

Central Natural Resources, Inc.

1044 Main Street, Suite 502

Kansas City, MO 64105

Financial Statements
for the period ended September 30, 2018
(Unaudited)

Central Natural Resources, Inc.
1044 Main Street, Suite 502
Kansas City, MO 64105

October 30, 2018

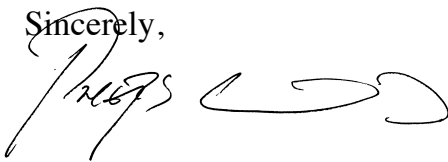
Dear Shareholder,

Please find enclosed unaudited consolidated financial statements for Central Natural Resources, Inc. and Subsidiaries representing the third quarter performance of your Company.

For the year beginning 2018, the Company has elected to report using the cash basis method of accounting. Your third quarter financials are presented using the cash basis method (unaudited). Differences between the cash basis method of accounting and U.S. generally accepted accounting principles (U.S. GAAP) are explained under the “Basis of Presentation” section of the “Notes to Unaudited Consolidated Financial Statements” of this report.

Management at Central is glad to answer any questions that you may have and contact information is provided below for this purpose. Current information and recent financials may be found at Central’s website at www.centralholdings.com. All quarterly reports are posted to Central’s website although we will be happy to provide financials via email or through the mail for those that make such a request.

Sincerely,



Phelps C. Wood
President & CEO

Central Natural Resources, Inc.
Phelps C. Wood, CEO
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925-885-6805

Gary J. Pennington, General Manager
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816-842-2430

CENTRAL NATURAL RESOURCES, INC.
Consolidated Statements of Operations
(Cash Basis)

Three Months ended September 30, 2018 and 2017 and Nine months ended September 30, 2018 and 2017

	Three Months ended September 30,		Nine Months ended September 30,	
	2018	2017	2018	2017
Operating revenue:				
Mineral royalties	\$ 132,674	\$ 136,828	\$ 375,048	\$ 394,828
Oil and gas production	98,214	103,404	282,624	291,404
Land lease and rental	-	-	26,010	10,000
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Total operating revenue	230,888	240,232	683,682	696,232
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Oil and gas operating expenses	62,661	76,889	218,918	186,310
Depletion and depreciation	100,000	39,994	250,000	183,000
Abandonment of wells	-	-	-	5,013
General and administrative expenses	121,739	132,059	481,282	511,069
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Total operating expenses	284,400	248,942	950,200	885,392
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Operating revenue (loss)	(53,512)	(8,710)	(266,518)	(189,160)
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Nonoperating income (expense):				
Interest expense	-	(11,901)	-	(35,901)
Interest income	2,955	13,873	7,664	39,819
Other	23	30	65	50
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Total non-operating income (expense)	2,978	2,002	7,729	3,968
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Earnings (loss) before income taxes	(50,534)	(6,708)	(258,789)	(185,192)
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Income tax benefit	-	-	-	-
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Net loss	(50,534)	(6,708)	(258,789)	(185,192)
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CENTRAL NATURAL RESOURCES, INC.
Consolidated Balance Sheets
(Cash Basis)
September 30, 2018 and December 31, 2017

Assets	<u>September 30, 2018</u>	<u>December 31, 2017</u>
Current assets:		
Cash and equivalents	\$ 1,073,588	\$ 1,088,067
Total current assets	1,073,588	1,088,067
Property, plant and equipment:		
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, depreciation, and amortization	(7,146,818)	(6,896,818)
Net property, plant, and equipment	4,846,728	5,096,728
Total assets	<u>\$ 5,920,316</u>	<u>\$ 6,184,795</u>
Liabilities and Stockholders' Equity		
Stockholders' equity:		
Preferred stock of \$1 par value, 100,000 shares authorized, no shares issued	-	-
Common shares, voting, par value of \$1 per share, 2,500,000 authorized, 523,545 shares issued	523,545	523,545
Additional paid-in capital	2,471,001	2,471,001
Treasury stock, 45,578 and 45,010 common shares, at cost	(845,496)	(839,806)
Retained earnings	3,771,266	4,030,055
Total stockholders' equity	<u>\$ 5,920,316</u>	<u>\$ 6,184,795</u>

CENTRAL NATURAL RESOURCES, INC.
Consolidated Statements of Cash Flows
(Cash Basis)
Nine months ended September 30, 2018 and 2017

	September 30,	
	2018	2017
Cash flows from operating activities:		
Net earnings (loss)	\$ (258,789)	\$ (185,192)
Adjustments to reconcile net earnings (loss) to net cash provided by operating activities:		
Depletion, depreciation, and amortization	250,000	183,000
Abandonment of wells	-	-
Adjustment of 2017 earnings to cash basis accounting	-	(17,402)
	(8,789)	(19,594)
Cash flows from investing activities:		
Oil and gas capital expenditures	-	-
	-	-
Net cash used in investing activities	-	-
Cash flows from financing activities:		
Purchases of treasury stock	(5,690)	(10,500)
	(5,690)	(10,500)
Net cash used in financing activities	(5,690)	(10,500)
Net (decrease) increase in cash equivalents	(14,479)	(30,094)
Cash and cash equivalents, beginning of year	1,088,067	1,234,230
Cash and cash equivalents, end of second quarter	\$ 1,073,588	\$ 1,204,136

Notes to Unaudited Consolidated Financial Statements (Cash Basis)

October 30, 2018

Basis of Presentation

In the opinion of Central Natural Resources, Inc. (the Company), the accompanying unaudited consolidated financial statements contain all adjustments (consisting of only normal recurring accruals) necessary to present fairly the financial position as of September 30, 2018, and the results of operations and cash flows for the periods ended September 30, 2018 and 2017.

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

- *Receivables* – Under the cash basis the Company does not book receivables.
- *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 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 that are under the applicable IRC limit. Both of these methods are acceptable under the cash 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.
- *Income taxes* – The Company recorded 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.

For further information, refer to the consolidated financial statements and notes thereto included in the Company's Annual Report for the year ended December 31, 2017.

**Notes to Unaudited Consolidated Financial Statements
(Cash Basis)**

Results of operations for interim periods are not necessarily indicative of results to be expected for a full year.

(1) Stock Based Compensation

The Company did not grant any stock based compensation through the first three quarters of 2017 or 2018.

As of September 30, 2017 and September 30, 2018 there were no outstanding options.

(2) Odd-Lot Tender Offer

During the second and third quarters of 2018 the Company conducted an “Odd-Lot” Tender Offer, offering to repurchase shares held by shareholders with fewer than 100 shares at a price of \$12.05 per share. This offer expired on the final business day of the third quarter and due to the fact that the settlement date occurred after September 30th, no tendered shares are reflected in the third quarter financials.