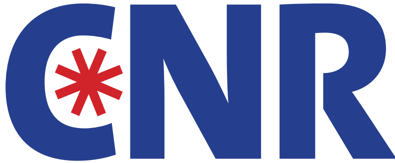
2008
ANNUAL REPORT

FOR THE YEAR ENDED DECEMBER 31, 2008



Central Natural Resources, Inc.
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May 1, 2009

Dear Shareholder,

2008 was a wild ride for those of us in the energy business. Oil prices began the year at $100 per barrel on January 2nd 2008, rose to an all-time peak price of $147 per barrel in July and plummeted from there through autumn to close out the year at under $40 per barrel. Natural gas prices also saw record volatility, rising from just under $7.00 / Mcf in January 2008 to over $13.00 / Mcf in July before following oil's slide by ending the year at $5.63 / Mcf (West Texas Intermediate and Henry Hub NYMEX pricing).

Since the end of the year, prices have recovered slightly on the oil side but have continued to drop on the natural gas front. Concerns of a long downturn in the global economy and associated declines in demand, have resulted in downward pressure on commodity prices and drastic cuts in domestic capital expenditures (i.e. drilling) by many oil and gas companies. Additionally, companies that took on too much debt are now faced with cash-flow problems and an extremely difficult credit market for new financings. The future in this industry may be difficult.

What does this mean for Central? We see opportunity. Opportunity in the form of oil and gas assets that will become available as companies divest properties to pay down debt. Opportunity to partner with experienced operators that need long-term equity partners like Central. And opportunity to grow reserves prudently and cost-effectively to be well positioned for an eventual recovery oil and gas prices. These opportunities will only be available to those that are prepared, and to take advantage of them Central needs to do the following:

- Grow cash reserves while paying down debt to maintain strong balance sheet liquidity
- Increase oil and gas reserves through a combination of prudent drilling and promising acquisitions.
- Continue to identify, partner with and build long-lasting relationships with top-notch operating partners

In 2008 your company took steps toward accomplishing all three of the above goals, with the following results:

- Year-over-year revenue growth of 157%
- The second year in a row of record Company operating income
- The execution of two mineral leases resulting in cash bonus payments to the Company of $2,411,651
- The acquisition of working interests in over 175 producing wells in South Texas, helping to double the total assets of the Company from the prior year
- Payment of cash dividends totaling $1.80, consisting of an extraordinary dividend of $1.00 per share and quarterly dividends totaling $0.80 per share

These results were the combination of many individuals' imagination, hard work, and persistence over a long period of time and I want to acknowledge them this year.

Gary J. Pennington, our Vice President and General Manager, has built relationships with lessees and potential lessees over the years that paid huge dividends to the Company this year with the execution of the mineral leases mentioned above. 2009 will mark Gary's twenty-fifth year with the Company and I want to thank him in advance for his hard work and dedication throughout the years.

Our Chief Financial Officer, Leonard Noah, continues to provide us with excellent accounting of the Company's operations and trusted financial advice. His help with the 2008 acquisition of the properties and the subsequent relationships with our lenders and shareholders has been invaluable.

Central's board continues to provide both operational oversight and strategic insight that adds value by positioning the Company to take advantage of opportunities.

Lastly, we at Central Natural Resources, Inc. would like to thank our shareholders – we appreciate your continued support as we continue to work to build value in your Company.

Sincerely,

Phelps C. Wood
Chief Executive Officer

CENTRAL'S BUSINESS

Central Natural Resources, Inc. has two major lines of business; the leasing and development of mineral interests and surface property and, through a wholly-owned subsidiary, CNR Production, L.L.C. (CNR), the acquisition, development and management of working interests in oil and gas. (Central Natural Resources, Inc. and CNR and other consolidated subsidiaries of the Company are herein referred to collectively as "Central" or "The Company"). Since its first acquisition of working interests in 2003, the Company has substantially expanded its involvement in the oil and gas industry and considers these working interest activities to be a significant portion of its energy business. Management has continued to expand its interests in this area through both organic growth and, when opportunities present themselves, acquisitions. The Company's mineral interests and working interest properties are detailed in the "Properties" section of this report.

From time to time, the Company may divest its working interests (partially or in their entirety) for various reasons including, but not limited to, the realization of attractive returns, liquidity considerations or other business considerations. In 2007 and 2008, the Company both sold and purchased certain working interests as explained in further detail in the "Acquisitions & Dispositions" section of this report.

Competition

The energy business is extremely competitive and cyclical. The Company competes for property acquisitions with natural gas and oil companies that range in size from small, family owned operations to large independents to multinational corporations. The Company also competes for the equipment and labor required to operate and to develop these properties. Many competitors have substantially greater financial and other resources and may be able to sustain wide fluctuations in the economics of this industry more easily than the Company. Since certain aspects of the Company's business are regulated, competitors may be able to absorb the burden of any changes in federal, state and local laws and regulations more easily than the Company. The ability of the Company to acquire and develop additional properties in the future will depend upon its ability to evaluate and select suitable properties, to secure adequate financing, to consummate transactions and to engage strategic partners in this highly competitive environment.

It is anticipated that compliance with Federal, State and local provisions regulating the discharge of materials into the environment, or otherwise relating to the protection of the environment will have no material effect upon the capital expenditures, earnings and competitive position of the Company. There are no material estimated capital expenditures for environmental control facilities for the remainder of the current fiscal year and the succeeding fiscal year or for any further periods that the Company deems material. That said, recent policy announcements by the US government may result in either increased taxes or a "cap-and-trade" system that would apply to carbon-based fuels. It is unclear whether these policies would affect the Company's business directly or indirectly, but if implemented, they could have a material effect on demand for carbon-based fuels that would have a corresponding effect on the Company.

As to future business considered by the Company, it has, in the past, investigated new business opportunities in the energy industry and in other areas. Management of the Company continues to seek out and investigate new business opportunities or expansion of existing leasing activities or working interests in oil and gas operations. Management evaluates potential investments with the goal of deploying the Company's assets in an effort to generate increased operating, rental, bonus, and royalty income. Currently, the Company focuses the majority of its efforts on the acquisition and development of additional mineral properties and additional working interests in selected oil and gas operations. While the Company has not limited itself geographically with respect to future working interest opportunities, the Company has focused primarily on properties in the continental United States that are located in or near areas with historic production.

PROPERTIES

At year-end 2008, the Company owned working interests in natural gas and oil producing properties in Texas in addition to whole or partial interests in approximately 52,000 acres of real property located in Arkansas, Louisiana, Texas, Kansas, Oklahoma and Missouri. In later parts of this report, references are made to the ownership of "minerals." The Company is the owner of all or part of the subsurface minerals on large portions of the properties mentioned, but the minerals of primary interest to the Company are coal, coalbed methane, oil and natural gas.

The table below shows revenues generated by the Company's properties from customers representing 3% or more of total revenue during 2008.

Customer	Relationship	Revenue Category	Revenue	% of 2008 Revenue
Smith Production	Working Interest Operator	Oil & Gas Production	$2,010,728	38.8%
CDX Gas	Lessee	Mineral Royalties	$1,127,497	21.7%
Forest Oil	Lessee	Mineral Royalties	$904,235	17.4%
Newfield[1]	Lessee	Lease Bonus	$240,000	4.6%
Ross[2]	Lessee	Lease Bonus	$210,318	4.1%
SEECO	Lessee	Mineral Royalties	$173,265	3.3%
Wilkem[3]	Assignee	Mineral Royalties	$169,375	3.3%
Highland[4]	Lessee	Lease Bonus	$158,327	3.1%

1. Newfield Exploration made lease bonus payments totaling $722,000 in 2007; $240,000 was recognized as revenue during 2008.
2. Ross Explorations made lease bonus payments totaling $1,325,983 in 2008; $210,318 was recognized as revenue during 2008.
3. A lease of coal properties originally made to Bethlehem Steel Corporation was previously assigned to Wilkem, Inc.
4. Highland Oil & Gas made lease bonus payments totaling $1,085,668 in 2008; $158,327 was recognized as revenue during 2008.

PROPERTIES: Mineral Ownership (Oil and Gas)

Oil, gas and coal are extracted by lessees from properties owned by the Company, and oil and gas is produced from properties in which the Company holds a working interest. Outside of the Company's operations in the energy business, there have been no new products or businesses requiring the investment of a material amount of assets of the Company, and there have been no public announcements nor has information otherwise become public involving any such new products or business operations. The table below shows oil and gas mineral properties owned by the Company and their current status:

Location	Description	Total Acreage	Utilization	Production
Craig Co. OK & Labette Co., KS	Mineral and Fee Simple	710 Fee Simple	710 acres under lease expiring Oct. 2010	No Activity
Sebastian Co., AR & LeFlore Co., OK	Mineral and Fee Simple	1,759 Fee Simple 16,545 Mineral	Over 13,600 acres leased or HBP by CDX Gas, Ross and Highland for a combination of, Coal-bed Methane and Oil & Gas Development	Coalbed Methane Oil & Gas
Pittsburgh Co., OK	Mineral and Fee Simple	640 Fee Simple 80 Mineral	600 acres under lease to Newfield expiring May 2010	No Activity
Beauregard Parish, LA	Mineral Rights	1,280 Mineral	1,280 acres HBP	Oil & Gas
Walker, Montgomery & San Jacinto, TX	Mineral Rights	11,880 Mineral	4,017 acres HBP	Oil & Gas

HBP – Stands for "Held By Production" and refers to acreage that is held by current oil or gas production.
Fee Simple is defined as ownership of both surface and all mineral rights.
Maps detailing current active properties of the Company are shown on Page 35.

PROPERTIES: Mineral Ownership (Coal)

Currently, coal deposits in Sebastian Co., AR and LeFlore Co., OK totaling approximately 84,000,000 tons are leased to Wilkem, Inc., an assignee of the original lessee of the lease made in June 1969 for a period of 40 years (hereinafter referred to as the "Coal Lease"). In 2006, the current lease was amended so that, in addition to the $90,000 per year minimum annual royalty, the Company may, in the future, receive an additional payment in the amount of $79,375 annually from Wilkem to be treated as part of the minimum annual royalty under the Coal Lease, dependent on payments Wilkem receives from a sublessee of a portion of the subject property.

Should the subject property be successfully developed by the sublessee, the Company may also receive an additional amount up to $190,625 per year as a further minimum annual royalty amount. Certain other changes in the Coal Lease were made that will not materially change directly and immediately any payments received by the Company.

Since the inception of the lease in 1969, the Company has received minimum annual royalty payments which may be credited against future royalty payments owed by the assignee for coal mined and shipped. In 2006, a sub-lessee of the current assignee began mining operations on the property. Initial phases of coal extraction and sales began in 2007, with 56,712 tons and 108,408 tons of coal mined and shipped from the property in 2007 and 2008, respectively, Since royalties due on 2007 production and sale amounts was less than the minimum annual royalty payments, the prepaid credit toward future royalty payments was increased in 2007 and 2008. Although mining operations were ongoing at the end of 2008, subsequent to year-end, the Company was notified that the mining company was seeking further investment or a possible sale and had ceased mining operations pending those actions. Even if mining should restart, there is no guarantee that coal will be produced in sufficient quantities to exhaust the prepaid royalty amounts that have accrued since the inception of the lease. Therefore, although the Company is hopeful that mining operations are successful, there is no guarantee that royalty payments in addition to the minimums previously noted will be made to the Company in the near future. Prior to year-end, the Company received notice from Wilkem of its intention to renew the lease for an additional forty years.

Coal deposits aggregating approximately 92,000,000 tons in place with a net balance sheet carrying value of approximately $700,000 at December 31, 2008 are not presently leased or producing coal in commercial quantities. The table below lists the coal properties owned by the Company and their current status:

Location	Description	Total Acreage	Utilization	Production
Craig Co. OK & Labette Co., KS	Mineral and Fee Simple	710 Fee Simple	710 acres under lease expiring Oct. 2010	No Activity
Cherokee & Crawford Co., KS	Coal & Mineral Rights	3 Fee Simple 2,518 Mineral	No coal assets leased	No Activity
Craig Co. OK & Labette Co., KS	Coal	710 Fee Simple 9,904 Coal Only	No coal assets leased – approximately 70 million tons	No Activity
Sebastian Co., AR & LeFlore Co., OK	Coal	1,759 Fee Simple 16,545 Mineral	Over 13,600 acres leased for Coal development – approximately 84 million tons	Coal lease / minimum coal production
Pittsburgh Co., OK	Coal	1,200 Coal Only	No coal assets leased	No Activity
Macon & Randolph Co., MO	Coal, Mineral and Fee Simple	2 Fee Simple 6,147 Mineral	No coal assets leased	No Activity

Fee Simple is defined as ownership of both surface and all mineral rights.
Maps detailing current active properties of the Company are shown on Page 35.

PROPERTIES: Oil & Gas Working Interests

In 2008, 2007 and 2006, the Company, in conjunction with its working interest operator, produced oil and gas from properties in which it held a working interest. The Company continues to explore and develop properties in which the Company holds working interests. The Company's working interest in these oil and gas properties entitles it to a share of revenue proportionate to its net revenue interest. Additionally, the Company is responsible for a proportionate share of the operating costs, severance taxes and additional expenses that are applicable to the operation and development of these properties. The Company's working interest properties are shown on the table below and discussed in further detail in the following sections of this report.

Location	Description	Percentage Interest	Utilization	Production
Liberty Co., TX	Oil & Gas Working Interest	3% Working Interest	HBP – Cypress Pond	Gas
Live Oak Co., TX	Oil & Gas Working Interest	3% Working Interest	HBP – George West	Oil & Gas
Kleberg Co., TX	Oil & Gas Working Interest	3% Working Interest	HBP - Kingsville Patteson Ranch	Oil & Gas
Dewitt Co., TX	Oil & Gas Working Interest	3% Working Interest	HBP – Barry / Other Victoria	Oil & Gas
Brooks Co., TX	Oil & Gas Working Interest	3% Working Interest	HBP – Santa Fe Ranch	Oil & Gas
Starr Co., TX	Oil & Gas Working Interest	0.5% to 3% Working Interest	HBP - La Copita / Samano	Oil & Gas
Hidalgo Co., TX	Oil & Gas Working Interest	3% to 5% Working Interest / McCook / Stratton	Active Exploration & Production – Javalina	Oil & Gas

HBP – Stands for "Held By Production" and refers to acreage that is held by current oil or gas production.
Maps detailing current active properties of the Company are shown on Page 35.

PROPERTIES: Natural Gas and Oil Reserves

The following table presents the Company's estimated net proved natural gas reserves (unaudited) at December 31, 2008 based on reserve reports prepared by T.J. Smith & Company, Inc., an independent, third party reserve engineering firm.

As of December 31, 2008

		Proved Reserves	
	Developed	Undeveloped	Total
Natural Gas Reserves, MMcf equiv.	2,472	1,548	4,020

Note: MMcf is defined as one thousand mcf, or one million cubic feet.

Further information regarding natural gas and oil reserves is contained in the "Management's Discussion and Analysis" section.

PROPERTIES: Drilling Activity and Well Count

The following tables presents drilling activity for the years ending December 31:

	Exploratory					
	Productive Wells		Dry Holes		Total	
	Gross	Net	Gross	Net	Gross	Net
2008	-	-	-	-	-	-
2007	1.00	0.04	1.00	0.05	2.00	0.09
2006	1.00	0.01	-	-	1.00	0.01

	Developmental					
	Productive Wells		Dry Holes		Total	
	Gross	Net	Gross	Net	Gross	Net
2008	3.00	0.07	-	-	3.00	0.07
2007	1.00	0.04	-	-	1.00	0.04
2006	11.00	0.11	-	-	11.00	0.11

Wells in Progress as of December 31, 2008

	Gross	Net
Exploratory	-	-
Development	4.00	0.12
Total	4.00	0.12

The following table presents the number of productive natural gas wells in which the Company owned an interest as of December 31, 2008.

	Gross	Net
Natural Gas wells	177	4.35

PROPERTIES: Production and Pricing

The table below shows production and pricing from the Company's oil and gas working interests for the past three years.

Year ended December	Gas Equivalents (MCFE - Includes Oil)		NGLs (MCFE)		Total (MCFE)	
	Volume	Avg. Price	Volume	Avg. Price	Volume	Avg. Price
2008	158,079	$10.43	47,331	$8.20	205,410	$9.91
2007	10,472	$6.83	-	-	10,472	$6.83
2006	122,985	$7.50	42,698	$5.36	165,683	$6.95

Note: NGLs are defined as non-gas liquids.

The bulk of the Company's production and proved reserves consists of natural gas and natural gas condensates with a very small amount of oil (oil volumes are shown combined with gas in MCF equivalent units). The form with which the Company reports production, Mcf equivalents, takes oil production into account. Additionally, in the past the Company's producing properties have produced gas with a relatively high Btu value. Since natural gas is generally sold on a per Btu basis, on certain properties the Company did, from time to time, receive a slight premium on a per Mcf basis. The Company's production also included relatively large amounts of natural gas condensates or non-gas liquids (NGLs) that are listed separately on the table above.

Acquisitions and Dispositions

On June 6, 2008, CNR purchased working interests in certain oil and gas producing properties in south Texas. The acquired properties include a three percent (3%) working interest in over 175 wells across nine separate fields in south Texas, an area where CNR owned working interests from 2003 through 2007. Cash paid at closing of $7,710,555 was based upon an original purchase price of $8,625,500 less purchase price adjustments as of the time of the closing. Additional post-closing purchase price adjustments further reduced the purchase price recorded for balance sheet purposes to $7,396,238. The purchase was funded by a combination of available cash and $5,200,000 in debt from a new Senior Credit Facility provided by Union Bank of California (for more information on Credit Facility, please the "Senior Credit Facility" footnote in the Notes to the Consolidated Financial Statements). In addition to the cash consideration of the purchase price capitalized for balance sheet purposes, CNR capitalized $1,813,275 as additional purchase price (as well as a corresponding amount as "Risk Management Liability") at the time of the purchase based on the value of certain oil and gas price risk management agreements that CNR (see "Risk Management" note) entered into. The price risk management agreements were priced at market prices based on the effective date of the purchases (February 1, 2008) with the prices increasing substantially at the closing date of the purchase (June 6, 2008). Both the adjusted purchase price and this additional purchase price increase related to risk management obligations will be depreciated over the life of the acquired assets on a units of production basis.

The following table presents CNR's interest in the estimated net proved natural gas reserves (unaudited) of the acquired properties as of January 1, 2008 based on a third-party independent reserve analysis.

	Proved Reserves as of January 1, 2008 (acquired June 2008)		
	Developed	Undeveloped	Total
Natural Gas Reserves, MMcf equivalent	2,312	1,628	3,940

The Company expects that substantial capital resources will be devoted to developing and growing the assets acquired in this transaction in the near and medium term.

Additionally, during the period ended June 30, 2008, the Company invested $220,000 to acquire a 2% working interest in an Area of Mutual Interest (AMI) for an area in South Texas. At this time, no Authorization for Expenditures (AFE's) have been issued although the Company does expect that drilling will proceed in 2009 on property covered by this AMI.

On January 31, 2007, the Company sold substantially all of its working interest assets, located in South and East Texas, in a cash transaction with Edge Petroleum. The sale, which closed January 31, 2007 with an effective date of January 1, 2007 resulted in sales proceeds of $3,372,900. The Company realized a pretax book gain on the sale of these assets of $2,018,310 in the first quarter of 2007. The interests sold in 2007 were part of working interests originally acquired in 2003 when CNR acquired an undivided two percent (2%) interest in certain properties constituting working interests in two oil and gas fields known as the Bass Flores Field and Total Tabasco Field located in Hidalgo and Starr Counties in south Texas for consideration of $1,080,000. Aside from these transactions, the Company engaged in no other acquisitions or dispositions in 2008, 2007 or 2006.

Legal Proceedings

As discussed in prior reports, the Company continues to be involved in two separate legal proceedings regarding ownership of coal bed methane gas contained within coal (herinafter "CBM") owned by the Company in southeast Kansas and northeast Oklahoma, and trespass to the coal estate and possible resulting damages to the coal or interference with the ability to develop the coal. The defendants in the two proceedings include oil and gas operating companies, land owners and a gas distribution company. Although the two suits are separate, Quest Cherokee, LLC is a named defendant in each action, and Davis Operating Company is also a principal defendant in the Kansas case.

In the Kansas case, a judge of the Eleventh Judicial District Court in Labette County, Kansas ruled on motions for summary judgment on the issue of ownership of CBM adverse to the Company in April of 2006, and the Company appealed that decision. On December 4, 2007, oral arguments were presented before the Kansas Supreme Court and, subsequent to year end December 31, 2008, the Kansas Supreme Court ruled in favor of the defendants with respect to the ownership of the CBM.

The Company petitioned the Kansas Supreme Court for a rehearing, which was subsequently denied. The case will now be returned to the District Court for further action on the Company's claim of trespass to its coal estate and damages or other unresolved aspects of the case. The Defendants have continued to deny all liability and have asserted certain counterclaims against the Company as well as requesting the Court to quiet title in their favor in all CBM in the subject properties, and requesting other unspecified relief including reasonable attorney's fees and costs, to the extent permitted by applicable law. Given the uncertainties in the resolution of the continuing issues described, it is not possible at this time to evaluate the likelihood of a favorable or unfavorable outcome, or estimate the amount or range of any potential gain or loss. In the Oklahoma action, the Company filed an action in the District Court of Craig County, Oklahoma, which continues in the early stages of discovery at this time.

Other than the legal proceedings mentioned, currently, there are no material pending legal proceedings, other than ordinary routine litigation incidental to the business, to which the Company or any of its subsidiaries is a party or of which any of its property is the subject, and there are no material proceedings to which any director, officer or affiliate of the Company, any owner of record or beneficial owner of more than five percent of any class of voting securities of the Company, or any associate of any such director, officer or security holder is a party adverse to the Company or any of its subsidiaries or has a material interest adverse to the Company or any of its subsidiaries. Further, there are no administrative or judicial proceedings involving the Company or any of its subsidiaries arising under any federal, state or local provisions that have been enacted or adopted regulating the discharge of materials into the environment or primarily for the purpose of protecting the environment.

Stock Performance and Related Shareholder Matters

The Company is not a Securities and Exchange Commission (SEC) reporting company, does not file reports with the SEC and the common stock of the Company is not listed on any national or over-the-counter exchange. The Company does furnish quarterly and year-end financial reports to its shareholders and trading information of the common stock of the Company is currently reported in the Pink Sheets. The range of settled trades as reported on national quotation systems and the dividends paid including regular quarterly dividends as well as extraordinary dividends on such securities for each annual period during the Company's three most recent fiscal years is set forth in the following table:

Period	Low	High	Regular Quarterly Dividend	Extraordinary Dividend
2008	$24.00	$35.00	$0.80	$1.00
2007	$31.00	$39.00	$0.75	$5.00
2006	$24.00	$36.60	$0.60	$1.00

Selected Financial Data

Selected detailed financial data from the previous five years is set forth in the table below:

Years ended December	2008	2007	2006	2005	2004
Total Operating Revenue	$5,351,285	$2,083,088	$2,563,847	$2,835,690	$2,642,442
Net Earnings	$2,977,841	$1,770,481	929,691	1,445,819	832,203
Net Earnings per common share (diluted)	$5.44	$3.37	$1.73	$2.70	$1.64
Cash Dividends per common share	$1.80	$5.75	$1.60	$1.40	$0.40
Total Assets	$18,560,852	$9,276,303	9,453,060	9,344,674	8,415,079

MANAGEMENT'S DISCUSSION AND ANALYSIS

Overview

In 2008, the Company made its largest acquisition to date of oil and gas working interest assets with the intention of increasing production from the acquired assets through development efforts over the short and medium term. This acquisition, funded partly by available cash reserves but also by collateralized bank debt, more than doubled the Company's total assets. In addition to this transaction, the Company leased its oil and gas mineral interests in two owned properties and received lease bonus payments totaling over $2.4 million that added substantially to the Company's cash position. Also in 2008, the Company realized a loss on a tax basis on a prior investment in an oil and gas partnership due to the expensing for tax purposes of intangible drilling costs, which exceeded revenue in 2008. However, Management believes that the successful outcome of this drilling, coupled with the resulting value of reserves and future production revenue, do not result in an impairment of value of the Company's investment.

In 2007, the Company divested itself of substantially all of its oil and gas working interest assets in a sale to Edge Petroleum in a cash transaction described previously in the section Acquisitions & Dispositions. The sale of these properties did not indicate a move by the Company away from involvement in the production of oil and gas, but rather was a transaction that Management deemed to provide an advantageous return on its investment and as a method to realize value for shareholders. The sale provided the Company with substantial liquidity which provided a portion of the funding for the above described acquisition in 2008 and also funded a significant, extraordinary dividend without greatly diminishing the Company's available cash balance. Also in 2007, the Company, through two separate investments, increased its prior investment in an oil and gas drilling partnership focused on exploration and development in South Louisiana.

In 2006, the Company further expanded its drilling with the participation in 12 successful developmental wells on properties in South Texas and East Texas included in the sale to Edge Petroleum discussed above. Additionally, the Company made an initial investment in an oil and gas partnership that holds working interests in proven production, developmental and exploratory properties in South Louisiana. The Company realized a loss on a tax basis in 2006 on the investment in this partnership due to the expensing for tax purposes of intangible drilling costs, which exceeded revenue in 2006.

As stated in prior reports, Management believes that opportunities to increase shareholder value exist in oil and gas exploration and production and continues to position the Company to take advantage of these potential opportunities. As a result of these activities, the 2008 consolidated financial statements show a large part of revenue and the bulk of expenses and capital expenditures incurred related to oil and gas production. Management believes these factors will continue to impact the Company and its subsidiaries in the future as it further develops its activities in this area.

Subsequent Events

Subsequent to the year ended December 31, 2008, the Company committed to a $95,000 investment for a 10% working interest in two developmental wells in Moore Co., TX (Texas Panhandle). At this time, the wells have been successfully completed and the Company expects that production will flow to market in the near future.

Also subsequent to the year ended December 31, 2008, the Company's lender, Union Bank of California, lowered the Company's borrowing base by $900,000 to $4.3 million. Subsequent to year end, substantial principal payments were made and the outstanding balance on the loan is, at the time of this report, $4.2 million. The Credit Facility is discussed in further detail under "Senior Credit Facility" in the Notes to the Financial Statements.

Results of Operations

Total operating revenue on a consolidated basis increased in 2008 from 2007 after dropping in 2007 from 2006. The increase in 2008 was due to lease bonuses paid to the company by lessees, increased royalty revenue due to higher oil and gas commodity prices and the impact of production revenue from acquired oil and gas working interest properties mid year. The decrease in 2007 is due to the sale early in the year of substantially all of the Company's working interest properties. In 2007, however, mineral royalties increased substantially from 2006, based primarily on additional production from new wells and stable, higher commodity prices.

As mentioned in prior reports, a lessee continues to expand drilling operations and production of coal bed methane gas from certain of the Company's coal properties located in Sebastian County, Arkansas, with revenue continuing to be received from royalties from this operation during the current fiscal periods under comparison. Revenues increased for the fifth straight year

in 2008, albeit only slightly from 2007, following on strong year over year growth in 2007 over 2006. The Company's lessee intends to continue to develop this property although further declines in commodity gas prices may affect these plans. Additionally, sustained weak commodity prices in the future would adversely affect the amount of royalty revenue that the Company receives from this lessee. Current and future revenue from this source will continue to be subject to the uncertainties of production volume and price fluctuations in the market price of natural gas. For the year ended December 31, 2008, royalties from coal bed methane production associated with these properties was $1,127,497 and is included in operating revenue in mineral royalties.

Revenue from working interest properties increased in 2008 from 2007 due to the acquisition of working interest properties in June 2008. This was in contrast to the decrease in 2007 from 2006 from working interest property revenues due to the sale of substantially all of the Company's previously owned working interest properties in the first quarter of 2007. Reserve estimates for the periods discussed are provided below.

Natural Gas and Oil Reserve Estimates (Unaudited)

Proved reserves are estimated quantities of natural gas and oil which geological and engineering data demonstrate with reasonable certainty to be recoverable in future years from known reservoirs under existing economic and operating conditions. Proved developed reserves are proved reserves that can reasonably be expected to be recovered through existing wells with existing equipment and operating methods. Proved undeveloped reserves are reserves that are expected to be recovered from new wells on undrilled acreage or from existing wells where a relatively major expenditure is required for recompletion.

Reserve quantities were prepared by independent petroleum engineers T.J. Smith & Company, Inc. for all years where reserve estimates are presented. These reserve quantities are exclusive of the Company's reserves associated with its mineral interest properties.

The following table sets forth the Company's net proved and proved developed gas reserves at December 31, 2006, 2007 and 2008 and the changes in net proved gas reserves for the years ended December 31, 2006, 2007 and 2008.

	2008	2007	2006
Proved Reserves as of January 1	91	1,563	1,193
Revisions of previous estimates	—	—	—
Extensions and discoveries	194	83	493
Purchase of properties	3,940	—	—
Disposition of properties	—	(1,544)	—
Production	(205)	(10)	(123)
Proved Reserves as of December 31	4,020	91	1,563

Proved Developed Reserves at:	
December 31, 2006	1,351
December 31, 2007	91
December 31, 2008	2,472

Note: Reserves shown above are indicated in MMcf, or "Million Cubic Feet".

Expenses associated with oil and gas production increased in 2008 from 2007 after decreasing in 2007 from 2006. These expenses are driven by the Company's pro-rata share of expenses resulting from the operation of oil and gas wells. The increase in these expenses in 2008 was driven by the acquisition of producing properties in June 2008 that vastly increased the Companies oil and gas assets and, therefore, related well costs. The decrease in 2007 was driven by the reduced oil and gas holdings due to the sale, in 2007, of substantially all of the Company's oil and gas working interests. Severance taxes are included in these expenses and are based on a percentage of revenue derived from oil and gas sales. Oil and gas operating expenses relate to the ongoing lease operating costs of managing the Company's working interest properties as well as one-time workover costs of optimizing existing wells. Depreciation, depletion and amortization increased in 2008 from 2007 with the addition of production volumes after a decrease in 2007 from 2006 attributable to lower production volumes for the reasons discussed previously.

In 2008, the Company recorded impairment and well abandonment charges on oil and gas properties which relate to wells drilled at the end of 2007 and the beginning of 2008. Based upon reserve information, management deemed that the book value of oil and gas assets exceeded the recoverable reserves and recorded impairments to better reflect the expected value of the wells. These impairment charges amounted to $189,000 in 2008. Additionally, well abandonment charges of $238,640 were recorded in 2008 due to the plugging and abandoning of noneconomic wells. In 2007, the Company recorded impairment charges that amounted to $460,000, relating to two wells associated with these same properties where reserve values were below the initial carrying costs of the wells.

General and administrative expenses decreased slightly in each of the past three years through 2008. The decrease in 2008 was primarily from a slight decrease in legal costs and restricted stock compensation expense which offset slight increases in salary and performance based bonus compensation. The decrease in 2007 was primarily due to a large decrease in legal costs that offset slight increases in salary and restricted stock compensation expense, while the increases in prior years were due primarily to increased auditing and insurance costs, increased legal costs primarily due to expenses associated with litigation as previously discussed, legal expenses in connection with the Arkansas coal lease and executive compensation. In 2007, expenses associated with the exercise of director stock options as well as the expensing of executive restricted stock added to general and administrative expenses.

Substantial Other Income was recognized in 2008 from the price risk management transaction as described in detail in Note (12) to the Consolidated Financial Statements included in this report. An unrealized gain of $2,510,593 was recorded as "Unrealized oil and gas price risk management" which represents the change, in this case the decrease, in the Risk Management liability from the June 1, 2008 (the effective date of the underlying transaction) to December 31, 2008. The cash settlement costs of the Risk Management contracts, in the aggregate amount of ($93,000), are recorded on the income statement as "Realized oil and gas price risk management" and represent cash payments made by CNR to cover the differential between the contracted price and the settlement price. The current "Risk management asset" of $697,318 listed on the balance sheet is the expected value of the future payments due to Central through the life of the contracts (through December 31, 2009) based on projected forward prices of oil and gas as of December 31, 2008. All Risk Management contracts in place as of the end of 2008 mature prior to the end of the fiscal year 2009.

The Company's investment income fell in 2008 as lower cash balances coupled with low interest rates reduced total interest income. Additionally, the Company realized losses on equity securities that further reduced investment income. This contrasted with 2007 and 2006 when the Company posted significant investment income owing to strong interest income generated by its large cash position coupled with rising interest rates. In 2007 the Company disposed of investments on which it had previously recorded an impairment charge, reducing its book value for financial reporting purposes but not for tax purposes, and recognized the full amount of the deferred tax benefit associated with the write-down.

As described in the Notes to the accompanying consolidated financial statements, the Company recorded income tax expenses in 2008, 2007 and 2006. The income tax expenses recorded in 2008, 2007 and 2006 were due to the strong operating income generated by the Company and the taxable gain from the sales of working interests, and were partially reduced by percentage depletion in excess of tax basis.

Cash provided by operating activities increased dramatically in 2008 from 2007 due to strong net income from existing and added oil and gas properties and from lease bonus payments. Cash from operations decreased in 2007 from 2006, in large part because the sale of oil and gas properties early in the year reduced operating cash flow. Total cash and cash equivalents increased strongly in 2008 over 2007 after falling slightly in 2007 from 2006. The 2008 increases were from large cash lease bonus receipts, working interest production and borrowings under the Company's Credit Facility to fund acquisitions, while the decrease in 2007 was due to the substantial drilling commitments and the payment of a large, extraordinary dividend to shareholders in the fourth quarter as well as cash outflows to acquire interests in "other investments" earlier in the year. Detailed cash flow analysis follows under Financial Condition – Liquidity and Capital Resources below.

Because of the nature of the Company's business, inflation has little impact on most expenses. That said, drilling expenses are subject to inflationary increases and, since drilling expenses are a large use of the Company's cash, increases in these expenses, inflationary or otherwise, may impact the income statement and future earnings of the Company. It is not anticipated that changes in the price of coal will have a material impact on the total income of the Company because of the low activity of coal extraction and the substantial prepaid coal royalty credit. However, substantially increased prices could cause an increase in the amount of coal mined which could result in additional payments to the Company as discussed in an earlier section of this report.

As is indicated in the discussion above concerning oil and gas revenue, changes in the price of oil and natural gas have an impact on the consolidated income of the Company, and at times it can be dramatic (as it was in the first six months of 2008). The fluctuation in the price of oil and gas in the years under comparison contributed to increased revenue from that source when prices increased. Sustained higher average oil and gas prices in the years 2006 through the end of 2008 contributed to increased revenue from oil and gas during those periods. Additionally, changes in the prices of oil and gas tend to have a compounding effect as higher prices generally drive increased production, and lower prices often cause unprofitable wells to be shut in, thus reducing overall production.

Financial Condition – Liquidity and Capital Resources

The financial condition of the Company changed in 2008, with the addition of $5.2 million in bank funded debt. Management believes that although the debt level has increased greatly, that the financial condition of the Company remains strong and the liquidity of the Company continues to be high, evidenced by large cash balances and a favorable ratio of current assets to current liabilities. Prior to the establishment of the Credit Facility in 2008, in both 2007 and 2006, other than $210,000 from the Company's revolving line of credit, the Company funded all acquisitions and capital expenses associated with oil and gas production from available liquid assets.

Due to the financial markets uncertainty in 2008, and building on the uncertain fixed income and equity market conditions in 2007, the Company reduced its equity and longer-term fixed income positions in favor of shorter-term fixed income and cash positions and took steps to invest primarily in government backed fixed income securities which, despite low yields, offer safety of principal and liquidity in an otherwise volatile market.

Although the liquidity of the Company continues to be favorable, it is affected by cash flows. The Consolidated Statements of Cash Flows in the accompanying Consolidated Financial Statements illustrate that there was a net increase in cash and cash equivalents in 2008, while there was a net decrease in cash and cash equivalents in 2007 and 2006. Cash from operating activities was higher in 2008 than 2007, although it was lower in 2007 than 2006. The increase in 2008 was generated by newly acquired producing properties, strong royalty revenue driven by a run-up in commodity prices and large lease bonus payments. The drop in 2007 was due to the sale of oil and gas properties early in the year.

In 2008, cash from investing activities decreased greatly from 2007 with the use of cash to acquire the Company's interest in oil and gas properties. In 2007 cash from investing activities increased from 2006 due to the sale of working interest properties, despite its use to fund oil and gas capital investments and purchase additional interests in an oil and gas partnership. In 2008, cash provided by financing activities increased greatly from 2007 due to the establishment and borrowing from the Senior Credit Facility used to fund the acquisition of producing properties. This differed greatly from the prior year when there was a large use of cash from financing activities due to the large extraordinary dividend paid in 2007.

Adjusted EBITDA and Adjusted Net Income

Adjusted EBITDA is a performance measure used by the Company to determine whether the Company is generating cash flow at a level that can sustain or support both ongoing operations as well as new projects. Adjusted EBITDA is also a quantitative metric used throughout the investment community for valuation purposes and which the Company believes will enhance the reader's understanding of its financial conditions, change of financial condition and results of operations. These non-GAAP financial measures should not be considered replacements for and should be read together with the GAAP financial statements included in this report.

The Company defines Adjusted EBITDA as net income plus:

- Interest Expense
- Depreciation, depletion & amortization
- (Gain) Loss on sale of assets
- Unrealized (Gain) Loss on price risk management contracts
- Income Tax (benefit) provision

	Years ended December 31		
	2008	2007	2006
Net Income	2,977,841	1,770,481	929,691
Plus:			
Interest Expense	164,399	—	8,590
Depreciation, depletion & amortization	926,360	104,026	211,122
(Gain) Loss on sale of assets	—	(2,018,310)	—
Unrealized (Gain) Loss on price risk management	(2,510,593)	—	—
Income Tax (benefit) provision	1,573,486	921,824	399,423
Adjusted EBITDA	3,131,493	778,021	1,548,826

The Company defines Adjusted Net Income as net income plus:

- Unrealized (gain) loss on price risk management contracts.

Adjusted Net Income and adjusted net income per share is a measure of net income generated through oil and gas activities without the impact of price risk management transactions.

Adjusted Net Income

	Years ended December 31		
	2008	2007	2006
Net Income	2,977,841	1,770,481	929,691
Plus:			
Unrealized (Gain) Loss on price risk management (net of tax)	(1,561,714)	—	—
Adjusted Net Income	1,416,127	1,770,481	929,691
Weighted average. shares outstanding basic	534,647	521,305	509,709
Adjusted Net Income per Share	$2.65	$3.40	$1.82

Contractual Obligations, Commitments and Off Balance-Sheet Arrangements

As of December 31, 2008, the Company had $5,200,000 in borrowings under the Senior Credit Facility established by a subsidiary. The amount available under this Credit Facility established in 2008 by CNR was reduced subsequent to year end by Union Bank to $4.3 million. Prior to the borrowing base reduction notice, the Company had reduced the outstanding balance to $4.2 million, the amount outstanding at the date of this report. The Credit Facility was used to finance a portion of the June 2008 acquisition of producing properties (as further described in “Acquisition and Divestiture of Producing Properties” in the Notes section to the audited financial statements) and may be used from time to time when additional liquidity is required for Capital Expenditures related to oil and gas producing projects.

Other than the above mentioned bank line, the Company has no significant liabilities and has no off balance sheet arrangements. In addition, since the Company carries no inventory and has no significant amount of accounts payable, its working capital needs are minimal. Due to the Company’s significant liquid assets and lack of material current known demands, commitments or contractual obligations, Management believes that liquidity should continue to be favorable and the financial condition of the Company strong.

CNR is called upon, from time to time, to pay its pro-rata share of expenses and capital expenditures associated with both ongoing operations as well as exploratory and developmental projects. Prior to capital expenditures being incurred on these properties, the project operator issues CNR an Authorization for Expenditure (AFE) for review and approval. Management believes that, based upon the CNR’s current liquidity level, the expected future revenue from these ventures, and the availability of bank financing, sufficient financial resources will be available to meet any and all capital requirements required by these projects.

A tabular presentation of contractual obligations is presented below:

Contractual Obligations	Total	< 1Year	1-3 Years	3-5 Years	> 5 Years
	Payments Due by Period				
Long-Term Debt Obligations	$ 5,200,000	$ 0	$ 0	$ 5,200,000	$ 0
Operating Lease Obligations	$ 1,500	$ 1,500	$ 0	$ 0	$ 0
Total	$ 5,201,500	$ 1,500	$ 0	$ 5,200,000	$ 0

Other than these projects, the Company has no specific commitment for material capital expenditures at the present time. Management does, however, continue to actively pursue other business opportunities which may result in a more productive deployment of its assets and ultimately increase earnings, and in pursuit of that objective has focused on the possible acquisition of additional mineral properties or working interests in selected oil and gas operations. In addition, Management continues to aggressively pursue development of its currently owned oil and gas and coal properties and to attempt to lease more of its mineral properties in order to generate additional rental, bonus and royalty income. In 2008 the Company made two new oil and gas leases on property it owns in Sebastian County, Arkansas. In 2007 the Company made one new oil and gas lease on property it owns in Craig County, Oklahoma. In 2006 the Company made three new oil and gas leases on property it owns, two of which were made in Sebastian County, Arkansas, the other of which was made in San Jacinto, County, Texas. As yet there has been no production under any of the leases made in 2006, 2007 or 2008, but bonuses were received by the Company at the time each lease was executed which were recognized as income ratably over the lives of the respective leases for financial reporting purposes.

Accounting Policies, Recent Accounting Pronouncements and Other Matters

A summary of significant accounting policies is contained in the Notes to the accompanying consolidated financial statements. One example of a judgment made in applying a critical accounting policy is the impairment charge made relative to the decline in market value of certain securities that is deemed to be other than temporary as is referred to above. The impairment of the value of securities is analyzed quarterly on an individual security basis based on the length of time, and the extent to which market value has been less than cost; the financial condition and any specific events which affect the issuers; and the Company’s intent and ability to hold the security. There would be materially different reported results if different assumptions or conditions were to prevail. In the judgment of Management and the Board of Directors, the indicated charges were appropriate. Another example of a judgment made in applying a critical accounting policy is the periodic review of long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. This accounting policy has been applied in the past, for example, in downward adjustments to the carrying value of the Company’s coal and other mineral properties. This accounting policy does not permit an upward adjustment of book carrying values when Management believes the current fair market value of an asset is greater than the carrying value on the balance sheet and, in fact, Management believes that this may be the case with respect to the carrying value of certain assets on the balance sheet carried at their historical cost.

Yet another example of judgment exercised in applying a critical accounting policy is the election, approved by the Board of Directors of the Company, to utilize the “Successful Efforts” method of accounting with respect to the operation of the oil and gas working interests described above. “Successful Efforts” typically results in more of the costs of operations being deducted as incurred rather than those expenditures being capitalized. The Company uses the units-of-production method to amortize oil and gas properties.

This method requires the Company to amortize the capitalized costs incurred in developing a property in proportion to the amount of oil and gas produced as a percentage of the amount of proved reserves contained in the property. Accordingly, any changes in reserve estimates as described above will cause corresponding changes in depletion expense recognized in periods subsequent to the reserve estimate revision. Although every reasonable effort is made to ensure that reserve estimates reported represent the most accurate assessments possible, the subjective decisions and variances in available data for various fields make these estimates generally less precise than other estimates included in the financial statement disclosures. Data for a given field may change substantially over time as a result of numerous factors including, but not limited to, additional development activity, evolving production history and continual reassessment of the viability of production under varying economic conditions. As a result, material revisions to existing reserve estimates may occur from time to time.

The table below shows dividend payments (both Regular and Extraordinary) for the past three years:

Period	Regular Quarterly Dividend	Extraordinary Dividend
2008	$0.80	$1.00
2007	$0.75	$5.00
2006	$0.60	$1.00

In February 2009, the Board of Directors approved the payment of the regular quarterly cash dividend in the amount of $0.20 to be paid on March 27, 2009 to shareholders of record of March 13, 2009.

Disclosure about Market Risk

The primary market risk exposures of the Company relate to changes in interest rates, changes in equity security prices and changes in certain commodity prices. The Company's exposure to market risk for changes in interest rates relate solely to its debt. All such securities are held to maturity, have original maturities of less than one year and are not hedged by derivative financial instruments. The Company's exposure to market risk for changes in equity security prices relates solely to its marketable equity investment portfolio consisting primarily of exchange traded funds. The Company's exposure to market risk for changes in commodity prices relates to changes in the prices of minerals, predominantly natural gas and the effect thereof on its royalties and rentals relating to coal deposits and mineral rights as discussed above, in addition to its oil and gas working interests which are subject to market risks for changes in natural gas prices.

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 or co-venture 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.

CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

The Company's auditor for the past five years has been KPMG. There has been no change in independent auditors during that time nor have there been disagreements with the accountants.

The following documents are part of this report:

		Page
1.	Independent Auditors' Report	17
2.	Consolidated Financial Statements:	
	Consolidated Balance Sheets as of December 31, 2008 and 2007	18-19
	Consolidated Statements of Operations - Years ended December 31, 2008, 2007, and 2006	20
	Consolidated Statements of Stockholders' Equity - Years ended December 31, 2008, 2007 and 2006	21
	Consolidated Statements of Comprehensive Income -Years Ended December 31, 2008, 2007 and 2006	22
	Consolidated Statements of Cash Flows - Years ended December 31, 2008, 2007 and 2006	23
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KPMG LLP
Suite 1000
1000 Walnut Street
Kansas City, MO 64106-2162

Independent Auditors' Report

The Board of Directors
Central Natural Resources, Inc. and subsidiaries:

We have audited the accompanying consolidated balance sheets of Central Natural Resources, Inc. and subsidiaries (the Company) as of December 31, 2008 and 2007, and the related consolidated statements of operations, stockholders' equity, comprehensive income, and cash flows for each of the years in the three-year period ending December 31, 2008. These consolidated financial statements are the responsibility of the Company's management. 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 financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing 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 over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our 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, 2008 and 2007, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2008, in conformity with U.S. generally accepted accounting principles.

KPMG LLP

Kansas City, Missouri
April 15, 2009

KPMG LLP, a U.S. limited liability partnership, is the U.S.
member firm of KPMG International, a Swiss cooperative.

CENTRAL NATURAL RESOURCES, INC. AND SUBSIDIARIES
Consolidated Balance Sheets
December 31, 2008 and 2007

Assets	2008	2007
Current assets:		
Cash and cash equivalents	$ 4,139,786	2,401,844
Accounts receivable	672,887	91,655
Securities maturing within one year, at amortized cost	—	2,487,844
Income tax receivable	153,836	398,851
Advance to operator	210,762	—
Risk management asset	697,318	—
Deferred income tax	74,951	100,771
Other	9,775	9,996
Total current assets	5,959,315	5,490,961
Notes receivable	29,450	52,450
Deferred finance charges	78,775	—
Equity securities, at fair value	452,280	565,130
Investment in oil and gas limited partnership, at cost	1,407,882	1,429,979
Property, plant, and equipment:		
Oil and gas producing properties (successful efforts)	10,599,934	778,684
Mineral interest properties	1,668,137	1,668,137
	12,268,071	2,446,821
Less accumulated depletion, depreciation, and amortization	1,634,921	709,038
Net property, plant, and equipment	10,633,150	1,737,783
Total assets	$ 18,560,852	9,276,303

CENTRAL NATURAL RESOURCES, INC. AND SUBSIDIARIES
Consolidated Balance Sheets
December 31, 2008 and 2007

Liabilities and Stockholders' Equity	2008	2007
Current liabilities:		
Accounts payable and accrued expenses	$ 226,033	125,458
Deferred income—advance mineral lease bonus	895,627	266,625
Total current liabilities	1,121,660	392,083
Deferred compensation	114,403	41,491
Deferred income advance mineral lease bonus	1,558,180	320,000
Deferred income taxes	567,139	352,300
Senior credit facility	5,200,000	—
Stockholders' equity:		
Preferred stock of $1 par value. Authorized 100,000 shares; no shares issued	—	—
Common stock of $1 par value. Authorized 2,500,000 shares; 563,024 issued in 2008 and 561,524 in 2007	563,024	561,524
Additional paid-in capital	1,187,699	1,093,534
Treasury Stock—31,836 shares in 2008 and 24,892 shares in 2007	(726,780)	(520,905)
Retained earnings	9,004,133	7,001,677
Accumulated other comprehensive (loss) income, net of deferred taxes of $(15,401) in 2008 and $18,633 in 2007	(28,606)	34,599
Total stockholders' equity	9,999,470	8,170,429
Total liabilities and stockholders' equity	$ 18,560,852	9,276,303

See accompanying notes to consolidated financial statements.

CENTRAL NATURAL RESOURCES, INC. AND SUBSIDIARIES
Consolidated Statements of Operations
Years Ended December 31, 2008, 2007, and 2006

	2008	2007	2006
Operating revenue:			
Mineral royalties	$ 3,314,697	2,009,963	1,412,845
Oil and gas production	2,036,588	73,125	1,151,002
Total operating revenue	5,351,285	2,083,088	2,563,847
Oil and gas operating expenses	680,164	68,855	212,503
Depreciation, depletion, and amortization	926,360	104,026	211,122
Exploration expenses	—	28,129	10,700
Impairment on oil and gas properties	427,640	460,000	—
Interest expense	164,399	—	—
General and administrative expenses	1,159,429	1,179,971	1,188,188
Total expenses	3,357,992	1,840,981	1,622,513
Other income:			
Gain on sale of oil and gas assets	—	2,018,310	—
Realized loss oil and gas price risk management	(93,000)	—	—
Unrealized gain on oil and gas price risk management	2,510,593	—	—
Operating income	4,410,886	2,260,417	941,334
Nonoperating income:			
Investment income	129,778	431,115	387,171
Other	10,663	773	609
Total nonoperating income	140,441	431,888	387,780
Earnings before income taxes	4,551,327	2,692,305	1,329,114
Income taxes	1,573,486	921,824	399,423
Net earnings	$ 2,977,841	1,770,481	929,691
Earnings per share:			
Basic	$ 5.57	3.40	1.82
Diluted	5.44	3.37	1.73
Weighted average number of shares of common stock outstanding:			
Basic	534,647	521,305	509,709
Diluted	547,847	525,805	538,709

See accompanying notes to consolidated financial statements.

CENTRAL NATURAL RESOURCES, INC. AND SUBSIDIARIES
Consolidated Statements of Stockholders' Equity
Years Ended December 31, 2008, 2007, and 2006

	Common stock	Additional capital	Retained earnings	Treasury stock	Accumulated other comprehensive income	Total
Balance, December 31, 2005	521,524	192,117	8,240,207	(234,820)	77,132	8,796,160
Net earnings	—	—	929,691	—	—	929,691
Cash dividends ($1.60 per share)	—	—	(823,808)	—	—	(823,808)
Purchase of 4,018 shares of common stock for treasury ($32.43 per share)	—	—	—	(130,285)	—	(130,285)
Exercise of stock options	10,000	155,566	—	—	—	165,566
Issuance of restricted stock	4,600	—	—	—	—	4,600
Share-based payment	—	106,602	—	—	—	106,602
Excess tax benefit of share-based payments	—	66,916	—	—	—	66,916
Net change in unrealized appreciation on investments available for sale	—	—	—	—	(54,914)	(54,914)
Balance, December 31, 2006	536,124	521,201	8,346,090	(365,105)	22,218	9,060,528
Net earnings	—	—	1,770,481	—	—	1,770,481
Cash dividends ($5.75 per share)	—	—	(3,091,854)	—	—	(3,091,854)
Purchase of 4,600 shares of common stock for treasury ($33.87 per share)	—	—	—	(155,800)	—	(155,800)
Exercise of stock options	24,500	349,920	—	—	—	374,420
Share-based payment	900	88,375	—	—	—	89,275
Tax benefit of share-based payments	—	134,038	—	—	—	134,038
Dividend equivalents on restricted stock units	—	—	(23,040)	—	—	(23,040)
Net change in unrealized appreciation on investments available for sale	—	—	—	—	12,381	12,381
Balance, December 31, 2007	$ 561,524	1,093,534	7,001,677	(520,905)	34,599	8,170,429
Net earnings	—	—	2,977,841	—	—	2,977,841
Cash dividends ($1.80 per share)	—	—	(959,125)	—	—	(959,125)
Purchase of 6,944 shares of common stock for treasury ($29.65 per share)	—	—	—	(205,875)	—	(205,875)
Exercise of stock options	100	1,130	—	—	—	1,230
Issuance of restricted stock	200	—	—	—	—	200
Share-based payment	1,200	74,937	—	—	—	76,137
Tax benefit of share-based payments	—	18,098	—	—	—	18,098
Dividend equivalents on restricted stock units	—	—	(16,260)	—	—	(16,260)
Net change in unrealized (depreciation) on investments available for sale	—	—	—	—	(63,205)	63,205
Balance, December 31, 2008	$ 563,024	1,187,699	9,004,133	(726,780)	(28,606)	9,999,470

See accompanying notes to consolidated financial statements.

CENTRAL NATURAL RESOURCES, INC. AND SUBSIDIARIES
Consolidated Statements of Comprehensive Income
Years Ended December 31, 2008, 2007, and 2006

	2008	2007	2006
Net earnings	$ 2,977,841	1,770,481	929,691
Other comprehensive income (loss):			
Realized gains (losses) and unrealized appreciation (depreciation) on investments	(102,374)	58,803	20,622
Income taxes	35,831	(20,583)	(7,219)
Total realized gains (losses) and unrealized appreciation (depreciation) on investments, net of tax	(66,543)	38,220	13,403
Less:			
Realized investment gains included in net earnings	5,135	(39,753)	(105,103)
Income taxes	(1,797)	13,914	36,786
Total realized investment (loss) included in net earnings, net of tax	3,338	(25,839)	(68,317)
Total realized losses and unrealized depreciation on investments	(63,205)	12,381	(54,914)
Comprehensive income	$ 2,914,636	1,782,862	874,777

See accompanying notes to consolidated financial statements.

CENTRAL NATURAL RESOURCES, INC. AND SUBSIDIARIES
Consolidated Statements of Cash Flows
Years Ended December 31, 2008, 2007, and 2006

	2008	2007	2006
Cash flows from operating activities:			
Net earnings	$ 2,977,841	1,770,481	929,691
Adjustments to reconcile net earnings to net cash provided by operating activities:			
Depletion, depreciation, and amortization	926,360	104,026	211,122
Unrealized oil and gas risk price management	(2,510,593)	—	—
Amortization of discounts of securities	(23,558)	(124,988)	(120,765)
Impairment charge on oil and gas properties	427,640	460,000	—
Gain on sale of oil and gas assets	—	(2,018,310)	—
Loss (gain) on sales of equity securities	5,135	(39,753)	(105,103)
Share-based payments	76,137	89,275	106,602
Deferred compensation	72,912	41,491	—
Deferred income taxes	274,693	(39,973)	184,297
Changes in assets and liabilities:			
Accounts receivable and other assets	(581,011)	126,521	16,935
Income tax receivable	245,015	(256,104)	(142,747)
Advance to operator	(210,762)	—	70,769
Deferred income—advance mineral lease bonus	1,867,182)	551,153	(1,733)
Accounts payable and accrued expenses	100,575	97,178	(27,356)
Federal and state income taxes	—	—	(83,472)
Net cash provided by operating activities	3,647,566	760,997	1,038,240
Cash flows from investing activities:			
Proceeds from matured/called investment debt securities	5,000,000	15,000,000	15,000,000
Purchases of investment debt securities	(2,488,598)	(14,878,328)	(14,874,658)
Proceeds from note receivable	23,000	—	—
Proceeds from sales of oil and gas assets	—	3,372,900	—
Purchases of equity securities	(514,918)	(260,447)	(649,976)
Proceeds from sales of equity securities	525,394	265,214	592,710
Oil and gas capital expenditures	(1,039,854)	(1,203,721)	(452,255)
Purchase of oil and gas properties	(7,396,238)	—	—
Distribution from oil and gas limited partnership	22,097	—	—
Purchase of investment in oil and gas limited partnership	—	(929,979)	(500,000)
Net cash provided by (used in) investing activities	(5,869,117)	1,365,639	(884,179)
Cash flows from financing activities:			
Deferred finance charges	(78,775)	—	—
Purchase of common stock for treasury	(205,875)	(155,800)	(130,285)
Exercise of stock options/sale of restricted stock	1,430	321,970	170,166
Excess tax benefit of share-based compensation	18,098	134,038	66,916
Dividend equivalent on restricted stock units, net	(16,260)	(23,040)	—
Payments of dividends	(959,125)	(3,091,854)	(823,808)
Bank Loans	5,200,000	—	(210,000)
Net cash provided by (used in) financing activities	3,959,493	(2,814,686)	(927,011)
Net increase (decrease) in cash and cash equivalents	1,737,942	(688,050)	(772,950)
Cash and cash equivalents, beginning of year	2,401,844	3,089,894	3,862,844
Cash and cash equivalents, end of year	$ 4,139,786	2,401,844	3,089,894
Income taxes paid during the year	$ 1,038,798	1,086,864	362,710
Interest expense paid during the year	164,399	—	8,590

See accompanying notes to consolidated financial statements.

(1) Summary of Significant Accounting Policies

Basis of Consolidation

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

Cash and Cash Equivalents

Cash and cash equivalents consist of demand deposit accounts, money market deposit accounts and FDIC-insured certificates of deposit. For purposes of the consolidated statements of cash flows, the Company considers all highly liquid debt instruments with original maturities of three months or less to be cash equivalents.

Investment Securities

Investments in debt securities are classified as held-to-maturity securities, which are carried at amortized cost. Investments in marketable equity securities are classified as available-for-sale securities, which are carried at fair value, with unrealized gains and losses excluded from earnings and reported in other comprehensive income.

A decline in the market value of any available-for-sale or held-to-maturity security below cost that is deemed to be other than temporary results in a reduction in carrying amount to fair value. The impairment is charged to earnings and a new cost basis for the security is established. Other-than-temporary impairment is analyzed on an individual security basis based on the length of time and the extent to which market value has been less than cost, the financial condition and any specific events that affect the issuer, and the Company's intent and ability to hold the security. Other-than-temporary impairment is measured based on the individual security's quoted market price.

Premiums and discounts are amortized or accreted over the life of the related held-to-maturity security as an adjustment to yield using the effective-interest method. Dividend and interest income are recognized when earned. Realized gains and losses for securities classified as available-for-sale are included in net earnings and are derived using the specific identification method for determining the cost of securities sold.

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 sheet. Maintenance and repairs are charged to expense as incurred. Renewals and betterments that extend the useful life of the asset are capitalized. Coal deposits with a net carrying value of approximately $700,000 at December 31, 2008 are not presently leased or producing coal in commercial quantities. During 2008 and 2007 a minimal amount of coal mining occurred (108,408 tons and 56,712 tons, respectively).

Depreciation and Depletion

Non oil and gas equipment, which was fully depreciated at December 31, 2008, was depreciated using the straight-line method over its estimated useful life. Depletion of coal deposits is computed at the rate of $0.025 per ton of coal produced or purchased, which approximates depletion computed on a wasting-asset basis. Oil and gas producing properties and related production equipment and assets are depreciated on a units-of-production basis as oil and gas is produced.

Operating Revenue

Royalties from coal, oil and gas as well as oil and gas lease bonuses are included on the line "Mineral Royalties" under Operating Revenue. Oil and gas revenues from working interests in producing oil and gas assets are included on the line "Oil and Gas Production" under Operating Revenue. 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. Oil and gas lease bonuses that relate to future periods are deferred and recognized as income over the related future periods.

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. Revenue and expenses from oil and gas production in the period ended December 31, 2008 were generated by working interests in oil and gas properties acquired in June 2008; oil and gas production in the periods ended December 31, 2006 were generated by working interests in gas properties acquired in February 2003 and working interests in unproved properties acquired in July 2002.

Exploration and Production—Exploration expenses, including geological and geophysical costs, rental, and exploratory dry holes, are charged against income as incurred. Costs of successful wells, related production equipment, and developmental dry holes are capitalized and amortized by field using the unit-of-production method as gas is produced.

Undeveloped acreage costs are capitalized and amortized at rates that provide full amortization on abandonment of unproductive leases. Costs of abandoned leases are charged to the accumulated amortization accounts, and costs of productive leases are transferred to the developed property accounts.

Investment in Oil and Gas Limited Partnership

In 2006, the Company purchased a minor interest in an oil and gas limited partnership for which the Company has virtually no influence over partnership operating and financial policies. This investment is accounted for at cost. The carrying amount is periodically reviewed for other-than-temporary impairment. In 2008 the Company received a distribution of $22,000 which reduced the carrying value of the investment in the partnership by a corresponding amount.

Income Taxes

The Company and its subsidiaries file a consolidated federal income tax return.

Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the consolidated financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities for subsequent changes in tax rates is recognized in income in the period that includes the tax rate change. In the case of a write-down with an uncertainty regarding its ultimate realization for tax purposes, a deferred tax asset valuation allowance is created.

Derivatives

The Company recognizes derivative instruments as either Risk Management Assets or Liabilities in the Consolidated Balance Sheets and measures those instruments at fair value in accordance with SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities as Amended. Changes in the fair value of derivatives are recorded each period in current earnings or other comprehensive income (loss) depending on the use of the derivative and whether it qualifies for hedge accounting.

The Company uses derivative instruments only for risk management purposes and does not enter into derivative transactions for speculative or trading purposes. See note 8 for further information regarding derivative instruments.

Stock Option Plans

Effective January 1, 2006, the Company adopted Financial Accounting Standards Board Statement No. 123(R), *Share-Based Payment* (Statement 123(R)). This statement replaces FASB Statement No. 123, *Accounting for Stock-Based Compensation* (Statement 123) and supersedes APB No. 25. Statement 123(R) requires that all stock-based compensation be recognized as an expense in the financial statements and that such cost be measured at the fair value of the award. This statement was adopted using the modified prospective method of application, which requires the Company to recognize compensation cost on a prospective basis. Under this method, the Company recorded stock-based compensation expense for awards granted prior to, but not yet vested as of January 1, 2006, using the fair value amounts determined for pro forma disclosures under Statement 123. For stock-based awards granted after January 1, 2006, the Company recognizes compensation expense based on estimated grant date fair value using the Black-Scholes option-pricing model.

Statement 123(R) also requires that excess tax benefits related to stock option exercises be reflected as financing cash inflows. Share-based compensation cost that has been included in income from continuing operations amounts to $149,049 for the year ended December 31, 2008, $130,766 for the year ended December 31, 2007 and $95,700 for the year ended December 31, 2006. The total income tax benefit recognized in the income statement for share-based compensation arrangements was $56,333 for the year ended December 31, 2008, $49,423 for the year ended December 31, 2007 and $36,170 for the year ended December 31, 2006.

Impairment of Long-Lived Assets and Long-Lived Assets to Be Disposed Of

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of the asset to the estimated future undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment recognized is measured by the amount by which the carrying amount exceeds the fair value. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell.

Proved gas properties are reviewed for impairment on a field-by-field basis when facts and circumstances indicate that their carrying amounts may not be recoverable. In performing this review, future cash flows are estimated by applying estimated future gas prices to estimated future production, less estimated future expenditures to develop and produce the reserves. If the sum of these estimated future cash flows (undiscounted and without interest charges) is less than the carrying amount of the property, an impairment loss is recognized for the excess of the carrying amount over the estimated fair value of the property based on estimated future cash flows.

Earnings and Dividends per Share

Basic earnings per share are based on the weighted average number of common shares outstanding. Dilutive earnings per share are based on the weighted average number of common shares and dilutive shares and share equivalents outstanding during the year.

Comprehensive Income

Comprehensive income consists of net income and net unrealized gains (losses) on available-for-sale securities and is presented in the consolidated statements of comprehensive income.

Business Information

The Company operates in the energy business. The energy business consists of the exploration and production of oil and gas, as well as the leasing of real properties and mineral interests in the midwestern and southern United States. The Company has no foreign revenues. Oil and gas production revenue was received from a single customer in 2008, 2007, and 2006. Mineral royalties in 2008, 2007, and 2006 were received from 15, 15, and 17 customers, respectively, with 90%, 86%, and 87%, being received from four customers in each year.

Recently Adopted Accounting Standards

Effective January 1, 2007, the Company adopted provisions of FIN 48. FIN 48 addresses the accounting for uncertainty in income taxes recognized in an enterprise's financial statements and prescribes a threshold of more-likely-than-not for recognition and derecognition of tax positions taken or expected to be taken in a tax return. FIN 48 also provides related guidance on measurement, classification, interest and penalties, and disclosure. Effective January 1, 2008, the Company adopted SFAS No. 157, "Fair Value Measurements". Under SFAS No. 157, fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. See note 8 for further information regarding fair value measurements.

Use of Estimates

Management of the Company has made a number of estimates and assumptions relating to the reporting of assets, liabilities, revenues, and expenses and the disclosure of contingent assets and liabilities to prepare these consolidated financial statements in conformity with accounting principles generally accepted in the United States of America. Actual results could differ from those estimates.

(2) Acquisition and Divestiture of Producing Properties

On June 6, 2008, CNR Production LLC (CNR), a wholly owned subsidiary of the Company, purchased working interests in certain oil and gas producing properties in south Texas. The acquired properties include a three percent (3%) working interest in over 175 wells across nine separate fields in south Texas, an area where CNR owned working interests from 2003 through 2007. Cash paid at closing of $7,710,555 was based upon an original purchase price of $8,625,500 less purchase price adjustments as of the time of the closing. Additional postclosing purchase price adjustments resulted in a recorded purchase price of $7,396,238. The purchase was funded by a combination of available cash and $5,200,000 in debt from a new Senior Credit Facility provided by Union Bank of California (for more information on Credit Facility, please see Note 11 "Senior Credit facility").

In addition to the cash consideration of the purchase price capitalized for balance sheet purposes, CNR capitalized $1,813,275 as additional purchase price (as well as a corresponding amount as "Risk Management Liability") at the time of the purchase based on the value of certain oil and gas price risk management contracts that CNR (see "Risk Management" note) entered into. Both the adjusted purchase price and this additional purchase price increase related to risk management obligations will be depreciated over the life of the acquired assets on a units of production basis.

The following table presents CNR's interest in the estimated net proved natural gas reserves (unaudited) of the acquired properties as of January 1, 2008 based on a third-party independent reserve analysis.

	Proved Reserves as of January 1, 2008 (acquired June 2008)		
	Developed	Undeveloped	Total
Natural Gas Reserves, MMcf equivalent	2,312	1,628	3,940

Additionally, during 2008, the Company invested $220,000 to acquire a 2% working interest in an Area of Mutual Interest (AMI) for an area in South Texas. At this time, no Authorization for Expenditures (AFE's) have been issued although the Company does expect that drilling will proceed in 2009 on property covered by this AMI.

In early, 2007, the Company, through a wholly owned subsidiary, CNR Production, L.L.C., a Texas limited liability company (CNR) sold 100% of its South Texas and East Texas oil and gas producing properties for $3,372,900. The Company realized a pretax gain on the sale of these properties of $2,018,310.

(3) Investment Securities

The amortized cost, gross unrealized holding gains, gross unrealized holding losses, and fair value for held-to-maturity and available-for-sale securities by major security type at December 31, 2008 and 2007 are presented below. Substantially all equity securities represent common stocks of domestic corporations, mutual funds, and exchange traded funds.

2008	Amortized cost	Gross unrealized holding gains	Gross unrealized holding losses	Fair value
Available-for-sale - equity securities	$ 496,286	18,404	(62,410)	452,280

2007	Amortized cost	Gross unrealized holding gains	Gross unrealized holding losses	Fair value
Held-to-maturity:				
U.S. government agency securities	$ 2,487,844	156	—	2,488,000
Available-for-sale - equity securities	$ 511,897	54,650	(1,417)	565,130

At December 31, 2007, all U.S. government agency securities held were scheduled to mature within one year.

The Company did not recognize an impairment charge on other investments in 2008 or 2007. In 2007, the Company disposed of “other investments” for a nominal amount.

Investment income consists of the following for each of the years ended December 31:

	2008	2007	2006
Interest	$ 120,023	382,899	267,790
Dividends	14,890	8,463	14,278
Gross gains on sales of equity securities	36,282	45,325	109,882
Gross losses on sales of equity securities	(41,417)	(5,572)	(4,779)
	$ 129,778	431,115	387,171

(4) Income Taxes

Total income taxes for the years ended December 31, 2008, 2007, and 2006 were allocated as follows:

	2008	2007	2006
Operations	$ 1,573,486	921,824	399,423
Stockholders’ equity, for unrealized appreciation (depreciation) on equity securities	(34,035)	6,669	(29,567)
Stockholders’ equity, for compensation expense for tax purposes in excess of amounts recognized for financial reporting purposes	(18,098)	(134,038)	(78,435)
	$ 1,521,353	794,455	291,421

The components of income tax expense from operations are as follows:

	2008	2007	2006
Federal	$ 1,333,562	781,274	337,295
State	239,924	140,550	62,128
Total	$ 1,573,486	921,824	399,423

Total income tax expense for 2008, 2007, and 2006 includes deferred income tax expense (benefit) of $274,693 ($36,938), and $184,297, respectively.

Income tax expense (benefit) relating to operations has been provided at effective rates of 34.6%, 34.2%, and 30.0% for the years ended December 31, 2008, 2007, and 2006, respectively. The reasons for the difference between the effective tax rates and the corporate federal income tax rate of 34.0% are as follows:

	2008	2007	2006
Expected statutory tax rate	34.0 %	34.0 %	34.0 %
State income taxes, net of federal income tax effect	3.5	3.4	3.1
Depletion	(2.8)	(3.1)	(6.4)
Other, net	(0.1)	(0.1)	(0.7)
	34.6 %	34.2 %	30.0 %

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities at December 31, 2008, 2007, and 2006 are presented below:

	2008	2007	2006
Deferred tax assets:			
Impairment charge on equity securities and other investments	$ —	—	130,782
Equity securities and other investments	15,402	—	—
Oil, gas, and mineral properties, plant and equipment	281,110	322,183	175,531
Deferred income—advance mineral and gas lease bonuses	927,416	221,715	13,407
Restricted stock deferred compensation	43,239	15,682	—
Stock-based compensation	21,626	27,838	33,761
Other	7,097	7,097	7,097
	1,295,890	594,515	360,578
Less valuation allowance	(45,095)	(45,095)	(45,095)
	1,250,795	549,420	315,483
Deferred tax liabilities:			
Oil, gas and mineral properties, plant and equipment	(1,110,581)	(474,523)	(521,621)
Equity securities and other investments	—	(18,633)	(11,964)
Unrealized oil and gas risk management	(263,552)	—	—
Investment in partnerships	(368,850)	(307,793)	(66,731)
	(1,742,983)	(800,949)	(600,316)
	$ (492,188)	(251,529)	(284,833)

Property, plant, and equipment includes a deferred tax asset relating to a 1993 write-down of coal properties. The resulting deferred tax asset relating to this write-down has been fully reserved through the establishment of a $45,095 valuation allowance due to uncertainties regarding its ultimate realization.

(5) Operating Leases

The Company has a five-year operating lease for its office space in Kansas City, Missouri that became effective September 1, 2007. However, the Company can terminate the lease after two years. The lease agreement provides for annual rental payments of approximately $9,220 through 2009. Additional office space is leased in California on a month-to-month basis. Rent expense amounted to $17,680, $17,576, and $18,229 for the years ended December 31, 2008, 2007, and 2006, respectively.

(6) Disclosures about Fair Value of Financial Instruments

- *Cash, cash equivalents, trade receivables, and trade payables*—The carrying amount approximates fair value because of the short maturity of these financial instruments.

- *Debt and equity securities*—The fair values of investment securities are based on quoted market prices. The fair value of investment securities are disclosed in note 3.

- *Senior Credit Facility*—The carrying amount approximates fair value because it is based on current rates at which the Company could borrow funds with similar remaining maturities.

(7) Stock Option Plans

Nonqualified Stock Option Plan

In April 1995, the Company adopted a nonqualified stock option plan (the Plan) pursuant to which the Company's board of directors granted stock options to directors in lieu of cash compensation through February 20, 2005. The Plan authorized grants of options to purchase up to 50,000 shares of common stock. Stock options are granted with an exercise price equal to the stock's fair market value at the date of grant. All stock options have a term of 10 years and vest and become fully exercisable six months after the date of grant.

Stock Incentive Plan

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 allows for stock options, stock appreciation rights, restricted stock, stock bonuses, performance share awards, dividend equivalents, or deferred payment rights.

The maximum number of shares of common stock that may be delivered under this plan shall not exceed 75,000 shares. The maximum number of shares of common stock that may be delivered pursuant to options qualified as incentive stock options granted under this plan is 45,000 shares. The maximum number of shares of common stock that may be delivered to nonemployee directors shall not exceed 20,000 shares. The maximum number of shares subject to those options and stock appreciation rights that are granted during any calendar year to any individual shall be limited to 15,000, and the maximum individual limit on the number of shares in the aggregate subject to all awards that during any calendar year are granted under this plan shall be 25,000. Each of these limits is subject to adjustment as set forth in the plan. In 2006, 5,000 nonqualified stock options were granted to non-employee directors under this plan.

In 2008 and 2006, 200 shares and 4,600 shares, respectively, of restricted stock were issued to employees of the Company under this plan. Restricted stock is issued at par value and vests over a 2-3-year period. The employees purchase the restricted stock at $1.00 per share and the difference between purchase price and the fair market value of the stock was recorded in stockholders equity as unearned restricted stock. As of December 31, 2008, 1,733 shares of restricted stock were outstanding.

These restricted shares have a weighted average grant date fair value of $24.92. At December 31, 2008, there was $41,459 of total unrecognized compensation cost related to restricted share-based compensation arrangements granted under the plan. No incentive options were issued in 2008, 2007, or 2006.

In 2008, the Company issued 4,450 restricted stock "units" (RSUs) to employees of the Company, vesting in equal amounts over two years. Although these units do receive dividend equivalents, they do not represent shares of stock until distributed, nor do they vote. Also in 2008, the Company issued 1,500 RSUs to nonemployee directors of the Company (300 RSUs each). RSUs, once fully vested are exchangeable on a one-to-one basis for common stock.

In 2007, the Company issued 3,450 restricted stock "units" (RSUs) to employees of the Company, vesting in equal amounts over three years. Although these units do receive dividend equivalents, they do not represent shares of stock until distributed, nor do they vote. Also in 2007, the Company issued 1,500 RSUs to nonemployee directors of the Company (300 RSUs each). RSUs, once fully vested are exchangeable on a one-to-one basis for common stock.

A summary of stock option activity, including incentive stock options, during 2008, 2007, and 2006 is as follows:

	Years ended December 31					
	2008		2007		2006	
	Shares	Weighted average exercise price	Shares	Weighted average exercise price	Shares	Weighted average exercise price
Options outstanding, beginning of period	4,500	$23.09	29,000	$ 16.49	34,000	$ 14.95
Granted	—	—	—	—	5,000	27.00
Exercised	100	12.30	24,500	15.28	10,000	16.50
Forfeited	—	—	—	—	—	—
Options outstanding, end of period	4,400	23.33	4,500	23.09	29,000	$ 16.49
Options exercisable, end of period	4,400	23.33	4,000	$ 24.44	28,000	$ 16.64

Exercise prices for options outstanding and exercisable as of December 31, 2008 were $12.30 (400 shares), $16.75 (1,000 shares), and $27.00 (3,000 shares).

Based on the Black-Scholes option pricing model, the per share weighted average fair value of stock options granted during 2006 (no options were issued in 2008 or 2007) was $6.37, on the date of grant. The fair value of each stock option grant and stock purchase right is estimated on the date of grant using the Black-Scholes option pricing model and the following weighted average assumptions:

Fiscal Year	2006
Expected Dividend yield	2.22%
Expected volatility	12.5
Risk-free rate	5.07
Expected life (years)	10.0

(8) Fair Value Measures

Depending on the nature of the asset or liability, the Company uses various valuation techniques and assumptions when estimating fair value, which are in accordance with SFAS No. 157. SFAS No. 157 establishes a three-level valuation hierarchy for disclosure of fair value measurements. The valuation hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. The three levels are defined as follows:

Level 1 – inputs to the valuation methodology are quoted prices for identical assets or liabilities in active markets.

Level 2 – inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the assets or liabilities, either directly or indirectly (such as interest rates, yield curves, and prepayment speeds).

Level 3 – inputs to the valuation methodology are unobservable and significant to the fair value. These may be internally developed, using the Company's best information and assumptions that a market participant would consider.

When determining the fair value measurements for assets and liabilities required or permitted to be recorded or disclosed at fair value, the Company considers the principal or most advantageous market in which it would transact and considers assumptions that market participants would use when pricing the asset or liability. When possible, the Company looks to active and observable markets to price identical assets or liabilities. When identical assets and liabilities are not traded in active markets, the Company looks to market observable data for similar assets and liabilities.

The following disclosures exclude certain nonfinancial assets and liabilities that are deferred under the provisions of FASB Staff Position 157-2. The FASB's deferral is intended to allow additional time to consider the effect of various implementation issues relating to these nonfinancial instruments, and defers disclosures under SFAS No. 157 until fiscal periods beginning after December 31, 2008.

Available for sale investment securities

Available for sale securities that represent exchange traded funds are accounted for in accordance with SFAS 115, with changes in fair value recorded in other comprehensive income. The fair value of these securities is based on quoted prices from active equity markets and are classified as Level 1.

Derivatives

The Company's sole derivative instrument outstanding at December 31, 2008 was a forward contract with a counterparty considered to be creditworthy. Consequently, the valuation for this instrument is based on exchange quoted prices from active oil and gas markets and estimates of future production. This fair value measurement is classified as Level 3.

		Fair Value Measurements Using	
	12/31/08	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Unobservable Inputs (Level 3)**
Assets:			
Available for sale securities	$ 452,280	$ 452,280	$ —
Derivatives	697,318	—	697,318
Total assets	1,149,598	452,280	697,318

The changes in Level 3 asset measured at fair value on a recurring basis are summarized as follows:

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3)
For the year ended December 31, 2008:	**Derivatives**
Balance at January 1, 2008	$ —
Included in oil and gas working interest purchase	(1,813,275)
Total net gains included in earnings	2,510,593
Balance at December 31, 2008	$ 697,318

(9) Oil & Natural Gas Producing Activities

All of the Company's oil and gas properties are located in the United States of America. The table below sets forth the results of operations from gas and oil producing activities:

	2008	2007	2006
Revenues	$ 2,036,588	73,125	1,151,002
Production costs	(675,887)	(40,593)	(184,698)
Depreciation, depletion and amortization	(922,126)	(99,792)	(208,160)
Exploration expenses	—	(28,129)	(10,700)
Wellness abandonment charges	(238,640)	—	—
Impairment on oil and gas property	(189,000)	(460,000)	—
Operating income	$ 10,935	(555,389)	747,444
Total oil and gas property (gross)	10,599,934	778,684	1,995,921
Additions to oil and gas properties, net of impairment	$ 8,008,452	743,721	452,255

(10) Costs Incurred

Capitalized costs incurred in natural gas and oil property acquisition, exploration, and development activities are summarized below:

	2008	2007	2006
Property acquisition costs:			
Unproved	$ 213,016	—	—
Proved	7,396,238	—	—
Unsuccessful exploratory wells	—	—	—
Development costs	826,838	1,203,721	452,255
	$ 8,436,092	1,203,721	452,255

(11) Senior Credit Facility

In order to finance the purchase of the oil and gas working interest properties in June 2008, CNR established a new Senior Credit Facility (Credit Facility) with Union Bank of California (UBOC) in the amount of up to $20,000,000. The maximum borrowing capacity (or "Borrowing Base") of CNR is adjusted periodically by UBOC through a review of CNR's oil and gas reserves. At the time of the acquisition, CNR elected to borrow $5,200,000 to fund the acquisition of the oil and gas properties.

In addition to standard terms and conditions, the new Senior Credit Facility contains financial covenants that require CNR to maintain certain financial ratios. Specifically, covenants include a Current Ratio (a minimum ratio of Current Assets to Current Liabilities), a Leverage Ratio (a maximum level of debt to earnings before interest, taxes, depreciation, amortization and exploration expenses, or "EBITDAX") and an Interest Coverage Ratio (a minimum ratio of EBITDAX to interest expenses).

The Credit Facility is secured by the assets of CNR acquired in the aforementioned transaction of June 2008, and is guaranteed by the Company.

The loan's interest rate is a floating rate based on a spread over either the London Interbank Offered Rate (LIBOR) plus 250 basis points (2.50%) or the Prime Rate (or equivalent thereof) plus 50 basis points (0.5%). At the initial funding of the loan, the loan bore interest based on a spread of 250 basis points over the three-month LIBOR rate, for an initial interest rate of 5.17%. As of December 31, 2008, the loan bore interest based on the Prime Rate plus 50 basis points, for a year-end interest rate of 3.75%. The loan, which contains no required principal amortization schedule, matures June 6, 2012.

(12) Risk Management

CNR capitalized $1,813,275 on the balance sheet as an increase in the purchase price of the acquisition with a corresponding "Risk Management Liability" at the time of the acquisition (the amount of $1,813,275 is included as part of the $10,599,934 in "Oil and Gas Producing Properties"). This amount represents the fair value of a forward sales contract at the date of the acquisition close. As the value of the forward contracts change, the liability portion of this either increases or decreases, resulting in either unrealized losses or unrealized gains, respectively, that are charged or added to earnings.

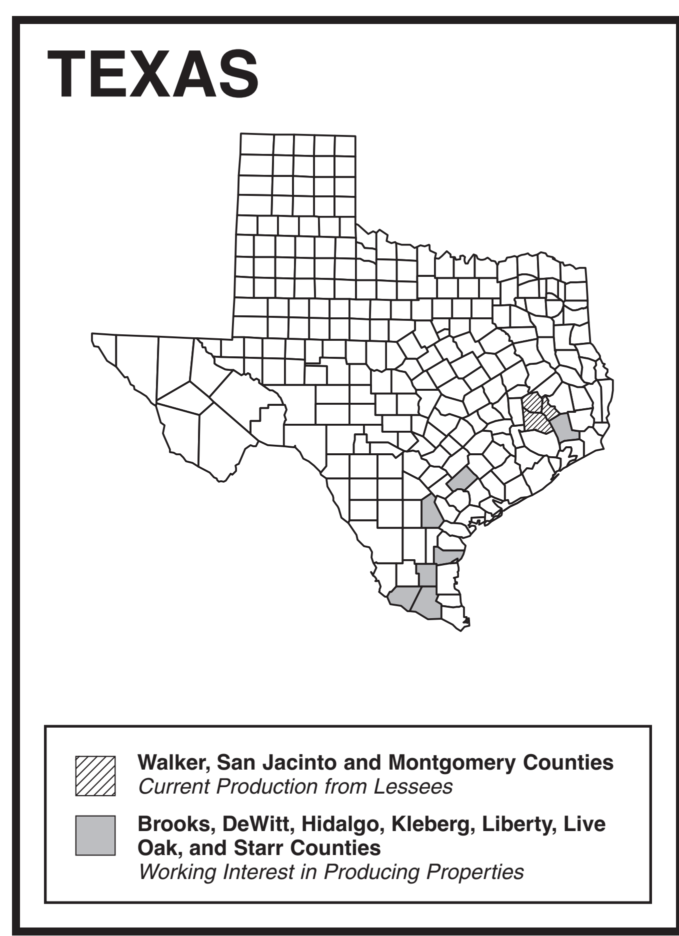
For the year ended December 31, 2008, an unrealized gain of $2,510,593 was recorded as "Unrealized oil and gas price risk management". This non-cash item represents the change, in this case the decrease, in the Risk Management liability from the June 1, 2008 (the effective date of the underlying hedge confirmations) to December 31, 2008. This substantial change over the seven month period is due to the volatility of commodity prices during this period. The cash settlement costs of the hedges are recorded on the income statement as "Realized oil and gas price risk management" and represent cash payments made by CNR to cover the differential between the hedged price and the settlement price (in the case where settlement prices fall below the hedged price, CNR receives income from the counterparty in the amount of the difference between settlement and hedge prices). Since the inception of the hedge transaction through the end of the year, the Company paid a net amount of $93,000 as hedge settlement payments. The current "Risk management asset" of $697,318 listed on the balance sheet is the expected value of the future payments due to Central through the life of the hedge (through December 31, 2009) based on projected forward prices of oil and gas as of December 31, 2008.

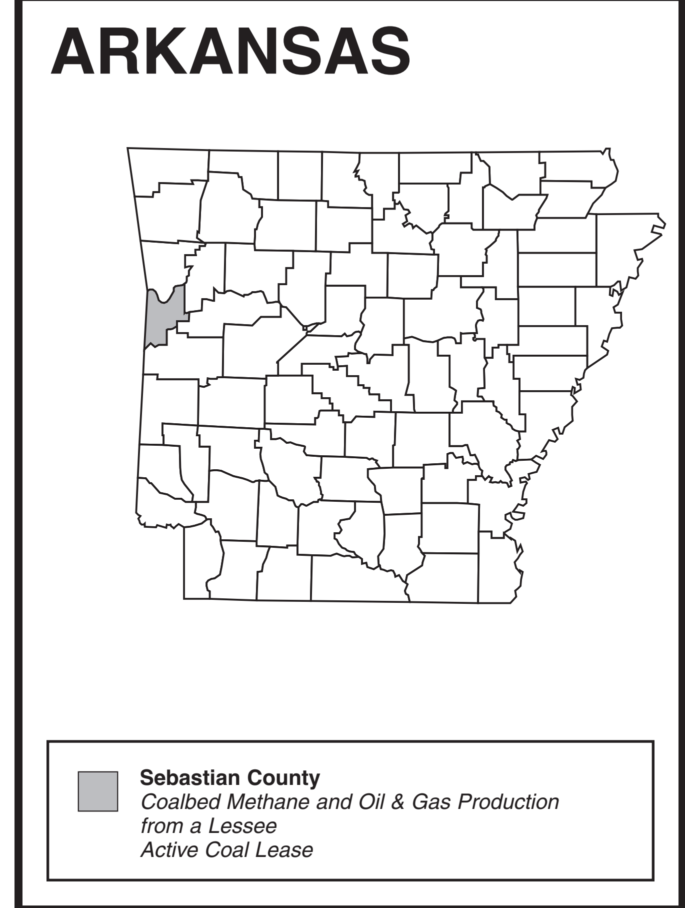
CNR hedged 80% of net daily natural gas production, up to a maximum amount of 900/Mmbtu's/Day from February 2008 through December 2008 at $7.975/Mmbtu, and up to a maximum amount of 750/Mmbtu's/Day from January 2009 through December 2009 at $8.15/Mmbtu. CNR also hedged 80% of net daily oil production, up to a maximum amount of 18/Bbls/Day from February 2008 through December 2008 at $87.80/Bbl, and up to a maximum amount of 15/Bbls/Day from January 2009 through December 2009 at $85.60/Bbl. Because the hedged amount is contingent upon CNR's production volumes up to a maximum amount, CNR's risk management liability is matched by concurrent production revenue.

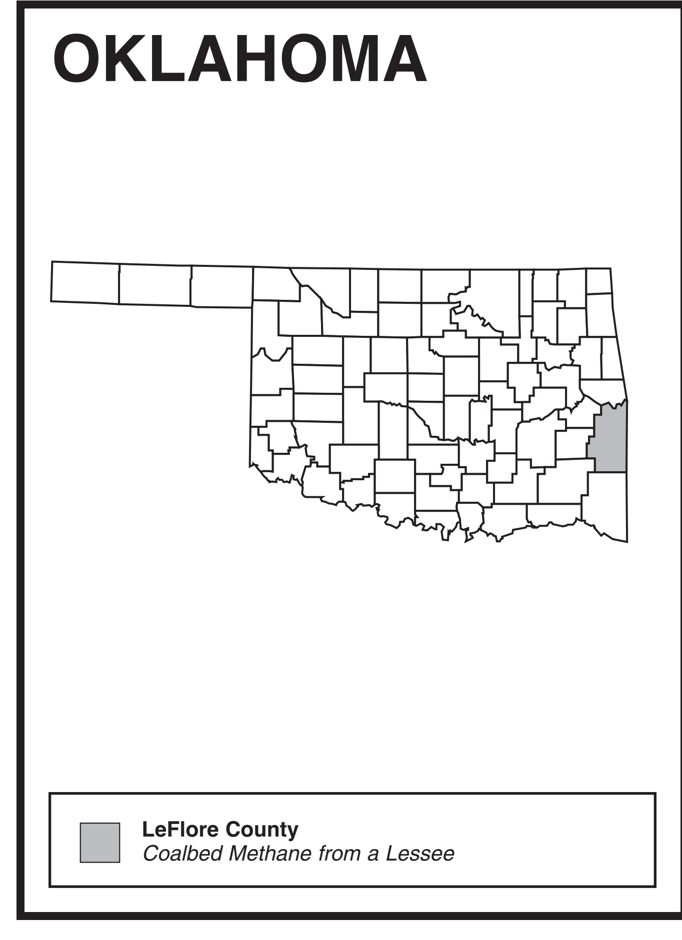
(13) Subsequent Events

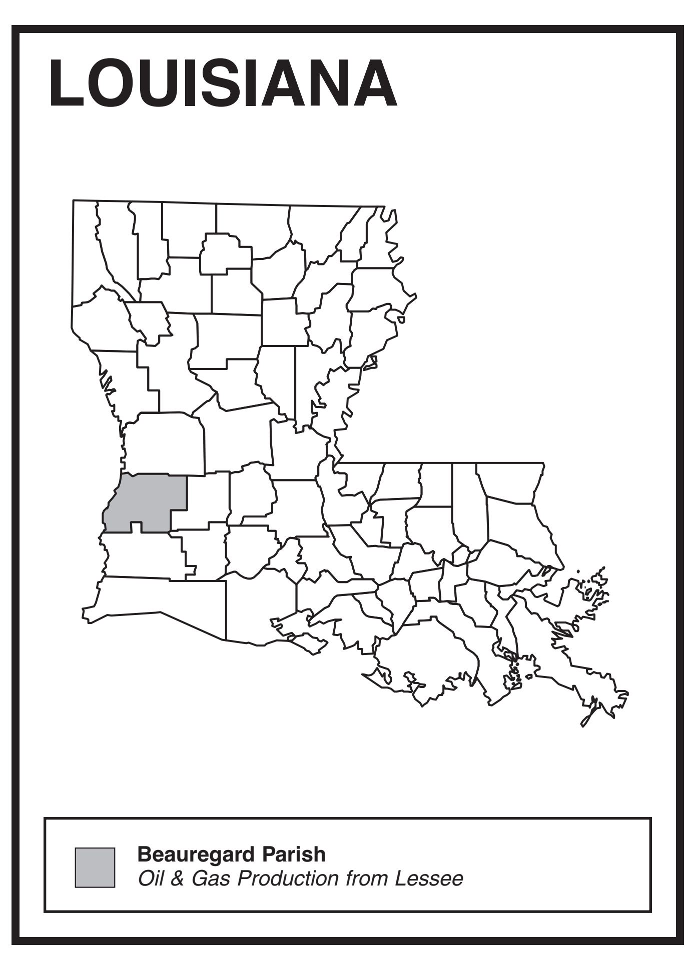
Subsequent to the year ended December 31, 2008, the Company committed to a $95,000 investment for a 10% working interest in two developmental wells in Moore Co., TX (Texas Panhandle). At this time, the wells have been successfully completed and the Company expects that production will flow to market in the near future.

Subsequent to the year ended December 31, 2008, the Company reduced the amount of its outstanding loan with two payments (in January and March) totaling $1 million, resulting in an outstanding balance of $4.2 million as of March 30, 2009. Subsequent to Central's reduction to its loan balance, the Company's lender, Union Bank of California, lowered the Company's borrowing base by $900,000 to $4.3 million due to a change in the bank's pricing calculations for oil and gas reserve values. The Company believes that it has adequate liquidity in the form of cash and cash equivalents and that the recent borrowing base changes will not adversely affect the Company in the future. The Credit Facility is discussed in further detail under "Senior Credit Facility".


TEXAS
Walker, San Jacinto and Montgomery Counties
Current Production from Lessees
Brooks, DeWitt, Hidalgo, Kleberg, Liberty, Live Oak, and Starr Counties
Working Interest in Producing Properties


ARKANSAS
Sebastian County
Coalbed Methane and Oil & Gas Production from a Lessee
Active Coal Lease


OKLAHOMA
LeFlore County
Coalbed Methane from a Lessee


LOUISIANA
Beauregard Parish
Oil & Gas Production from Lessee

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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.

James R. Ukropina
Chief Executive Officer Directions, LLC

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

James R. Ukropina
Vice Chairman of the Board

Phelps C. Wood
President & Chief Executive Officer

Leonard L. Noah
Chief Financial Officer

Gary J. Pennington
Vice President & General Manager

Ray A. Infantino
Secretary & Treasurer

Ernest N. Yarnevich, Jr.
Assistant Secretary

STOCKHOLDERS' MEETING

The 2009 annual meeting will be held at 9:00 a.m. P.D.T. on June 23, 2009, 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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