ANNUAL REPORT 2009

FOR THE YEAR ENDED DECEMBER 31, 2009

Central Natural Resources, Inc.

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April 26, 2010

Dear Shareholder,

2009 was a difficult year for the oil and gas industry, with sustained low commodity oil and gas prices driven by the continued US economic downturn. Central's total revenue fell over 33% despite production growth from our working interest activities. In spite of this fact, Central reduced debt, invested in oil and gas properties to provide for future growth and returned cash to its shareholders.

Following are highlights for your Company from the year ended 2009:

- Cash flow from operations of $1,901,235.
- A 33% reduction in debt, from $5.2 million at the beginning of 2009 to $3.5 million at the end of the period.
- Invested $1,328,082 in oil and gas properties for current and future development.
- Cash dividends for the year of $0.80.

A disappointing event in 2009 was management's decision to record an impairment of the Company's investment in an oil and gas partnership. Central recorded a charge of $1,381,366 with this impairment that was taken to reflect the uncertainty of future distributions from this investment. This impairment, as well as the operations of the Company, are discussed in further detail within the Management Discussion and Analysis section of the report.

We at Central Natural Resources, Inc. 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 Companies 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 2008 and 2009, the Company 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 operating 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 periods presented or any future 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 2009, 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 2009.

Customer	Relationship	Revenue Category	Revenue	% of 2009 Revenue
Smith Production	Working Interest Operator	Oil & Gas Production	$1,430,510	40.0%
Forest Oil	Lessee	Mineral Royalties	$432,288	12.2%
EnerVest[1]	Lessee	Mineral Royalties	$421,803	11.9%
Ross[2]	Lessee	Lease Bonus	$343,282	9.7%
Highland[3]	Lessee	Lease Bonus	$271,381	7.7%
Newfield[4]	Lessee	Lease Bonus	$240,000	6.8%
Sheridan Production	Working Interest Operator	Oil & Gas Production	$195,238	5.5%

1. EnerVest is now the owner and operator of leased property formerly held by CDX Gas.
2. Ross Explorations made lease bonus payments totaling $1,325,983 in 2008; $343,282 was recognized as revenue during 2009.
3. Highland Oil & Gas made lease bonus payments totaling $1,085,668 in 2008; $271,381 was recognized as revenue during 2009
4. Newfield Exploration made lease bonus payments totaling $722,000 in 2007; $240,000 was recognized as revenue during 2009.

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	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 EnerVest, 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 2013	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") which was renewed by the lessee in 2009 for another 40 year term (through June 2049). 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. Although 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, mining operations ceased in February of 2009 and the sublessee entered bankruptcy protection in June 2009, resulting in less than 2,000 tons of coal mined and sold during the year ended December 31, 2009. As of December 31, 2009, there were still no active mining operations and the sublessee remained under bankruptcy protection. Since royalties due on production and sale amounts in the past three years was less than the minimum annual royalty payments, the prepaid credit toward future royalty payments was increased over the time from 2007 through 2009. 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 a buyer for the sublessee will materialize that can begin successful mining operations, there is no guarantee that royalty payments in addition to the minimums previously noted will be made to the Company in the near future.

Coal deposits aggregating approximately 92,000,000 tons in place with a net balance sheet carrying value of approximately $700,000 at December 31, 2009 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
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 2009, 2008 and 2007, the Company, in conjunction with its working interest operators, 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
Moore Co., TX	Oil & Gas Working Interest	10% Working Interest	HBP – Dean Lease	Oil & Gas
Hidalgo Co., TX	Oil & Gas Working Interest	3% to 5% Working Interest	Active Exploration & Production – Javalina / McCook / Stratton	Oil & Gas
Brazoria Co., TX	Unproved Property	2% Working Interest	Perry Ranch Prospect / Exploratory Drilling Planned	N/A

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, 2009 based on reserve reports prepared by T.J. Smith & Company, Inc., an independent, third party reserve engineering firm using SEC pricing parameters.

As of December 31, 2009

		Proved Reserves	
	Developed	Undeveloped	Total
Natural Gas Reserves, MMcf equiv.	2,213	1,243	3,456

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
2009	-	-	-	-	-	-
2008	-	-	-	-	-	-
2007	1.00	0.04	1.00	0.05	2.00	0.09

	Developmental					
	Productive Wells		Dry Holes		Total	
	Gross	Net	Gross	Net	Gross	Net
2009	6.00	0.32	-	-	6.00	0.32
2008	3.00	0.07	-	-	3.00	0.07
2007	1.00	0.04	-	-	1.00	0.04

Wells in Progress as of December 31, 2009

	Gross	Net
Exploratory	-	-
Development	1.00	0.03
Total	1.00	0.03

The following table presents the number of productive natural gas wells in which the Company owned an interest as of December 31, 2009.

	Gross	Net
Natural Gas wells	183	4.67

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
2009	235,916	$5.07	83,454	$5.24	319,371	$5.12
2008	158,079	$10.43	47,331	$8.20	205,410	$9.91
2007	10,472	$6.83	-	-	10,472	$6.83

Note: NGLs are defined as non-gas liquids. Prices above do not take price risk management adjustments into consideration.

The bulk of the Company's production and proved reserves consists of natural gas and natural gas condensates with a smaller amount of oil (oil volumes constituted approximately 15% of MCFE equivalents production volume in 2009 and is shown combined with gas in MCF equivalent units). The form with which the Company reports production, Mcf equivalents, takes oil production into account. Additionally, the Company's producing properties have gas with a relatively high Btu value. Since natural gas is generally sold on a per Btu basis, on certain properties the Company does, 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

In 2009, CNR Production LLC (CNR), a wholly owned subsidiary of the Company, paid $300,000 to acquire a 2% working interest in a prospect area in Brazoria Co., TX. At year end, no Authorization for Expenditures (AFE's) had been issued although the Company does expect that drilling will proceed in the future on the property covered by this interest. CNR also acquired a 3% working interest in proved property in south Texas. This property, which is contiguous to property where Central currently owns a working interest in developed property, had one well drilling at year end and management expects that, if successful, additional wells will be drilled on this property.

In 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 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 June 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 the future 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.

Legal Proceedings

As discussed in prior reports, the Company was 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.

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 upon appeal by the Company, the Kansas Supreme Court affirmed that decision. After return of the case to the district court for further action, the Company subsequently dismissed the case as to all unresolved issues without prejudice. The Oklahoma case was also dismissed by the Company without prejudice.

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

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 on various stock and financial reporting systems. The range of settled trades as reported on 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
2009	$22.30	$27.50	$0.80	–
2008	$24.00	$35.00	$0.80	$1.00
2007	$31.00	$39.00	$0.75	$5.00

Selected Financial Data

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

Years ended December	2009	2008	2007	2006	2005
Total Operating Revenue	3,546,227	$5,351,285	$2,083,088	$2,563,847	$2,835,690
Net Earnings	$(492,997)	$2,977,841	$1,770,481	$929,691	$1,445,819
Net Earnings per common share (diluted)	$(0.87)	$5.44	$3.37	$1.73	$2.70
Cash Dividends per common share	$0.80	$1.80	$5.75	$1.60	$1.40
Total Assets	$15,320,989	$18,560,852	$9,276,303	9,453,060	9,344,674

MANAGEMENT'S DISCUSSION AND ANALYSIS

Overview

In 2009, the Company focused on debt reduction, mineral property management and expanding its future drilling prospects by acquiring interests in exploratory and developmental drilling opportunities. In addition, the Company continued to develop the oil and gas assets acquired in 2008 through prudent drilling and workover operations. Although production volume increased in 2009, commodity price declines more than offset these volumes, resulting in a decrease of top line revenue from oil and gas. Despite this revenue decrease, the Company reduced its outstanding debt by $1.7 million during the year. Especially disappointing to Management was the need to record an impairment on the Company's investment in an oil and gas partnership, taking a non-cash charge of $1.38 million. The Company's audit committee considered the status of the partnership investment in depth and recommended to the full board that the impairment charge be taken because there have been no significant distributions made to the partners and none are expected soon, there has been difficulty in obtaining meaningful financial information and operational data from the general partner, and an audit of the partnership by certain of the partners revealed various and possibly serious irregularities in the operation of the partnership. Despite the write-down, Management is working diligently to recover some remaining value in this investment as described in detail in the Investment in Oil and Gas Limited Partnership note on page 25.

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 in 2008 totaling over $2.4 million that added substantially to the Company's cash position.

In 2007, the Company divested itself of substantially all of its then held 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.

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. The 2009 consolidated financial statements show a large part of revenue and the bulk of expenses and capital expenditures incurred related to oil andgas production, with investments in unproved properties included in capital expenditures. 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, 2009, in February 2010 the Company leased 720 acres of mineral property in Pittsburgh Co., Oklahoma and received a lease bonus payment of $720,000. This lease covers 600 acres that are currently under lease to the same company and an additional 120 acres contiguous to the original portion. As of the date of this report, there has been no drilling activity on the leased acreage.

Subsequent to the year ended December 31, 2009, the Company reduced the amount of its outstanding loan with a payment in March totaling $200,000, resulting in an outstanding balance of $3.3 million as of March 16, 2010. The Company believes that it has adequate liquidity in the form of cash and cash equivalents to meet its obligations and grow its business. The Credit Facility is discussed in further detail under "Senior Credit Facility".

Results of Operations

Total operating revenue on a consolidated basis decreased in 2009 from 2008 after increasing in 2008 from 2007. The decrease in 2009 was due to large commodity price declines which reduced the average prices paid for oil and gas production and decreased royalty revenue received from lessees. These price declines were partially offset by gains from oil and gas price risk management described in further detail below. This decrease in revenue occurred despite production volume increases from working interests in oil and gas and stable production volumes on the mineral royalty side. 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.

As mentioned in prior reports, a lessee continues produce 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 decreased in 2009 from 2008 after an increase in 2008 over 2007. While production volumes were relatively stable in 2009, severe price declines resulted in revenue from this lessee decreasing by over 50%. Additionally, the lessee of this property (CDX Gas) entered bankruptcy protection in 2009 prior to being acquired by another party (EnerVest). At this time, it is uncertain what expansion plans, if any, the lessee plans to pursue, although the predecessor lessee had planned further expansion of the development. Sustained weak commodity prices in the future would adversely affect both development of the property as well as 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, 2009, royalties from coal bed methane production associated with these properties was $421,803 and is included in operating revenue in mineral royalties.

Revenue from working interest properties decreased in 2009 from 2008 due to sustained declines in commodity gas prices that offset production gains. This was in contrast to an increase in 2008 from 2007 due to the acquisition of working interest properties in June 2008 and strong commodity prices. 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, 2007, 2008 and 2009 and the changes in net proved gas reserves for the years ended December 31, 2007, 2008 and 2009.

	2009	2008	2007
Proved Reserves as of January 1	4,020	91	1,563
Revisions of previous estimates	(245)	—	—
Extensions and discoveries	—	194	83
Purchase of properties	—	3,940	—
Disposition of properties	—	—	(1,544)
Production	(319)	(205)	(10)
Proved Reserves as of December 31	3,456	4,020	91

Proved Developed Reserves at:	
December 31, 2007	91
December 31, 2008	2,472
December 31, 2009	2,213

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

Expenses associated with oil and gas production decreased in 2009 from 2008 after increasing in 2008 from 2007. These expenses are driven by the Company's pro-rata share of expenses resulting from the operation of oil and gas wells. The decrease in these expenses in 2009 was driven by lower workover costs and a reduction in field improvements that were required in the prior year when the properties were acquired in addition to lower severance taxes related to decreases of commodity gas prices. 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. 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 2009 from 2008, as it did in 2008 from 2007 with the addition of production volumes.

In 2009, the Company recorded impairment charges in the amount of $56,144 on two wells drilled in 2009 based on the value of year end reserves. 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 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 non-economic wells.

General and administrative expenses increased in 2009 from 2008 due to non-cash charges associated with long-term restricted stock unit compensation and slightly higher legal expenses. This followed a decrease in 2008 from 2007 due primarily to a slight decrease in legal costs and restricted stock compensation expense which offset slight increases in salary and performance based bonus compensation.

Substantial Other Income was recognized in 2009 and 2008 from the price risk management transaction as described in detail in Note (12) to the Consolidated Financial Statements included in this report.

In 2009, an unrealized loss of ($697,318) was recorded as "Unrealized oil and gas price risk management" which represents the change, in this case the decrease, in the Risk Management asset during the year ended December 31, 2009, the maturity date of the risk management contracts. The cash settlement revenue from the Risk Management contracts, in the aggregate amount of $1,066,891, are recorded on the income statement as "Realized oil and gas price risk management" and represent cash payments received by CNR during the period to cover the differential between the contracted price and the settlement price.

In 2008, 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 "Risk management asset" of $697,318 listed on the balance sheet as of December 31, 2008 was 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 matured prior to the end of the fiscal year 2009.

The Company's investment income fell in 2009, as it did in 2008, as lower cash balances coupled with low interest rates reduced total interest income. Additionally, the Company realized losses on equity securities in both 2009 and 2008 that further reduced investment income. However, in 2009 the equity portfolio of the Company experienced a healthy recovery from its 2008 decline due to market increases, returning by year end to close to its 2007 level.

As described in the Notes to the accompanying consolidated financial statements, the Company recorded an income tax benefit due in 2009 after recording income tax expenses in 2008 and 2007. The income tax benefit in 2009 was the result of a large impairment charge coupled with higher depreciation and depletion expenses and lower operating income levels than 2008. The income tax expenses recorded in 2008, and 2007 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 decreased in 2009 from 2008 due to a net loss and large deferred income from oil lease bonuses. Despite this decline, cash from operations recorded in 2009 was the second highest in the Company's recent history. The Company experienced a dramatic increase in 2008 from 2007 due to strong net income from existing and added oil and gas properties and from lease bonus payments. Total cash and cash equivalents decreased in 2009 from 2008, after increasing in 2008 over 2007. The 2009 decreases were due to a combination of lower cash from operations and large uses of cash for capital expenditures and the reduction of the Company's revolving credit facility. The 2008 increases were from large cash lease bonus receipts, working interest production and borrowings under the Company's Credit Facility to fund acquisitions. 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 amountof 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 has been over the period from 2008 to 2009). 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 2007 through the middle of 2008 contributed to increased revenue from oil and gas during those periods, while rapid declines in prices from the middle of 2008 through 2009 decreased revenue from oil and gas. 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 yet again in 2009, with the reduction of the bank funded debt from the 2008 level of $5.2 million to the end of 2009 level of $3.5 million. Management believes that although the debt level increased greatly in 2008, the reductions in 2009 coupled with current cash balances allow the Company financial flexibility to pursue its continued growth plans. This favorable financial condition is further evidenced by strong cash flows and a favorable ratio of current assets to current liabilities. Prior to the establishment of the 2008 Credit Facility, in 2007, 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 2009 and 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 either federally insured short-term certificates of deposit or 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 decrease in cash and cash equivalents in 2009 while there was a net increase in cash and cash equivalents in 2008. Cash from operating activities was lower in 2009 than 2008, although it was higher in 2008 than 2007. The decrease in 2009 was due to lower royalty revenue and lower oil and gas revenue, both due to decreases in commodity oil and gas prices. 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.

In 2009, cash used in investing activities decreased from 2008 with the primary use being capital expenditures (versus the prior year's use of cash for property purchases). 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 2009, cash was used in financing activities in order to fund the payment of cash dividends and to reduce outstanding debt under the Company's revolving credit facility. In 2008, cash was provided by financing activities (versus a use of cash in 2007) due to the establishment and borrowing from the Senior Credit Facility used to fund the acquisition of producing properties.

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 hedges
- Income Tax (benefit) provision

	Years ended December 31		
	2009	2008	2007
Net Income	(492,997)	2,977,841	1,770,481
Plus:			
Interest Expense	163,718	164,399	—
Depreciation, depletion & amortization	1,125,894	926,360	104,026
(Gain) Loss on sale of assets	—	—	(2,018,310)
Unrealized (Gain) Loss on price risk management	697,318	(2,510,593)	—
Income Tax (benefit) provision	(380,836)	1,573,486	921,824
Adjusted EBITDA	1,113,097	3,131,493	778,021

The Company defines Adjusted Net Income (as shown on the table below) 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 hedges.

Adjusted Net Income

	Years ended December 31		
	2009	2008	2007
Net Income	(492,997)	2,977,841	1,770,481
Plus:			
Unrealized (Gain) Loss on price risk management (net of tax)	438,829	(1,561,714)	—
Adjusted Net Income	(54,168)	1,416,127	1,770,481
Weighted average. shares outstanding basic	562,231	543,447	521,305
Adjusted Net Income per Share	$(0.10)	$2.61	$3.40

Contractual Obligations, Commitments and Off Balance-Sheet Arrangements

As of December 31, 2009, the Company had $3,500,000 in borrowings under the Senior Credit Facility established by a subsidiary which matched the amount available under the Credit Facility as determined by the Bank's borrowing base calculations. 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 or accounts receivable, 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	$ 3,500,000	$ 0	$ 0	$ 3,500,000	$ 0
Operating Lease Obligations	$ 1,500	$ 1,500	$ 0	$ 0	$ 0
Total	$ 3,501,500	$ 1,500	$ 0	$ 3,501,500	$ 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 2009 no new leases were made on property owned by the Company. 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. As yet there has been no production under any of the leases made in 2007, 2008 or 2009, 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
2009	$0.80	–
2008	$0.80	$1.00
2007	$0.75	$5.00

In February 2010, the Board of Directors approved the payment of the regular quarterly cash dividend in the amount of to $0.20 to be paid on March 30, 2010 to shareholders of record of March 16, 2010.

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. 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 LLP. 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:

KPMG

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, 2009 and 2008, and the related consolidated statements of operations, stockholders' equity, comprehensive income (loss), and cash flows for each of the years in the three- year period ending December 31, 2009. 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, 2009 and 2008, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2009, in conformity with U.S. generally accepted accounting principles.

KPMG LLP

Kansas City, Missouri
April 26, 2010

CENTRAL NATURAL RESOURCES, INC. AND SUBSIDIARIES
Consolidated Balance Sheets
December 31, 2009 and 2008

Assets	2009	2008
Current assets		
Cash and cash equivalents	$ 2,106,800	4,139,786
Short-term investments	459,484	—
Accounts receivable	627,185	672,887
Income tax receivable	380,724	153,836
Advance to operator	94,485	210,762
Risk management asset	—	697,318
Deferred income tax	272,109	74,951
Other	11,729	9,775
Total current assets	3,952,516	5,959,315
Notes receivable	8,000	29,450
Deferred charges	36,512	78,775
Equity securities, at fair value	544,767	452,280
Investment in oil and gas limited partnership	—	1,407,882
Property, plant, and equipment:		
Oil and gas producing properties (successful efforts)	11,871,872	10,599,934
Mineral interest properties	1,668,137	1,668,137
	13,540,009	12,268,071
Less accumulated depletion, depreciation, and amortization	2,760,815	1,634,921
Net property, plant, and equipment	10,779,194	10,633,150
Total assets	$ 15,320,989	18,560,852

CENTRAL NATURAL RESOURCES, INC. AND SUBSIDIARIES
Consolidated Balance Sheets
December 31, 2009 and 2008

Liabilities and Stockholders' Equity	2009	2008
Current liabilities:		
Accounts payable and accrued expenses	$ 193,988	226,033
Deferred income—advance oil lease bonus	734,060	895,627
Total current liabilities	928,048	1,121,660
Deferred compensation	97,826	114,403
Deferred income advance oil lease bonus	824,120	1,558,180
Deferred income taxes	572,139	567,139
Senior credit facility	3,500,000	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; 564,824 issued in 2009 and 563,024 in 2008	564,824	563,024
Additional paid-in capital	1,504,685	1,187,699
Treasury stock 32,836 shares in 2009 and 31,836 in 2008	(751,780)	(726,780)
Retained earnings	8,060,986	9,004,133
Accumulated other comprehensive income, net of deferred taxes of $10,898 in 2009 and ($15,401) in 2008	20,141	(28,606)
Total stockholders' equity	9,398,856	9,999,470
Total liabilities and stockholders' equity	$ 15,320,989	18,560,852

See accompanying notes to consolidated financial statements.

CENTRAL NATURAL RESOURCES, INC. AND SUBSIDIARIES
Consolidated Statements of Operations
Years ended December 31, 2009, 2008 and 2007

	2009	2008	2007
Operating revenue:			
Mineral royalties	$ 1,904,513	3,314,697	2,009,963
Oil and gas production	1,641,714	2,036,588	73,125
Total operating revenue	3,546,227	5,351,285	2,083,088
Oil and gas operating expenses	629,865	680,164	68,855
Depreciation, depletion, and amortization	1,125,894	926,360	104,026
Exploration expenses	—	—	28,129
Impairment on oil and gas properties	56,144	427,640	460,000
Impairment on oil and gas limited partnership	1,381,366	—	—
Interest expense	163,718	164,399	—
General and administrative expenses	1,450,533	1,159,429	1,179,971
Total expenses	4,807,520	3,357,992	1,840,981
Other income:			
Gain on sale of oil and gas assets	—	—	2,018,310
Realized oil and gas risk price management	1,066,891	(93,000)	—
Unrealized oil and gas price risk management	(697,318)	2,510,593	—
Operating income	(891,720)	4,410,886	2,260,417
Nonoperating income (loss)			
Investment income	10,489	129,778	431,115
Other	7,398	10,663	773
Total nonoperating income	17,887	140,441	431,888
Earnings before income taxes	(873,833)	4,551,327	2,692,305
Income taxes	(380,836)	1,573,486	921,824
Net earnings	$ (492,997)	2,977,841	1,770,481
Earnings per share:			
Basic	$ (0.88)	5.48	3.40
Diluted	(0.87)	5.44	3.37
Weighted average number of shares of common stock outstanding:			
Basic	562,231	543,447	521,305
Diluted	566,631	547,847	525,805

See accompanying notes to consolidated financial statements.

CENTRAL NATURAL RESOURCES, INC. AND SUBSIDIARIES
Consolidated Statements of Stockholders' Equity
Years Ended December 31, 2009, 2008 and 2007

	Common stock	Additional capital	Retained earnings	Treasury stock	Accumulated other comprehensive income	Total
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 4600 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 restriced 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 restriced stock units	—	—	(16,260)	—	—	(16,260)
Net change in unrealized (depreciation) on investments avaiable 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
Net earnings	—	—	(492,997)	—	—	(492,997)
Cash dividends ($0.80 per share)	—	—	(424,511)	—	—	(424,511)
Purchase 1,000 shares of common	—	—	—	(25,000)	—	(25,000)
Issuance of restricted stock	200	—	—	—	—	200
Share-based payment	1,600	305,617	—	—	—	307,217
Tax benefit of share-based payments	—	11,369	—	—	—	11,369
Dividend equivalents on restriced stock units	—	—	(25,639)	—	—	(25,639)
Net change in unrealized appreciation on investments avaiable for sale	—	—	—	—	48,747	48,747
Balance December 31, 2009	564,824	1,504,685	8,060,986	(751,780)	20,141	9,398,856

See accompanying notes to consolidated financial statements.

CENTRAL NATURAL RESOURCES, INC. AND SUBSIDIARIES
Consolidated Statements of Comprehensive Income
Years ended December 31, 2009, 2008 and 2007

	2009	2008	2007
Net earnings	$ (492,997)	2,977,841	1,770,481
Other comprehensive income (loss):			
Unrealized appreciation (depreciation) on investments	61,446	(102,374)	58,803
Income taxes	(21,506)	35,831	(20,583)
Total unrealized appreciation (depreciation) on investments, net of tax	39,940	(66,543)	38,220
Less:			
Realized investment (gains) losses included in net earnings	13,549	5,135	(39,753)
Income taxes	(4,742)	(1,797)	13,914
Total realized investment gains (losses) included in net earnings (losses), net of tax	8,807	3,338	(25,839)
Total realized gains (losses) and unrealized appreciation (depreciation) on investments	48,747	(63,205)	12,381
Comprehensive income (loss)	$ (444,250)	2,914,636	1,782,862

See accompanying notes to consolidated financial statements.

CENTRAL NATURAL RESOURCES, INC. AND SUBSIDIARIES
Consolidated Statements of Cash Flows
Years ended December 31, 2009, 2008 and 2007

	2009	2008	2007
Cash flows from operating activities:			
Net earnings	$ (492,997)	2,977,841	1,770,481
Adjustments to reconcile net earnings to net cash provided by operating activities:			
Depletion, depreciation, and amortization	1,125,894	926,360	104,026
Unrealized oil and gas risk price management	697,318	(2,510,593)	—
Amortization of discounts of securities	—	(23,558)	(124,988)
Impairment change on oil and gas properties	56,144	427,640	460,000
Impairment on oil and gas limited partnership	1,381,366	—	—
Gain on sale of oil and gas assets	—	—	(2,018,310)
Loss (gain) on sales of equity securities	13,549	5,135	(39,753)
Share-based payments	307,217	76,137	89,275
Deferred compensation	(16,577)	72,912	41,491
Deferred income taxes	(218,406)	274,693	(39,973)
Changes in assets and liabilities:			
Accounts receivable and other assets	43,748	(581,011)	126,521
Income tax receivable	(226,888)	245,015	(256,104)
Advance to operator	116,277	(210,762)	—
Deferred income—advance oil lease bonus	(895,627)	1,867,182	551,153
Accounts payable and accrued expenses	(32,045)	100,575	97,178
Other	42,262	—	—
Net cash provided by operating activities	1,901,235	3,647,566	760,997
Cash flows from investing activities:			
Proceeds from matured/called investment debt securities	—	5,000,000	15,000,000
Purchases of short-term investments	(459,484)	—	—
Purchases of investment debt securities	—	(2,488,598)	(14,878,328)
Proceeds from note receivable	21,450	23,000	—
Proceeds from sales of oil and gas assets	—	—	3,372,900
Purchases of equity securities	(325,722)	(514,918)	(260,447)
Proceeds from sales of equity securities	294,682	525,394	265,214
Oil and gas capital expenditures	(1,328,082)	(1,039,854)	(1,203,721)
Purchase of oil and gas properties	—	(7,396,238)	—
Distribution from oil and gas limited partnership	26,516	22,097	—
Purchase of investment in oil and gas limited partnership	—	—	(929,979)
Net cash provided by (used in) investing activities	(1,770,640)	(5,869,117)	1,365,639
Cash flows from financing activities:			
Deferred charges	—	(78,775)	—
Purchase of common stock for treasury	(25,000)	(205,875)	(155,800)
Exercise of stock options/sale of restricted stock	200	1,430	321,970
Excess tax benefit of share-based compensation	11,369	18,098	134,038
Dividend equivalent on restricted stock units, net	(25,639)	(16,260)	(23,040)
Payments of dividends	(424,511)	(959,125)	(3,091,854)
Proceeds from senior credit facility	—	5,200,000	—
Payments on senior credit facility	(1,700,000)	—	—
Net cash used in financing activities	(2,163,581)	3,959,493	(2,814,686)
Net increase (decrease) in cash and cash equivalents	(2,032,986)	1,737,942	(688,050)
Cash and cash equivalents, beginning of year	4,139,786	2,401,844	3,089,894
Cash and cash equivalents, end of year	2,106,800	4,139,786	2,401,844
Income taxes paid during the year	$ 3,000	1,038,798	1,083,864
Interest expense paid during the year	$ 163,718	164,399	—

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.

Short-term investments

Short-term investments are comprised of certificates of deposit with original maturities greater than three months, but less than one year.

Investment Securities

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.

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, 2009 are not presently leased or producing coal in commercial quantities. During 2009 and 2008 a minimal amount of coal was mined and sold (1,916 tons and 108,408 tons, respectively).

Depreciation and Depletion

Non oil and gas equipment, which was fully depreciated at December 31, 2009, 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, 2009 were generated by working interests in oil and gas properties acquired in 2008 and 2009.

Exploration and Production—Exploration expenses, including geological and geophysical costs, rental costs, 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 evaluated for impairment on a lease by lease basis over the term of the lease.

Investment in Oil and Gas Limited Partnership

In the year ended 2009, management recorded an impairment charge of $1,381,366 associated with its investment in an oil and gas partnership due to the decline in commodity prices, poor market conditions and a lack of information and financial visibility into the investment. This impairment represents the entire remaining balance of the purchase in 2007 and 2006 of minority interest, by a subsidiary of the Company, in non-marketable securities for which the Company does not possess significant influence. A single cash distribution in the amount of $26,516 was received by the Company in 2009 (for a total of $48,613 received over the life of the investment). The Company has no influence over when and in what amount distributions will be made. This investment is long-term and illiquid and, as such, there is no guarantee that if the Company wished to sell its interest, that it would be able to do so.

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. 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

The Company has adopted accounting principles that require 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. The Company recognizes compensation expense based on estimated grant date fair value using the Black-Scholes option-pricing model for options and the grant date fair value of the Company stock for restricted stock units (RSUs).

Excess tax benefits related to stock option exercises and RSU releases are reflected as financing cash inflows. Share-based compensation cost that has been included in income from continuing operations amounts to $290,639 for the year ended December 31, 2009, $149,049 for the year ended December 31, 2008, and $130,766 for the year ended December 31, 2007. The total income tax benefit recognized in the income statement for share-based compensation arrangements was $107,737 for the year ended December 31, 2009, $56,333 for the year ended December 31, 2008, and $49,423 for the year ended December 31, 2007.

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. On January 1, 2009, the Company adopted new accounting principles that classify restricted stock units with non-forfeitable rights to receive dividendsas a component of basic earnings per share. This accounting principle was applied to all periods presented. 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 (loss) consists of net earnings (losses) and net unrealized gains (losses) on available-for-sale securities and is presented in the consolidated statements of comprehensive income (loss).

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 three customers in 2009 and a single customer in 2008 and 2007. Mineral royalties in 2009, 2008, and 2007 were received from 18, 15, and 15 customers, respectively, with 86% from five customers in 2009, and 90% and 86% being received from four customers in 2008 and 2007, respectively.

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

In 2009, CNR Production LLC (CNR), a wholly owned subsidiary of the Company, invested $300,000 to acquire a 2% working interest in a prospect area in Brazoria County, TX. CNR also acquired a 3% working interest in proved property in south Texas. This property, which is contiguous to property where Central currently owns a working interest in developed property, had one well drilling at year end.

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 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 hedges that CNR (see "Risk Management" note) entered into. Both the adjusted purchase price and this additional purchase price increase related to risk management obligations are depreciated over the life of the acquired assets on a units of production basis.

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.

(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, 2009 and 2008 are presented below. Substantially all equity securities represent common stocks of domestic corporations, mutual funds, and exchange traded funds.

2009	Amortized cost	Gross unrealized holding gains	Gross unrealized holding losses	Fair value
Available-for-sale - equity securities	$ 513,777	40,027	(9,037)	544,767

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

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

	2009	2008	2007
Interest	$ 10,616	120,023	382,899
Dividends	13,422	14,890	8,463
Gross gains on sales of equity securities	21,662	36,282	45,325
Gross losses on sales of equity securities	(35,211)	(41,417)	(5,572)
	$ 10,489	129,778	431,115

(4) Income Taxes

Total income tax expense (benefit) for the years ended December 31, 2009, 2008, and 2007 were allocated as follows:

	2009	2008	2007
Operations	$ (380,836)	1,573,486	921,824
Stockholders' equity, for unrealized appreciation (depreciation) on equity securities	26,249	(34,035)	6,669
Stockholders' equity, for compensation expense for tax purposes in excess of amounts recognized for financial reporting purposes	(11,369)	(18,098)	(134,038)
	$ (365,956)	1,521,353	794,455

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

	2009	2008	2007
Federal	$ (333,456)	1,333,562	781,274
State	(47,380)	239,924	140,550
Total	$ (380,836)	1,573,486	921,824

Total income tax expense for 2009, 2008, and 2007 includes deferred income tax expense (benefit) of ($218,406), $274,693 and ($36,938), respectively.

Income tax expense (benefit) relating to operations has been provided at effective rates of (43.6)%, 34.6% and 34.2% for the years ended December 31, 2009, 2008, and 2007, respectively. The reasons for the difference between the effective tax rates and the corporate federal income tax rate of 34.0% are as follows:

	2009	2008	2007
Expected statutory tax rate	(34.0%)	34.0 %	34.0 %
State income taxes, net of federal income tax effect	(3.6)	3.5	3.4
Depletion	(5.6)	(2.8)	(3.1)
Other, net	(0.4)	(0.1)	(0.1)
	(43.6%)	34.6 %	34.2 %

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities at December 31, 2009, 2008, and 2007 are presented below:

	2009	2008	2007
Deferred tax assets:			
Equity securities and other investments	$ —	15,402	—
Oil, gas, and mineral properties, plant and equipment	278,853	281,110	322,183
Investment in Partnerships	144,581	—	—
Deferred income—advance mineral and gas lease bonuses	577,602	927,416	221,715
Restricted stock deferred compensation	36,263	43,239	15,682
Stock-based compensation	10,191	21,626	27,838
Other	6,095	7,097	7,097
	1,053,585	1,295,890	594,515
Less valuation allowance	(45,095)	(45,095)	(45,095)
	1,008,490	1,250,795	549,420
Deferred tax liabilities:			
Oil, gas and mineral properties, plant and equipment	(1,297,674)	(1,110,581)	(474,523)
Equity securities and other investments	(10,846)	—	(18,633)
Unrealized oil and gas risk management	—	(263,552)	—
Investment in partnerships	—	(368,850)	(307,793)
	(1,308,520)	(1,742,983)	(800,949)
	$ (300,030)	(492,188)	(251,529)

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.

The Company adopted accounting principles related to the accounting for the uncertainty of income taxes. The Company recognizes the effect of income tax positions only if those positions are more likely than not of being sustained. Recognized income tax positions are measured at the largest amount that is greater than 50% likely of being realized. Changes in recognition or measurement are reflected in the period in which the change in judgment occurs. The Company does not have any tax positions that met the criteria for recognition as of December 31, 2009 or 2008.

(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. Additional office space is leased in California on a month-to-month basis. Rent expense amounted to $17,915, $17,680, and $17,576 for the years ended December 31, 2009, 2008, and 2007, respectively.

(6) Disclosures about Fair Value of Financial Instruments

- *Cash, cash equivalents, short-term investments, 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 were 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 each year of 2009 and 2008, 200 shares of restricted stock were issued to employees of the Company under this plan. Restricted stock was issued at par value and vests over a 2-year period. The employees purchased 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, 2009, 300 shares of restricted stock were outstanding. At December 31, 2009, there was $8,410 of total unrecognized compensation cost related to restricted share-based compensation arrangements granted under the plan. No incentive options were issued in 2009, 2008, or 2007.

In 2009, the Company issued 22,250 restricted stock "units" (RSUs) to employees of the Company, vesting in equal amounts over five years. Although these units do receive dividend equivalents, they do not represent shares of stock until distributed, nor do they vote. Also in 2009, the Company issued 2,000 RSUs to nonemployee directors of the Company (400 RSUs each). RSUs, once fully vested, are exchangeable on a one-to-one basis for common stock.

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 2009, 2008, and 2007 is as follows:

	Years ended December 31					
	2009		2008		2007	
	Shares	Weighted average exercise price	Shares	Weighted average exercise price	Shares	Weighted average exercise price
Options outstanding, beginning of period	4,400	$23.33	4,500	$23.09	29,000	$ 16.49
Granted	—	—	—	—	—	—
Exercised	4,400	23.33	100	12.30	24,500	15.28
Forfeited	—	—	—	—	—	—
Options outstanding, end of period	4,400	23.33	4,400	23.33	4,500	23.09
Options exercisable, end of period	4,400	$ 23.33	4,400	$ 23.33	4,000	$ 24.44

Exercise prices for options outstanding and exercisable as of December 31, 2009 were $12.30 (400 shares), $16.75 (1,000 shares), and $27.00 (3,000 shares).

(8) Fair Value Measures

The Company has adopted accounting principles for fair value measurements for financial and non-financial assets and liabilities that are recognized or disclosed at fair value in the consolidated financial statements on a recurring basis. These principles establish 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.

Available for sale investment securities

Available for sale securities are exchange traded funds and changes in fair value of the funds are 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, a forward contract with a counterparty considered to be creditworthy, expired on December 31, 2009. Consequently, this instrument had no value at year end.

The table below presents the December 31, 2009 and 2008 carrying values of assets measured at fair value on a recurring basis.

		Fair Value Measurements Using	
December 31, 2009		**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Unobservable Inputs (Level 3)**
Assets:			
Available for sale securities	$ 544,767	$ 544,767	$ —
Total assets	544,767	544,767	—

		Fair Value Measurements Using	
December 31, 2008		**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, 2009:	**Derivatives**
Balance at January 1, 2009	$ 697,318
Increase in value during the period included in earnings	369,573
Proceeds received during the period	(1,066,891)
Balance at December 31, 2009	$ —

(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:

	2009	2008	2007
Revenues	$ 1,641,714	2,036,588	73,125
Production costs	(591,994)	(675,887)	(40,593)
Depreciation, depletion and amortization	(1,124,710)	(922,126)	(99,792)
Exploration expenses	—	—	(28,129)
Wellness abandonment charges	—	(238,640)	—
Impairment on oil and gas property	(56,144)	(189,000)	(460,000)
Operating income (loss)	$ (131,134)	10,935	(555,389)
Total oil and gas property (gross)	11,871,872	10,599,934	778,684
Additions to oil and gas properties, net of impairment	$ 1,271,938	8,008,452	743,721

(10) Costs Incurred

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

	2009	2008	2007
Property acquisition costs:			
Unproved	$ 366,674	213,016	—
Proved	—	7,396,238	—
Unsuccessful exploratory wells	—	—	—
Development costs	961,408	826,838	1,203,721
	$ 1,328,082	8,436,092	1,203,721

(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.

Through a series of payments totaling $1,700,000 in 2009, the Company reduced the borrowings under this Credit Facility to $3,500,000. As of December 31, 2009, the maximum Borrowing Base, as determined by UBOC based on CNR oil and gas reserves, is $3,500,000. Future redeterminations of the Borrowing Base by UBOC may decrease or increase the Borrowing Base dependant upon commodity pricing, production rates and new development.

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 Company was in compliance with the required financial covenants as of December 31, 2009 and December 31, 2008.

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, 2009, the loan bore interest based on the three-month LIBOR rate plus 250 basis points, for a year-end interest rate of 2.78%. 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 June 6, 2008 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, unrealized losses or unrealized gains are charged or added to earnings.

For the year ended December 31, 2009, an unrealized loss of $697,318 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 asset from the December 31, 2008 to December 31, 2009. This change over the year period is due to the volatility of commodity prices during this period coupled with the expiration of the forward contracts. Cash settlements on the forward contracts are recorded on the income statement as "Realized oil and gas price risk management." For the year ended December 31, 2009, the Company received a net amount of $1,069,079 in cash settlements on the forward contracts.

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. Cash settlements on the forward contracts are recorded on the income statement as "Realized oil and gas price risk management." Since the inception of the hedge transaction through December 31, 2008, the Company paid a net amount of $93,000 in cash settlements on the forward contracts.

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

In February 2010, the Company leased 720 acres of mineral property in Pittsburgh Co., Oklahoma and received a lease bonus payment of $720,000. This lease covers 600 acres that are currently under lease to the same company and an additional 120 acres contiguous to the original 600 acres.

In March 2010, the Company made a $200,000 payment on its outstanding loan reducing the outstanding balance to $3.3 million. The Credit Facility is discussed in further detail under "Senior Credit Facility".

The Company evaluated subsequent events for recognition or disclosure through April 26, 2010, the date on which the consolidated financial statements were issued and no other items were noted.

TEXAS

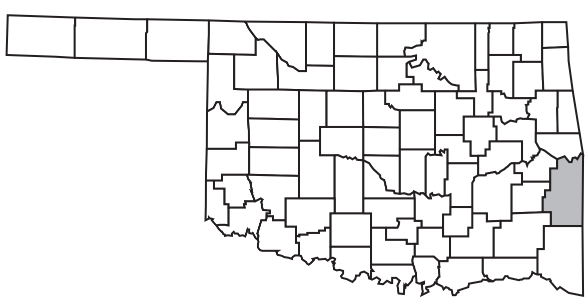
Walker, San Jacinto and Montgomery Counties
Current Production from Lessees

Brazoria, Brooks, DeWitt, Hidalgo, Kleberg, Liberty, Live Oak, Moore 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 2010 annual meeting will be held at 9:00 a.m. P.D.T. on June 8, 2010, at the office of Central Natural Resources, Inc., 460 Bush Street, 2nd Floor, San Francisco, California.

STOCK TRANSFER AGENT AND STOCK REGISTRAR

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

CONTACT INFORMATION:

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