Central Natural Resources, Inc.

2020 ANNUAL REPORT

For The Year Ended December 31, 2020

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Dear Shareholder,

Commodity prices declined dramatically in 2020 after a drop in 2019 due to the combined impacts of COVID and price volatility created by supply decisions made by Russia and Saudi Arabia who refused to cut production to support prices. Average prices in 2020 were lower in oil, natural gas liquids and natural gas, dropping Central's operating revenue to $373,843 in 2020 from the prior year's level of $825,170. In 2020 the Company experienced a net operating loss of $665,099 versus a net loss of $486,889 in 2019.

In 2020, the industry experienced a decline in average oil prices as well as a decrease in average natural gas prices from the prior year (oil averaged $39.57 a barrel in 2020 versus $56.98 a barrel in 2019). Natural gas prices averaged $1.99 in 2020 versus the prior year's average of $2.63 in 2019, 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. Central's production decreased in 2020, primarily due to difficulties, and the eventual plugging and abandoning of the Leblanc Well in Louisiana. Overall pricing drops of almost 30% combined with production declines of almost 33% resulted in an almost 50% decrease in working interest revenue for Central in 2020 from 2019.

The charts below show breakdowns of the Company's production volumes, average prices realized and impact on working interest revenue in each of 2020 and 2019.

2020	**Oil**	**NGLs**	**Natural Gas**	**Total**
Volume (Mcfe)	5,878	12,173	45,025	63,077
% of total Volume	*9.3%*	*19.3%*	*71.4%*	*100%*
Revenue / Mcfe	$6.94	$1.64	$1.91	$2.33
Total Revenue	$40,784	$20,008	$86,135	$146,927
% of total Revenue	*27.8%*	*13.6%*	*58.6%*	*100%*

2019	**Oil**	**NGLs**	**Natural Gas**	**Total**
Volume (Mcfe)	11,353	14,338	65,517	91,208
% of total Volume	*12.5%*	*15.7%*	*71.8%*	*100%*
Revenue / Mcfe	$8.91	$2.47	$2.68	$3.42
Total Revenue	$101,104	$35,392	$175,570	$312,066
% of total Revenue	*32.4%*	*11.3%*	*56.3%*	*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.*

In 2020, Wilkem's long-term lease on the Company's coal property in Arkansas and Oklahoma was terminated when Wilkem failed to pay the required minimum annual royalty payment due to the bankrupt status of Wilkem's sub-lessee. Wilkem's termination reduced lease revenue by $90,000 in 2020. The Company is evaluating alternatives for this mineral property which consists of metallurgical quality coal.

In 2020, the Company sold surface property totaling approximately 887 acres which generated roughly $1,450,000. These two properties were non-core holdings and in both cases Central retains the sub-surface oil & gas mineral rights. Central will continue to explore the divestiture of non-core assets in the future.

Despite a difficult year the Company had adequate liquidity for the Board to declare and pay a $1.00 per share dividend in 2020.

Although I continue to serve as President of the Company and remain a member of the Board of Directors, in 2020 I ceased my fulltime involvement with Central Natural Resources effective April 1, 2020. I intend to continue my work with Central to increase value to shareholders in the future.

PROPERTIES / RESERVES

The following table presents the Company's estimated net proved natural gas reserves (unaudited) at December 31, 2020 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 2020 was $39.57 per Barrel WTI oil and $1.99 per MMBtu Henry Hub).

As of Dec. 31, 2020	Proved Reserves		
	Developed	Undeveloped	Total
Natural Gas Reserves, MMcf equiv.	513.1	-	513.1

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. Beginning with the year ended 2018 audited financials, Central has selected to use cash basis accounting, an Other Comprehensive Basis of Accounting. 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.

Sincerely,

Phelps C. Wood
President

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.

MHM

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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 ("the Company"), which comprise the consolidated balance sheets (income tax basis) as of December 31, 2020 and 2019, 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 basis of accounting the Company uses for income tax purposes (see 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 audits 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 Company'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 Company'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 consolidated balance sheets of Central Natural Resources, Inc. and Subsidiaries as of December 31, 2020 and 2019, and it's income and changes in stockholder's equity for the years then ended in accordance with the basis of accounting the Company uses for income tax purposes 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 basis of accounting the Company uses for income tax purposes, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Mayer Hoffman McCann P.C.

Kansas City, Missouri
June 4, 2021

CENTRAL NATURAL RESOURCES, INC. AND SUBSIDIARIES

Consolidated Balance Sheets
(INCOME TAX BASIS)

December 31, 2020 and 2019

	2020	2019
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 1,553,027	$ 1,014,867
PROPERTY, PLANT AND EQUIPMENT		
Oil and gas producing properties (successful efforts)	10,260,149	10,260,149
Mineral interest properties	1,627,487	1,668,137
	11,887,636	11,928,286
Less: accumulated depletion and depreciation	(7,690,010)	(7,485,376)
Net property, plant, and equipment	4,197,626	4,442,910
TOTAL ASSETS	$ 5,750,653	$ 5,457,777
STOCKHOLDERS' EQUITY		
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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, 547,004 and 527,004 shares issued as of December 31, 2020 and 2019, with 488,497 and 478,994 outstanding as of December 31, 2020 and 2019, respectively	547,004	527,004
Additional paid-in capital	2,619,002	2,506,002
Treasury stock, 58,507 and 48,010 common shares, at cost, at December 31, 2020 and 2019, respectively	(955,924)	(864,967)
Retained earnings	3,540,571	3,289,738
TOTAL STOCKHOLDERS' EQUITY	$ 5,750,653	$ 5,457,777

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, 2020 and 2019

	2020	2019
OPERATING REVENUES		
Mineral royalties	$ 224,749	$ 371,922
Oil and gas production	146,927	312,066
Land lease and rental	2,167	141,182
TOTAL REVENUES	373,843	825,170
OPERATING EXPENSES		
Oil and gas operating expenses	212,543	237,065
Depreciation and depletion	204,634	382,351
General and administrative expenses	621,765	692,643
TOTAL OPERATING EXPENSES	1,038,942	1,312,059
OPERATING LOSS	(665,099)	(486,889)
NON-OPERATING INCOME (EXPENSE)		
Interest income	3,719	14,920
Gain on sale of assets	1,400,604	-
Other	106	(242)
TOTAL NON-OPERATING INCOME	1,404,429	14,678
NET INCOME (LOSS)	$ 739,330	$ (472,211)

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, 2020 and 2019

	Common Stock	Additional Paid-In Capital	Retained Earnings	Treasury Stock	Total Stockholders' Equity
Balance January 1, 2019	$ 522,004	2,471,001	3,761,949	(844,967)	5,909,987
Net loss	–	–	(472,211)	–	(472,211)
Exercise of Restricted Stock Units	5,000	35,001	–	–	40,001
Purchase of 2,500 common shares	–	–	–	(20,000)	(20,000)
Balance December 31, 2019	$ 527,004	$ 2,506,002	$ 3,289,738	$ (864,967)	$ 5,457,777
Net income	–	–	739,330	–	739,330
Exercise of Restricted Stock Units	20,000	113,000	–	–	133,000
Purchase of 10,497 common shares	–	–	–	(90,957)	(90,957)
Dividends	–	–	(488,497)	–	(488,497)
Balance December 31, 2020	$ 547,004	$ 2,619,002	$ 3,540,571	$ (955,924)	$ 5,750,653

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 oil and gas working interests and 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.

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* - Under U.S. GAAP, entities are required to evaluate contracts with customers using a five step model, with revenue being recognized when an entity satisfies each performance obligation by transferring control of the promised goods or services to the customer. The Company records revenue based on the receipt of cash.

- *Expenses* - Under U.S. GAAP, expenses are recognized in the period in which they are incurred. The Company records costs and expenses 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.

- *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 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.

- *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. Management's significant estimates and assumptions include estimates used in determining the depreciation and depletion of the Company's property, plant and equipment. 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, 2020 and 2019. The Company had money market account balances in excess of this limit of $786,798 and $222,104 at December 31, 2020 and 2019, 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, 2020 and 2019 are not presently leased or producing coal in commercial quantities. During the year ended December 31, 2020, the Company sold mineral interest properties in Oklahoma and Arkansas which caused a marginal decrease in fixed assets and a significant gain on sale of assets.

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 recognized when cash is received or paid.

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 the reported depletion and depreciation expense is attributable to oil and gas producing properties.

Operating revenues
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 2017.

(2) Operating leases

The Company leases two office facilities under operating leases that expired during the year ended December 31, 2020. Since the expiration of these leases, the Company has maintained tenancy on a month to month basis and has not made plans to execute a lease renewal.

Rent expense under these operating leases was $19,238 and $21,027 during the years ended December 31, 2020 and 2019, 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 500 and 20,500 restricted stock units outstanding under this plan during the years December 31, 2020 and 2019, respectively, all of which are fully vested as of the date of this report. During the year ended December 31, 2020, 20,000 of these restricted stock units were exercised.

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. The 2011 Plan is discussed in detail in the 2010 Proxy Statement issued by the Company. As of December 31, 2020 and 2019, 20,975 shares had been issued under the 2011 Plan. There were no units exercised under the 2011 Plan during the year ended December 31, 2020.

(4) Major customer and vendor information

Sales to three customers accounted for approximately 64% of total revenues during the year ended December 31, 2020, and sales to two customers accounted for approximately 37% of total revenues during the year ended December 31, 2019.

Purchases from one vendor accounted for approximately 12% and 20% of total purchases during the years ended December 31, 2020 and 2019, 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. Contributions totaled $5,700 and $12,000 during the years ended December 31, 2020 and 2019, respectively, which were charged to general and administrative expenses on the consolidated statements of operations (income tax basis).

(6) Related party transactions

The Company paid a stockholder $22,500 for consulting services rendered during the year ended December 31, 2020.

(7) 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 significantly declined during the first two quarters of 2020, starting at $62 per barrel in January 2020 and reaching their lowest point in April 2020 at $21 per barrel. This was due to Saudi Arabia initiating a price war with Russia and the onset of the COVID-19 pandemic in March 2020, as noted below. By year-end, prices recovered significantly from their low point and were up to $49 by December 31, 2020. Subsequent to the year ended December 31, 2020, the price of oil continued to increase, reaching $64 by the end of March 2021. This market improvement is largely due to the subsiding economic impacts of the COVID-19 pandemic with vaccines being distributed at a rapid pace. 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.

On March 11, 2020, the World Health Organization declared the outbreak of the COVID-19 pandemic. The COVID-19 outbreak is causing business disruption across a range of industries. The extent of the impact of COVID-19 on the Company's operational and financial performance will depend on certain developments, including the duration and spread of the outbreak, impact on the Company's customers, employees and vendors, all of which are uncertain and cannot be predicted. At this point, the extent to which COVID-19 may impact the Company's financial condition or results of operations is uncertain.

(8) Subsequent events

Management has performed an evaluation of the events that have occurred subsequent to December 31, 2020 through June 4, 2021, 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, 2020.

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

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