

# **Central Natural Resources, Inc.**

**911 Main St. Suite 1710  
Kansas City, MO 64105**

**Financial Statements  
for the period ended June 30, 2009**

## Central Natural Resources, Inc.

911 Main St. Suite 1710  
Kansas City, MO 64105

August 14, 2009

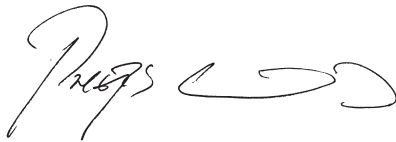
Dear Shareholder,

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

In the quarter ended June 30, 2009, after review by management and the Board of Directors, management recorded an impairment charge of \$1,050,000 on its investment in an oil and gas partnership based on independent third party reserve estimates of the partnership's assets. This impairment, as well as the investment in the partnership, is discussed in further detail in the section "Investment Securities" of the "Notes to Unaudited Consolidated Financial Statements".

We at Central will be glad to answer any questions that you may have and contact information has been provided below for this purpose. Additionally, current trading and historical information for Central Natural Resources, Inc. may be found online at [www.pinksheets.com](http://www.pinksheets.com). Current information and recent financials may be found at Central's website at [www.centralholdings.com](http://www.centralholdings.com).

Sincerely,



Phelps C. Wood  
President & CEO

Contact Information:  
Central Natural Resources, Inc.

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# CENTRAL NATURAL RESOURCES, INC.

## Consolidated Statements of Operations Six months ended June 30, 2009 and 2008 and Three months ended June 30, 2009 and 2008 (Unaudited)

	Six months ended June 30,		Three months ended June 30,	
	2009	2008	2009	2008
OPERATING REVENUE:				
Mineral royalties	\$ 969,367	1,422,628	446,329	815,944
Oil and gas production	845,220	402,870	436,005	376,665
Total operating revenue	1,814,587	1,825,498	882,334	1,192,609
Oil and gas operating expenses	343,646	132,555	171,069	91,672
Depreciation, depletion and amortization	529,277	109,995	282,403	94,917
Impairment on oil & gas limited partnership	1,050,000	—	1,050,000	—
General and administrative expenses	897,725	660,742	491,460	390,678
Total expenses	2,820,648	903,292	1,994,932	577,267
Other income (expense):				
Realized oil and gas price risk management	599,000	(90,000)	314,000	(90,000)
Unrealized oil and gas price risk management	(188,346)	(508,325)	(338,774)	(508,325)
Operating income	(595,407)	323,881	(1,137,372)	17,017
NON OPERATING INCOME:				
Investment income (loss)	4,316	90,147	3,068	32,513
Other	115	135	30	53
Total nonoperating income	4,431	90,282	3,098	32,566
Earnings (loss) before income taxes	(590,976)	414,163	(1,134,274)	49,583
Income taxes	(249,658)	88,736	(437,521)	(17,396)
Net earnings (loss)	(341,318)	325,427	(696,753)	66,979
Retained earnings at beginning of period	9,004,133	7,001,677	9,247,081	7,151,059
Deduct cash dividends paid of \$0.40 per share in 2009 and 2008	(212,354)	(214,534)	(106,077)	(107,168)
Dividend equivalents on restricted stock units	(12,420)	(3,700)	(6,210)	(2,000)
Retained earnings at end of period	8,438,041	7,108,870	8,438,041	7,108,870
Earnings per share –				
Basic	(0.64)	0.61	(1.31)	0.12
Diluted	(0.60)	0.59	(1.23)	0.12
Weighted average number of shares of common stock outstanding–				
Basic	531,101	536,150	530,904	535,832
Diluted	568,551	549,450	568,354	549,132

See accompanying notes to consolidated financial statements.

**CENTRAL NATURAL RESOURCES, INC.**  
**Consolidated Balance Sheets**  
**June 30, 2009 and December 31, 2008**

Assets	<u>2009</u> (Unaudited)	<u>2008</u>
Current assets:		
Cash and cash equivalents	\$ 2,534,108	4,139,786
Accounts receivable	875,301	672,887
Income tax receivable	354,905	153,836
Advance to operators	14,734	210,762
Risk management asset	508,972	697,318
Deferred income tax	128,501	74,951
Other	39,169	9,775
	<hr/>	<hr/>
Total current assets	4,455,690	5,959,315
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Note receivable from employee	8,000	29,450
Deferred charges	67,247	78,775
Equity securities, at fair value	504,051	452,280
Investment in oil and gas limited partnership	331,366	1,407,882
Property, plant and equipment:		
Oil and gas producing properties (successful efforts)	11,460,201	10,599,934
Mineral interest properties	1,668,137	1,668,137
	<hr/>	<hr/>
	13,128,338	12,268,071
Less accumulated depletion, depreciation, and amortization	2,164,198	1,634,921
	<hr/>	<hr/>
Net property, plant and equipment	10,964,140	10,633,150
	<hr/>	<hr/>
Total assets	\$ 16,330,494	18,560,852
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See accompanying notes to consolidated financial statements.

**CENTRAL NATURAL RESOURCES, INC.**  
**Consolidated Balance Sheets**  
**June 30, 2009 and December 31, 2008**

<b>Liabilities and Stockholders' Equity</b>	<u>2009</u> (Unaudited)	<u>2008</u>
Current liabilities:		
Accounts payable and accrued expenses	126,273	226,033
Deferred income advance oil lease bonus	855,627	895,627
Total current liabilities	<u>981,900</u>	<u>1,121,660</u>
Deferred compensation	79,689	114,403
Deferred income advance oil lease bonus	1,150,367	1,558,180
Deferred income taxes	523,758	567,139
Senior credit facility	4,000,000	5,200,000
Stockholders' equity:		
Preferred stock of \$1 par value; 100,000 authorized; no shares issued	—	—
Common stock of \$1 par value; Authorized 2,500,000 shares; 563,224 issued in 2009 and 563,024 in 2008	563,224	563,024
Additional paid in capital	1,358,673	1,187,699
Treasury Stock--32,836 shares in 2009 and 31,836 shares in 2008	(751,780)	(726,780)
Retained earnings	8,438,041	9,004,133
Accumulated other comprehensive income net of deferred taxes of \$(7,201) in 2008 and \$(15,401) in 2008	(13,378)	(28,606)
Total stockholders' equity	<u>9,594,780</u>	<u>9,999,470</u>
Total liabilities and stockholders' equity	<u>\$ 16,330,494</u>	<u>18,560,852</u>

See accompanying notes to consolidated financial statements.

# CENTRAL NATURAL RESOURCES, INC.

## Consolidated Statements of Cash Flows Six months ended June 30, 2009 and 2008 (Unaudited)

	2009	2008
Cash flows from operating activities:		
Net earnings	\$ (341,318)	325,427
Adjustments to reconcile net earnings to net cash provided by (used in) operating activities:		
Depletion, depreciation, and amortization	529,277	109,995
Unrealized oil and gas risk management	188,346	508,325
Amortization of premiums and discounts of securities net	—	(23,558)
Loss (gain) on sale of equity securities	9,546	(11,557)
Impairment on oil & gas limited partnership	1,050,000	—
Share-based payments	165,099	34,508
Deferred income taxes	(105,131)	80,658
Changes in assets and liabilities:		
Accounts receivable and other assets	(231,808)	(752,423)
Income tax receivable	(201,069)	(75,675)
Advances to Operators	196,028	(105,975)
Deferred oil lease bonus	(447,813)	1,961,424
Deferred compensation	(34,714)	48,136
Accounts payable and accrued expenses	(99,760)	140,084
Net cash provided by (used in) operating activities	676,683	2,239,369
Cash flows from investing activities:		
Proceeds from note receivable	21,450	23,000
Proceeds from matured/called investment debt securities	—	5,000,000
Purchases of investment debt securities	—	(2,488,598)
Purchases of equity securities	(151,575)	(206,380)
Proceeds from sales of equity securities	113,686	197,759
Oil and Gas capital expenditures	(987,980)	(369,926)
Purchase of oil and gas properties	127,713	(7,396,238)
Distribution from oil & gas limited partnership	26,516	—
Net cash provided by investing activities	(850,190)	(5,240,383)
Cash flows from financing activities:		
Deferred finance charges	11,528	(53,252)
Purchase of Treasury stock	(25,000)	(33,700)
Exercise of stock options/sale of restricted stock	200	200
Dividend equivalents on restricted stock units, net	(12,420)	(3,700)
Excess tax benefit of share-based compensation	5,876	1,399
Payment of dividends	(212,355)	(214,534)
Bank loan	(1,200,000)	5,200,000
Net cash used in financing activities	(1,432,171)	4,896,413
Net increase in cash and cash equivalents	(1,605,678)	1,895,399
Cash and cash equivalents, beginning of year	4,139,786	2,401,844
Cash and cash equivalents, end of period	\$ 2,534,108	4,297,243

See accompanying notes to consolidated financial statements.

# Central Natural Resources, Inc.

## Notes to Unaudited Consolidated Financial Statements – June 30, 2009

### Basis of Presentation

In the opinion of Central Natural Resources, Inc. (the Company), the accompanying unaudited consolidated financial statements contain all adjustments (consisting of only normal recurring accruals) necessary to present fairly the financial position as of June 30, 2009, and the results of operations and cash flows for the periods ended June 30, 2009 and 2008.

The consolidated financial statements do not include all the disclosures required by accounting principles generally accepted in the United States of America. For further information, refer to the consolidated financial statements and notes thereto included in the Company's Annual Report for the year ended December 31, 2008.

The Company uses the Successful Efforts method of accounting for revenue and expenses from oil and gas production that has been detailed in the Company's previous reports. Revenue and expenses associated with oil and gas production is accrued in the period the revenue or expenses are generated. Exploration expenses, including geological and geophysical costs, rental and exploratory dry holes, are charged against income as incurred. There were no Exploration expenses recorded for the period ended June 30, 2009. Costs of successful wells and related production equipment and developmental dry holes are capitalized and amortized by field using the unit-of-production method as the oil and gas are produced.

Other - Property, plant and equipment is stated at cost less reserves for depreciation, depletion and amortization. Maintenance and repairs are expensed as incurred, except that costs of replacements or renewals that improve or extend the lives of existing properties are capitalized.

### *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.

## Central Natural Resources, Inc.

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.

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

### *Stock Based Compensation*

In the second quarter of 2009 and 2008, the Company granted 400 shares and 300 shares, respectively, of restricted stock “units” (RSUs) to each non-employee director, for a total of 2,000 shares and 1,500 shares, respectively, each year of restricted stock “units”, vesting over a period of 180 days. Although these units do receive dividend equivalents, they do not represent shares of stock until distributed, nor do they vote. No other stock based compensation was issued in the second quarter of 2009 or 2008.

In the first quarter of 2009 the Company granted 20,000 and 2,250, respectively, restricted stock “units” (RSUs) to two 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.

In the first quarter of 2009 the Company granted 200 shares, of restricted stock to one employee of the Company, vesting in equal amounts over two years. The employee purchased the restricted shares at \$1 per share and the difference between the purchase price and the then fair market value of the stock was recorded in shareholders equity as unearned restricted stock. The unearned restricted stock is amortized ratably to expense over the two year vesting period.

Options outstanding representing 4,400 and 4,500 shares at June 30, 2009 and June 30, 2008, respectively, are considered dilutive as the exercise price was less than the market price at the close of the period.

## Central Natural Resources, Inc.

### *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 June 30, 2009 and December 31, 2008 are as follows:

June 30, 2009	Amortized Cost	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses	Fair Value
Available-for-sale: Equity securities	524,630	27,714	(48,293)	504,051

December 31, 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 (loss) consists of the following for each of the periods ended June 30:

	Six Months ended June 30,		Three Months ended June 30,	
	2009	2008	2009	2008
Realized gains (losses) on sales of equity securities	(9,546)	11,557	1,931	(1,356)
Dividends	6,687	8,205	4,502	3,870
Interest Income	7,175	70,385	(3,365)	29,999
Total	4,316	90,147	3,068	32,513

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

## Central Natural Resources, Inc.

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 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 effect the issuer; and the Company's intent and ability to hold the security. During the three months ended June 30, 2009 the Company recognized no impairment charge for marketable equity securities.

In the quarter ended June 30, 2009, management recorded an impairment charge of \$1,050,000 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. The amount of the impairment was determined using independent third party reserve estimates of the partnership's assets. This investment represents the purchase in 2007 and 2006 of an equity 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 the second quarter of 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. The remaining carrying amount will be periodically reviewed for other-than-temporary impairment.

### *Senior Credit Facility*

During the second quarter the Company reduced the amount of its outstanding loan ("the UBOC Credit Facility") with one payment (in May) totaling \$200,000, resulting in an outstanding balance of \$4.0 million as of June 30, 2009. The Company's borrowing base remains \$4.3 million. The Company believes that it has adequate liquidity in the form of cash and cash equivalents to fund its ongoing operations and commitments.

As of June 30, 2009, the Company was in compliance with its covenants with regard to the UBOC Credit Facility and was current with all required interest payments. 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%). As of June 30, 2009, the loan bore interest based on a spread of 250 basis points over the one-month LIBOR rate, for an interest rate of 2.82063%, interest due July 13, 2009.

The Credit Facility is discussed in further detail under "Senior Credit Facility" in the Company's Annual Report for the fiscal year ended December 31, 2008.

## Central Natural Resources, Inc.

### *Risk Management*

In the period ended June 30, 2009, an unrealized loss of \$338,774 was recorded under Non-Operating Income 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 March 31, 2009 (the last quarterly reporting date) to June 30, 2009. This change over the three-month period is due to a combination of the realization of hedge payments and the increase in average oil and natural gas prices over this period creating a decreased spread between the settlement price and the spot price. Risk management cash settlement costs are recorded on the income statement as “Realized oil and gas price risk management” and represent cash payments made to CNR to cover the differential between the hedged price and the settlement price. In the three month period ended June 30, 2009, the Company recorded “realized oil and gas price risk management” income of \$314,000.

The Risk Management transactions are explained in further detail in the Company’s Annual Report for the fiscal year ended December 31, 2008.

