CENTRAL NATURAL RESOURCES, INC.

2018 ANNUAL REPORT

FOR THE YEAR ENDED DECEMBER 31, 2018

1044 Main Street, Suite 502 • Kansas City, Missouri 64105
816/842-2430 • www.centralholdings.com

Dear Shareholder,

Commodity prices were mixed in 2018 after a 2017 that experienced recovery across the board. The commodity price recovery that continued in 2017 experienced volatility in 2018 with average oil prices increasing for the year while average natural gas prices declined. Improved oil prices and a slight increase in production resulted in Central's 2018 operating revenue increase to $925,200 from $916,734. In 2018 the Company experienced a net loss of $398,710 versus a net loss 600,989 in 2017 (a portion of the 2018 net loss is attributable to the decision to report Central's financials on a cash basis, explained further in Notes to the Consolidated Financial Statements). Central's operations were cash-flow positive in both 2018 and 2017.

Central realized continued, although slight, cost savings in 2018 versus 2017. No Board of Directors fees or equity grants were made in either 2018 or 2017. We continue to examine and consider any and all warranted expense reductions and remain debt free.

In 2018, the industry experienced an improvement in average oil prices and a marginal decrease in average natural gas prices from the prior year (oil averaged $64.94 a barrel in 2018 versus $50.88 a barrel in 2017[1]). Natural gas prices averaged $3.09 in 2018 versus the prior year's average of $3.11 in 2017 and Central experienced a decrease in differentials across Central's properties as well as low-volume charges which combined to reduce realized prices for the Company's gas production form the prior year[2]. Most of Central's production has a high BTU value and natural gas liquids accounted for over 14% of revenue for the year. Due to these pricing factors, Central recorded an 11% increase in working interest revenue in 2018 over 2017 despite a 2% increase in volume.

The charts below show breakdowns of the Company's production volumes, average prices realized and impact on working interest revenue in each of 2018 and 2017.

2018	**Oil**	**NGLs**	**Natural Gas**	**Total**
Volume (Mcfe)	11,332	14,910	74,134	100,376
% of total Volume	*11.3%*	*14.8%*	*73.9%*	*100%*
Revenue / Mcfe	$10.56	$4.21	$2.79	$3.88
Total Revenue	$119,692	$62,809	$207,159	$389,660
% of total Revenue	*30.7%*	*16.1%*	*53.2%*	*100%*

2017	**Oil**	**NGLs**	**Natural Gas**	**Total**
Volume (Mcfe)	11,384	13,233	74,077	98,694
% of total Volume	*11.5%*	*13.4%*	*75.1%*	*100%*
Revenue / Mcfe	$7.73	$3.68	$2.91	$3.57
Total Revenue	$87,966	$48,719	$215,827	$352,512
% of total Revenue	*25.0%*	*13.8%*	*61.2%*	*100%*

[1] Oil prices used are based on West Texas Intermediate (WTI) quotes.
[2] Natural Gas prices are based on NYMEX average monthly settlement prices.

PROPERTIES / RESERVES

The following table presents the Company's estimated net proved natural gas reserves (unaudited) at December 31, 2018 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 2018 was $65.56 per Barrel WTI oil and $3.10 per MMBtu Henry Hub).

As of Dec. 31, 2018		Proved Reserves	
	Developed	Undeveloped	Total
Natural Gas Reserves, MMcf equiv.	1,140.8	223.6	1,364.4

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*.)

ACCOUNTING

Mayer Hoffman McCann (MHM) has been Central's auditing firm since 2015. The consolidated financial statements have been prepared on an income tax basis used by the Company for federal income tax purposes, an Other Comprehensive Basis of Accounting. Effective January 1, 2018, the Company elected a change in the income tax basis from accrual to cash. 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.

IN MEMORIAM

In January of this year, Central's board member, long time shareholder and my father, Phelps M. Wood passed away. Although Phelps had been a director since 1980, his association with the Company started in the mid-1950's when he made his first stock investment while in high school with an acquisition of shares of Central. As Central's largest shareholder, over the past 30 years Phelps was deeply involved in all aspects of Central's business. His energetic presence, optimistic outlook and genuine affection for others will be missed by all at Central.

Sincerely,

Phelps C. Wood
Chief Executive Officer

FORWARD-LOOKING STATEMENTS

This report contains forwardlooking 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 forwardlooking 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 forwardlooking statements. The Company does not, by including this statement, assume any obligation to review or revise any particular forwardlooking statement referenced herein in light of future events.

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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, 2018 and 2017, and the related consolidated statements of operations (income tax basis) and stockholders' equity (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, 2018 and 2017, and the results of their operations 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.

Mayer Hoffman McCann P.C.

Kansas City, Missouri
April 24, 2019

CENTRAL NATURAL RESOURCES, INC. AND SUBSIDIARIES

Consolidated Balance Sheets
(INCOME TAX BASIS)

December 31, 2018 and 2017

		2018		2017
ASSETS				
CURRENT ASSETS				
Cash and cash equivalents	$	1,084,726	$	1,088,067
Accounts receivable		-		134,452
Other receivable		-		38,202
Total current assets		1,084,726		1,260,721
PROPERTY, PLANT AND EQUIPMENT				
Oil and gas producing properties (successful efforts)		10,260,149		10,325,409
Mineral interest properties		1,668,137		1,668,137
		11,928,286		11,993,546
Less: accumulated depletion and depreciation		(7,103,025)		(6,896,818)
Net property, plant, and equipment		4,825,261		5,096,728
TOTAL ASSETS	$	5,909,987	$	6,357,449
LIABILITIES AND STOCKHOLDERS' EQUITY				
CURRENT LIABILITIES				
Accounts payable and accrued expenses	$	-	$	26,176
STOCKHOLDERS' EQUITY				
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, 522,004 and 523,545 shares issued as of December 31, 2018 and 2017, with 476,494 and 478,535 outstanding as of December 31, 2018 and 2017, respectively		522,004		523,545
Additional paid-in capital		2,471,001		2,471,001
Treasury stock, 45,510 and 45,010 common shares, at cost, at December 31, 2018 and 2017, respectively		(844,967)		(839,806)
Retained earnings		3,761,949		4,176,533
TOTAL STOCKHOLDERS' EQUITY		5,909,987		6,331,273
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$	5,909,987	$	6,357,449

See Notes to Consolidated Financial Statements

CENTRAL NATURAL RESOURCES, INC. AND SUBSIDIARIES

Consolidated Statements of Operations
(INCOME TAX BASIS)

For the Years Ended December 31, 2018 and 2017

		2018		2017
OPERATING REVENUES				
Mineral royalties	$	509,530	$	519,477
Oil and gas production		389,660		352,512
Land lease and rental		26,010		44,745
TOTAL REVENUES		925,200		916,734
OPERATING EXPENSES				
Oil and gas operating expenses		283,609		245,524
Depreciation and depletion		271,467		622,662
Abandonment of wells		-		5,013
General and administrative expenses		630,378		650,678
TOTAL OPERATING EXPENSES		1,185,454		1,523,877
OPERATING LOSS		(260,254)		(607,143)
NON-OPERATING INCOME (EXPENSE)				
Interest expense		-		(48,000)
Interest income		11,262		53,781
Other		(3,240)		373
Net Section 481A adjustment		(146,478)		-
TOTAL NON-OPERATING INCOME (EXPENSE)		(138,456)		6,154
NET LOSS	$	(398,710)	$	(600,989)

See Notes to Consolidated Financial Statements

CENTRAL NATURAL RESOURCES, INC. AND SUBSIDIARIES

Consolidated Statements of Stockholders' Equity
(INCOME TAX BASIS)

For the Years Ended December 31, 2018 and 2017

	Common stock	Additional paid-in capital	Retained earnings	Treasury stock	Total stockholders' equity
Balance January 1, 2017	$ 523,545	$ 2,471,001	$ 4,777,522	$ (685,751)	$ 7,086,317
Net loss	–	–	(600,989)	–	(600,989)
Purchase of 14,712 common shares	–	–	–	(154,055)	(154,055)
Balance December 31, 2017	523,545	2,471,001	4,176,533	(839,806)	6,331,273
Net loss	–	–	(398,710)	–	(398,710)
Retirement of 1,541 common shares	(1,541)	–	(15,874)	–	(17,415)
Purchase of 500 common shares	–	–	–	(5,161)	(5,161)
Balance December 31, 2018	$ 522,004	$ 2,471,001	$ 3,761,949	$ (844,967)	$ 5,909,987

See Notes to Consolidated Financial Statements

(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 and timber 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.

Basis of accounting
The accompanying consolidated financial statements have been prepared on an income tax basis used by the Company for federal income tax purposes. Effective January 1, 2018, the Company elected a change in the income tax basis from accrual to cash basis. This resulted in a one-time net Section 481A adjustment to remove receivables and payables from the consolidated balance sheet and the related impact of certain revenues and expenses as shown in the consolidated statement of operations.

The income tax basis of accounting differs from accounting principles generally accepted in the United States of America ("U.S. GAAP") as further disclosed below. Accordingly, the accompanying consolidated financial statements are not intended to present, and do not present, the financial position and results of operations in accordance with U.S. GAAP.

Differences from U.S. GAAP
The Company's income tax basis of accounting differs from U.S. GAAP in the following areas:

- *Revenues* - The Revenues are recorded based on the receipt of cash.

- *Expenses* - Costs and expenses are recorded based on the disbursement of cash.

- *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 Internal Revenue Code ("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.

- *Lease accounting* - U.S. GAAP requires leases that meet the definition of capital leases to be recorded as assets and capital lease obligations. U.S. GAAP also requires that lease expense be recorded on a straight-line basis. The Company records lease expense as cash payments are made, as further described in Note 2. The impact of these lease accounting differences between U.S. GAAP and the Company's income tax basis of accounting does not result in material differences to expense.

- *Income taxes* - Under U.S. GAAP, income taxes are accounted for using an asset and liability method which requires the recognition of deferred tax assets and liabilities for the expected future tax impacts attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis. The Company records income taxes based on cash basis net income. The Company 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.

(1) Summary of significant accounting policies (continued)

- *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.

- *Statement of cash flows* - Under U.S. GAAP, the consolidated statement of cash flows is a required statement to be presented in the consolidated financial statements. The Company does not present a consolidated statement of cash flows in their consolidated financial statements as the Company reports on the income tax basis, which is the cash basis.

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 no cash balances in excess of this limit at December 31, 2018 and 2017. The Company had money market account balances in excess of this limit of $462,014 and $479,388 at December 31, 2018 and 2017, 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, 2018 and 2017 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 2015.

(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:

Years Ending December 31,		
2019		19,200
2020		13,600
	$	32,800

Rent expense under these operating leases was $17,805 and $19,567 during the years ended December 31, 2018 and 2017, 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. There were 25,500 restricted stock units outstanding under this plan at both December 31, 2018 and 2017, 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, 2018 and 2017, 20,975 shares had been issued under the 2011 Plan.

In 2018 and 2017, the Company issued no shares of restricted stock under the 2011 Plan. There were no restricted stock units (RSUs) issued under the 2011 Plan to nonemployee directors of the Company during the years ended December 31, 2018 and 2017.

(4) Major customer and vendor information

Sales to two customers accounted for approximately 38% and 33% of total revenues during the years ended December 31, 2018 and 2017, respectively. Accounts receivable from five customers accounted for approximately 63% of total accounts receivable as of December 31, 2017.

Purchases from one vendor accounted for approximately 14% and 11% of total purchases during the years ended December 31, 2018 and 2017, respectively.

(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, 2018 and 2017, contributions of $12,300 each year 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 were rising at the beginning of 2018. They continued to increase during the year reaching their highest level in October of 2018. By year end prices had fallen by more than 25%. 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, 2018 through April 24, 2019, the date on which the consolidated financial statements were available to be issued. On April 3, 2019, the Company entered into two new oil and gas leases with a company to lease approximately 13,000 acres of land to use in the production of oil and gas. The leases extend for a period of 5 years. There have been no other 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, 2018.

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.

OFFICERS

Phelps C. Wood
President & Chief Executive Officer

Gary J. Pennington
Vice President & General Manager

Ray A. Infantino
Secretary & Treasurer

Vincent L. Gualtier
Assistant Secretary

STOCKHOLDERS' MEETING

The 2019 annual meeting will be held at 9:00 a.m. P.D.T. on June 11, 2019, at the Athenaeum at the California Institute of Technology, 551 South Hill Avenue, Pasadena, California 91106.

STOCK TRANSFER AGENT AND STOCK REGISTRAR

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