	\$ 27.00
Exercised . . . . .	-	-	-	-
Forfeited . . . . .	2,000	27.00	1,000	27.00
	<hr/>		<hr/>	
Options outstanding, end of period . . . . .	-	-	2,000	27.00
	<hr/>		<hr/>	
Options exercisable, end of period. . . . .	-	-	2,000	\$ 27.00

**(4) Major customer information**

Sales to three customers accounted for approximately 51% of total revenues during the year ended December 31, 2016. Accounts receivable from four customers accounted for approximately 70% of total accounts receivable as of December 31, 2016.

Sales to three customers accounted for approximately 53% of total revenues during the year ended December 31, 2015. Accounts receivable from three customers accounted for approximately 67% of total accounts receivable as of December 31, 2015.

**(5) Profit sharing plan**

The Company maintains a 401(k) profit sharing plan which covers both employees. The plan provides for an employer matching contribution. During the years ended December 31, 2016 and 2015, contributions of \$12,000 and \$13,880, respectively, were charged to general and administrative expenses on the consolidated statements of operations (income tax basis).

**(6) Risks and uncertainties**

The Company derives a significant portion of its revenues from oil and natural gas production, which are highly volatile commodities. Revenues are significantly impacted by changes to oil and natural gas prices. Oil prices fell over the course of 2015 by over 25%, and continued dropping into 2016 before recovering to near December 2015 levels by May 2016. During the remaining portion of 2016, oil prices continued to rise gradually, with December 2016 reaching their highest prices since July 2015. The change in oil prices also impacts the related expenses, as underperforming wells may be abandoned, creating additional expense. These fluctuations in oil and gas prices directly impact the Company's revenues and cash flows, impacting its ability to cover expenses. The Company currently has sufficient cash reserves to cover the cash needs of the Company for the near-term, but does not currently have an operating line of credit or other debt in place to provide additional funds for operations.

**(7) Subsequent Events**

Management has performed an evaluation of the events that have occurred subsequent to December 31, 2016 through April 26, 2017, the date on which the consolidated financial statements were available to be issued. There have been no subsequent events that occurred during such period that would require disclosure in these consolidated financial statements or would be required to be recognized in the consolidated financial statements as of and for the year ended December 31, 2016.

**DIRECTORS**

Bruce L. Franke  
*Oil, Gas & Real Estate  
Management*

Ray A. Infantino  
*Retired Insurance Executive &  
Independent Financial Services Professional*

Patrick J. Moran  
*President of  
Moran Exploration, L.P.*

Phelps C. Wood  
*President & Chief Executive Officer  
of Central Natural Resources, Inc.*

Phelps M. Wood  
*President of Tektest, Inc.*

**OFFICERS**

Phelps M. Wood  
*Chairman of the Board*

Phelps C. Wood  
*President &  
Chief Executive Officer*

Gary J. Pennington  
*Vice President &  
General Manager*

Ray A. Infantino  
*Secretary  
& Treasurer*

Ernest N. Yarnevich, Jr.  
*Assistant Secretary*

**STOCKHOLDERS' MEETING**

The 2017 annual meeting will be held at 9:00 a.m. P.D.T. on June 22, 2017, at the Athenaeum at the California Institute of Technology, 551 South Hill Avenue, Pasadena, California 91106.

**STOCK TRANSFER AGENT AND STOCK REGISTRAR**

Computershare Trust Company, N.A.  
250 Royall Street  
Canton, Massachusetts 02021

**CONTACT INFORMATION:**

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