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CROWN ENERGY CORP
Form 10-K
April 15, 2002

FORM 10-K

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES ACT OF 1934

For the fiscal year ended December 31, 2001
or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934

For the Transition Period From _____ to _____

Commission File Number 0-19365

CROWN ENERGY CORPORATION

(Exact name of registrant as specified in its charter)

UTAH

87-0368981

(State or other jurisdiction of
incorporation or organization)

(I.R.S. Employer Identification No.)

215 South State, Suite 650
Salt Lake City, Utah

84111

(Address of principal executive offices)

(Zip Code)

Registrant's telephone number, including area code: (801) 537-5610

Securities registered pursuant to Section 12(b) of the Act: (None)

Securities registered pursuant to Section 12(g) of the Act:

\$0.02 PAR VALUE COMMON STOCK

(Title of Class)

Indicate by check mark whether the registrant (1) has filed all reports
required to be filed by Section 13 of the Securities Exchange Act of 1934 during
the preceding 12 months and (2) has been subject to such filing requirements for
the past 90 days. YES NO

Indicate by check mark if disclosure of delinquent filers pursuant to
Item 405 of Regulation S-K is not contained herein, and will not be contained,
to the best of Registrant's knowledge, in definitive proxy or information
statements incorporated by reference in Part III of this Form 10-K or any
amendment to this Form 10-K.

The aggregate market value of common stock, par value \$0.02 per share,

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held by non-affiliates of the registrant on March 29, 2002, was \$1,714,292.75 using the average bid and asked price for Registrant's common stock. As of April 11, 2002, registrant had 27,428,684 shares of its common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's Proxy Statement to be used in connection with the solicitation of proxies for the Registrant's Fiscal 2002 Annual Meeting of Stockholders are incorporated by reference in Part III of this Annual Report on Form 10-K.

Transitional Small Business Disclosure Format (check one) YES[] NO[X]

PART I.

STATEMENTS MADE OR INCORPORATED IN THIS ANNUAL REPORT INCLUDE A NUMBER OF FORWARD-LOOKING STATEMENTS WITHIN THE MEANING OF SECTION 27A OF THE SECURITIES ACT OF 1933 AND SECTION 21E OF THE SECURITIES EXCHANGE ACT OF 1934. FORWARD-LOOKING STATEMENTS INCLUDE, WITHOUT LIMITATION, STATEMENTS CONTAINING THE WORDS "ANTICIPATES", "BELIEVES", "EXPECTS", "INTENDS", "FUTURE", AND WORDS OF SIMILAR IMPORT WHICH EXPRESS MANAGEMENT'S BELIEF, EXPECTATIONS OR INTENTIONS REGARDING THE COMPANY'S FUTURE PERFORMANCE OR FUTURE EVENTS OR TRENDS. RELIANCE SHOULD NOT BE PLACED ON FORWARD-LOOKING STATEMENTS BECAUSE THEY INVOLVE KNOWN AND UNKNOWN RISKS, UNCERTAINTIES AND OTHER FACTORS, WHICH MAY CAUSE ACTUAL RESULTS, PERFORMANCE OR ACHIEVEMENTS OF THE COMPANY TO DIFFER MATERIALLY FROM ANTICIPATED FUTURE RESULTS, PERFORMANCE OR ACHIEVEMENTS EXPRESSED OR IMPLIED BY SUCH FORWARD-LOOKING STATEMENTS. IN ADDITION, THE COMPANY UNDERTAKES NO OBLIGATION TO PUBLICLY UPDATE OR REVISE ANY FORWARD-LOOKING STATEMENT, WHETHER AS A RESULT OF NEW INFORMATION, FUTURE EVENTS OR OTHERWISE.

ITEM 1. BUSINESS

General

Crown Energy Corporation ("Crown") is a Utah corporation that specializes in the production and distribution of premium asphalt products to meet the new, higher quality standards for federal and state highways. The Company is based in Salt Lake City, Utah and operates primarily through two wholly owned subsidiaries, Crown Asphalt Corporation ("CAC") and Crown Asphalt Products Company ("Capco"), both of which are Utah corporations.

Under the terms of a Stock Purchase Agreement dated September 25, 1997, the Company sold to Enron Capital and Trade Resources Corp. ("ECT") 500,000 shares of \$10 Series A Cumulative Convertible Preferred Stock of the Company (the "Preferred Stock") and a warrant (the "Warrant") exercisable five years from its date of issuance for up to 925,771 shares of Common Stock of the

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Company at a per share exercise price of \$0.002, subject to limits based on the financial performance of the Company. The 500,000 shares of Preferred Stock are convertible into 4,285,000 shares of Common Stock of the Company.

On November 1, 2001, Manhattan Goose, L.L.C., acquired all of the outstanding shares of Preferred Stock, the Warrants, 317,069 shares of Common Stock previously issued as a dividend on the Preferred Stock and dividends accrued but unpaid. Manhattan Goose is a Utah limited liability company owned by

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Jay Mealey, the Chief Executive Officer, President and director of the Company, Andrew W. Buffmire, a director of the Company, Jeff Fishman and Alexander L. Searl.

The Preferred Stock provides for the accrual of dividends at 8% per annum on its "Stated Value" of \$5,000,000. Accrued dividends on the Preferred Stock may be paid in the Common Stock of the Company at the option of the holders of such stock. On February 28, 2002, Manhattan Goose requested that the Company pay \$200,000 in accrued dividends through the issuance of 13,793,103 shares of Common Stock, as calculated pursuant to the designations and preferences of the Preferred Stock. In compliance with the instructions from Manhattan Goose, the Board of Directors of the Company authorized the issuance of 13,793,103 shares of Common Stock to Manhattan Goose as partial payment of the accumulated dividends on the Preferred Stock. As of March 29, 2002, this 13,793,103 shares of Common Stock issued to Manhattan Goose represented 50.3% of the outstanding Common Stock.

Capco operates the asphalt manufacturing and distribution business of Crown both independently and through its majority interest in Crown Asphalt Distribution, L.L.C., a Utah limited liability company ("Crown Distribution"). Crown Distribution owns a majority interest in Cowboy Asphalt Terminal, L.L.C. ("CAT, LLC"), a Utah limited liability company, that is operated by Capco.

CAC previously owned an interest in certain leases and properties owned by Crown Asphalt Ridge, L.L.C. ("Crown Ridge") in Vernal, Utah. As a result of a settlement agreement executed on March 8, 2002, (the "Settlement Agreement") between the Company and MCNIC Pipeline & Processing Company, a Michigan corporation ("MCNIC") and related parties, CAC now owns certain overriding royalty interests granted by Crown Ridge. The Settlement Agreement and the royalty interests are described in greater detail below. See Item 1. Business - Crown Asphalt Ridge, L.L.C. and Item 3. Legal Proceedings.

Crown's consolidated financial statements and results of operations include the accounts and results of operations of CAC, Capco, CAT, L.L.C and Crown Distribution. Accordingly, references in this Annual Report to "Crown" or the "Company" include, unless otherwise noted, CAC, Capco, CAT, L.L.C and Crown Distribution.

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The Company was formed in 1981 as an oil and gas production company. The Company changed its business focus to concentrate on the production and distribution of premium asphalt products in 1995. For the years ended December 31, 1999, 2000 and 2001, the Company reported revenues from the sale of asphalt products of approximately \$36 million, \$23 million and \$27 million respectively. See Item 6. Selected Financial Data.

In August 1997, the Company formed Crown Ridge with MCNIC, to construct, own and operate an asphalt oil sand production facility at Asphalt Ridge, near Vernal, Utah (the "Facility"). During the start-up of the Facility mechanical and process difficulties were experienced that affected production economics. It has been determined by MCNIC that significant additional capital investment is required to modify the Facility in order for it to achieve commercial production, but the cost of such modifications is unknown. The Company does not have the financial wherewithal to participate in additional capital contributions and would not have the ability to make such contributions for the foreseeable future. On March 8, 2002, the Company assigned its interest in Crown Ridge to MCNIC in return for: (i) the assignment to CAC of a non-cost bearing overriding royalty interest; (ii) the elimination of all obligations of CAC to MCNIC; and (iii) the payment by MCNIC of the MK judgment and indemnification of CAC against that judgment. See Item 1. Business - Crown

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Asphalt Ridge, L.L.C. and Item 3. Legal Proceedings.

In August 1997, contemporaneous with the Company's Crown Ridge joint venture with MCNIC, the Company also completed the private sale of \$5 million of the Company's \$10 Series A Cumulative Convertible Preferred Stock (the "Series A Preferred"). Certain rights, preferences and limitations relating to the Series A Preferred are detailed in Item 5. Market Price for the Company's Common Equity and Related Stockholder Matters below.

In June 1998, the Company, through Capco, entered into a joint venture by forming CAT, LLC with Foreland Refining Corporation ("Foreland"), a Utah corporation engaged in the asphalt roofing products business. CAT, LLC was formed to acquire an asphalt terminal and its underlying real property located in Woods Cross, Utah. The asphalt terminal property of CAT, LLC was apportioned and portions designated for the exclusive uses of either Capco or Foreland, each of which will retain all revenues and profits generated from their respective exclusive operations. Capco is the operator of CAT, LLC. Crown Distribution, through the exercise of an option on or about December 21, 1998, is entitled to own 66.67% of CAT, LLC and the remaining 33.33% is owned by Foreland. The accounts and results of operations of CAT, LLC are included within the Company's consolidated financial statements and results of operations. See Item 1. Business - Cowboy Asphalt Terminal, L.L.C. below.

On July 2, 1998, Crown Distribution was formed as a second joint venture between the Company (through its Capco subsidiary) and MCNIC. Crown Distribution is owned 50.01% by the Company and 49.99% by MCNIC. Crown Distribution was formed to acquire the inventory and assets of Petro Source Asphalt Company, a Texas corporation ("PSAC"). By completing this acquisition,

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the Company acquired ownership or leasehold interests in certain asphalt manufacturing and distribution facilities located in Utah, Arizona, Colorado and Nevada. These facilities enable the Company to manufacture a broad range of performance asphalt products for sale to its customers in the western United States.

As described elsewhere in this Report, the Company has been involved in extensive litigation and arbitration with MCNIC relating primarily to the business of Crown Distribution. On March 8, 2002, the Company, MCNIC and their related parties entered into the Settlement Agreement pursuant to which (i) all litigation (and the enforcement of judgments obtained in such litigation) was stayed, and (ii) the Company was granted the option to acquire all of MCNIC's interests in, or relating to, Crown Distribution. See Item 1. Business - Crown Asphalt Distribution, L.L.C. and Item 3. Legal Proceedings below.

On May 12, 1999, the Company entered into an agreement to acquire an asphalt distribution terminal in Rawlins, Wyoming (the "Rawlins Asphalt Terminal") and the related asphalt inventory for \$2,291,571 from S&L Industrial, a Wyoming corporation. The Rawlins Asphalt Terminal is currently owned and operated by Capco.

The Company's revenues during the year ended December 31, 2001, were generated primarily through its asphalt manufacturing and distribution operations. See Item 1. Business - Crown Asphalt Distribution, L.L.C. below.

More detailed information about the asphalt industry and the Company's asphalt production and distribution businesses is provided below.

The Asphalt Industry

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The United States asphalt market is estimated to be a 30 million-ton market that historically has been supplied by the large U.S. oil refiners. In recent years, management of the Company believes that the U.S. asphalt market has undergone significant changes. In particular, national and international demand for asphalt has increased. Further, recently established standards which require the use of higher quality asphalt for federal and state highways in the United States have increased the demand for higher quality asphalts. At the same time, recent reductions of heavy crude processing have resulted in a decrease in asphalt supply. The Company believes that these changes are favorable to asphalt suppliers such as the Company.

Deterioration of the nation's infrastructure has drawn increasing public attention and concern, and the emphasis in the highway industry is shifting from construction of new roads and bridges to maintenance and replacement of aging facilities. As the U.S. government, state and federal agencies focus on decaying infrastructure and facilities, the need for better techniques and materials to build longer-lasting roads and to repair existing ones cost-effectively has developed. Congress authorized the Strategic Highway Research Program (SHRP) as a coordinated national effort to meet the tough

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challenges facing the highway industry. SHRP was a five-year, \$150 million research program funded through state-apportioned federal highway aid funds. Its research was tightly focused on the development of pragmatic products of immediate use to the highway agencies. Using a wide range of advanced materials characterization techniques that had not been applied to asphalt previously, SHRP determined how asphalt material properties affect pavement performance. The new performance graded (PG) specifications focus on the climate conditions of a given location and the specific temperature band within which the PG asphalt must work. The recommendation for the improved PG asphalt binder specifications has been adopted by the Federal Highways Administration (FHWA) and many states. Implementation of the new PG specifications by all states is expected. The result of the more stringent SHRP performance grades in the western United States is that most asphalt used on state and federal projects will need to be modified with polymers or high performance asphalts, or both, to meet the required specifications. The Company manufactures a broad range of performance asphalt products meeting the SHRP specifications.

Through its relationships with producers, refiners, suppliers, transporters and users of asphalt, including state and federal governmental departments, asphalt associations, consultants and private sector companies; as well as its strategically located asphalt distribution terminals and PG asphalt blending processes, the Company believes that it is well positioned to meet the needs of the changing asphalt market. However, the Company competes with several larger companies in the regional asphalt supply business. Competition in the asphalt supply business is based primarily on price and quality. In general, these competitors have significant financial, technical, managerial and marketing resources and, both separately and combined, represent significant competition for the Company in its markets.

The asphalt industry is seasonal. Demand for asphalt decreases significantly during the winter months when cold weather and precipitation interferes with highway construction and repair. The Company purchases asphalt from refiners and other suppliers in the winter months, when prices are lower, stores the asphalt at its terminal facilities and manufactures and distributes finished asphalt products during the peak spring and summer months. In addition, the Company purchases asphalt throughout its peak months to resupply the terminal facilities.

Crown Asphalt Distribution, L.L.C.

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Formation and Current Development Status. On July 2, 1998, Crown Distribution was formed as a second joint venture between the Company and MCNIC. The Company and MCNIC (sometimes referred to hereafter as the members) possess sharing ratios ("sharing ratios") of 50.01% and 49.99%, respectively, in the profits, losses and obligations of Crown Distribution. Accordingly, the Company holds a majority and controlling interest in Crown Distribution and the accounts and results of operations of Crown Distribution are included within the Company's consolidated financial statements. On July 2, 1998, Crown Distribution purchased the inventory and assets of PSAC, effective June 1, 1998 ("PSAC Acquisition"). The purchased assets included asphalt supply and marketing contracts, owned and leased equipment, personal property, fixtures, equipment leases, real estate leases, technology licenses, other related agreements,

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certain intellectual property, products inventory, ownership interests in and to asphalt distribution facilities in Utah, Colorado, Nevada and Arizona, and certain processing rights at a refinery in Santa Maria, California. In addition, MCNIC made loans to Crown Distribution for a portion of the PSAC Acquisition, inventory purchases and its general working capital requirements.

The Company manufactured and distributed 133,783 tons of asphalt products in 2001 up from 100,930 tons of asphalt products in 2000. Success in the asphalt manufacturing and distribution business depends on the ability to purchase inventory of base asphalt, additives and chemicals to manufacture a finished product. Typically the cost of this inventory is less expensive during the winter months when supply is greater than demand. It is during these months that the Company normally fills its storage tanks and contracts for the sale of finished product to be delivered during the paving season, generally from April through October. The cyclical nature of the purchasing and sale of product creates the requirement for a large amount of working capital. Since 1999, the Company has not had a working capital credit facility. During 2001, the Company was able to purchase asphalt and other raw materials from certain suppliers under terms not requiring a working capital credit facility. The terms were very expensive to the Company and resulted in a higher cost of goods sold than would have occurred had the Company had a conventional working capital credit facility. The Company continues to be hindered in its purchases of some raw materials because those purchases must be made from operating cash flow limiting the flexibility in supply purchases. This inflexibility caused costs to be at levels higher than desired.

At the time of formation, the Company agreed to transfer and assign to Crown Distribution, as a capital contribution, its 66.67% membership interest in CAT, LLC. The Company was credited with a \$1.5 million capital contribution to Crown Distribution as a result of the assignment of the CAT, LLC membership interests to Crown Distribution. Crown Distribution also assumed CAT, LLC's payment obligations under a promissory note. The promissory note, assumed by the Company, had an original principal balance of \$1,282,070, with a balance as of December 31, 2001, of \$843,207. Crown Distribution is responsible for its 67.67% of the promissory note payments. The remaining 33.33% ownership interest in CAT, LLC is owned by Foreland. The accounts and results of operations of CAT, LLC are therefore included within the consolidated financial statements of the Company with a provision for minority interest owned by Foreland.. See Item 1. Business - Cowboy Asphalt Terminal, L.L.C. below for further information regarding CAT, LLC.

MCNIC originally contributed the amount of \$100 to the capital of Crown Distribution. MCNIC also made a capital contribution in the amount of \$6,000,000 as a preferential contribution (the "Preferential Capital Contribution"). The Preferential Capital Contribution, together with an additional loan from MCNIC,

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was used by Crown Distribution to acquire the assets of PSAC and pay related closing and other acquisition costs. MCNIC made an additional capital

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contribution in the amount of \$1.5 million when the Company contributed its interest in CAT, LLC to Crown Distribution that Crown Distribution immediately used to reduce the balance of the loan to MCNIC.

Management Of Crown Distribution. Crown Distribution is governed by a management committee consisting of three managers. The Company is entitled to appoint two managers and MCNIC is entitled to appoint one manager. Management decisions are generally made by the management committee. Generally, the management committee may act through majority vote. The Crown Distribution Operating Agreement, however, requires that certain decisions ("Major Decisions") be undertaken by the unanimous vote of the committee members. Capco is the operator of Crown Distribution.

Loans. MCNIC, pursuant to its rights granted under the Crown Distribution Operating Agreement, elected to loan Crown Distribution amounts to cover its working capital requirements in lieu of it obtaining a line of credit from an third party financial institution. As of December 31, 2001, MCNIC had loaned Crown Distribution approximately \$14,935,222.

On March 27, 2000, MCNIC delivered to the Company a notice of default demanding payment of the outstanding principal balance of the amounts loaned to Crown Distribution plus all interest accrued thereon. On June 20, 2000, MCNIC filed a Complaint in the Third Judicial District Court, Salt Lake County, Utah, against Crown Distribution. The action sought to foreclose on a mortgage and security interest claimed by MCNIC in and to the real and personal property of Crown Distribution. See Item 3. Legal Proceedings.

The Company and Crown Distribution acted to defend against MCNIC's actions. On July 25, 2000, the Company filed suit in the United States District Court for the state of Utah, Central Division, against MCNIC, MCN and certain officers of MCN. In its Complaint (the "Crown Complaint"), the Company alleged claims against the defendants under a wide variety of causes of action. An Answer and Counterclaim to the MCNIC Complaint was filed by the Company on August 1, 2000, and named additional counterclaim defendants, MCN Energy Group, Inc. ("MCN") and certain officers of MCN and MCNIC. The Answer and Counterclaims substantially denied all of the allegations set forth in the MCNIC Complaint and asserted defenses, claims and counterclaims. The Answer and Counterclaims further argued that certain of MCNIC's allegations were lacking in either legal or factual basis.

MCNIC, MCN and the Company agreed to submit the Complaint, the Crown Complaint and the Answer and Counterclaim to binding arbitration. The arbitration concluded in August 2001. On November 5, 2001, the Company received the decision of the arbitrator (the "Arbitrator") in the dispute between the Company and MCNIC in which it was held that the loans made by MCNIC to Crown Distribution are currently due and payable along with accrued interest ("Damage Award"). On February 07, 2002, the Third Judicial Court, Salt Lake County, Utah confirmed the Damage Award and entered a judgment in favor of MCNIC. The amount of the Damage Award judgment as of March 29, 2002, including accrued interest is \$20,266,822.71, and continues to accrue interest daily of \$5,102.84. As is

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discussed elsewhere within this Report, if the Company exercises the option (the "Option") given it under the Settlement Agreement to purchase all of MCNIC's

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interests in, or relating to, Crown Distribution, the amount owing under the Damage Award will be discharged. See Item 3. Legal Proceedings.

Distributions: Allocations Of Profits and Losses. Until such time as MCNIC has received the return of its Preferential Capital Contribution and a 15% internal rate of return on its investment in Crown Distribution, Crown Distribution is obligated to distribute to MCNIC 50% of the net cash flow from operations. The remaining cash flow balance is distributed roughly 50% to MCNIC and 50% to the Company (in accordance with their respective sharing ratios). During 2001, no distributions were made. In the event of liquidation, MCNIC would receive 100% of any and all amounts available for distribution up to its outstanding Preferential Capital Contribution balance and remaining amounts would be distributed in proportion to the member's capital account balances. Profits and losses are generally allocated in accordance with the members' respective sharing ratios. However, after profits are allocated to offset any previous allocations of losses made to members, in the event of a complete liquidation of Crown Distribution, profits will be allocated 100% to MCNIC until its Preferential Capital Contribution and the 15% rate of return has been satisfied.

Management Agreement. Pursuant to an Operating and Management Agreement (the "Management Agreement"), Capco is the operator of Crown Distribution and manages and conducts its business including the negotiation and execution of contracts, the buying and selling of asphalt, and the paying of expenses. As compensation for the services rendered under the Management Agreement, the Company receives: (i) a monthly fee of \$5,000; (ii) the payment of all out-of-pocket expenses incurred through the performance of its duties; (iii) the reimbursement of the reasonable salaries, wages, overtime and other similar compensation paid to employees of the Company in relation to their management services under the Management Agreement; and (iv) a monthly overhead charge of \$10,000.

The term of the Management Agreement is five years, which term will be automatically extended for unlimited successive one-year periods unless either party furnishes the other with written notice at least 90 days prior to the expiration of any such initial or extended period. During the initial term of the Management Agreement, the Company can be removed only for good cause by the affirmative vote of the management committee. The Management Agreement also contains provisions allowing the replacement of the Company as the operator, after the initial five-year term on economic grounds. Such a decision would require the majority vote of the management committee of Crown Distribution. Two of the members of the management committee are nominees of the Company.

The Company and third parties store and throughput asphalt through excess capacity at the terminal facilities for an industry standard fee.

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Cowboy Asphalt Terminal, L.L.C.

Formation and Acquisition of Assets. CAT, LLC is a joint venture between the Company and Foreland. Foreland is engaged in the asphalt roofing products business. On June 16, 1998, CAT, LLC was formed to acquire an asphalt terminal and related refinery assets and real property located in Woods Cross, Utah (the "Cowboy Terminal Assets"). The real property acquired by CAT, LLC as part of the Cowboy Terminal Assets is referred to hereinafter as the "Cowboy Terminal Property".

On September 11, 1998, CAT, LLC, Capco, Foreland and Refinery Technologies, Inc., a Utah corporation ("Refinery Technologies"), entered into an Assignment and Agreement (the "Assignment Agreement") under which Refinery

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Technologies assigned all of its ownership rights in and to the Cowboy Terminal Assets purchase contract to CAT, LLC. In turn, CAT, LLC agreed to assume all of the obligations under the real property purchase contract, and issued a promissory note in connection with the purchase in the amount of \$1,067,111 to the former owner.

On January 9, 1999, CAT, LLC purchased the Cowboy Terminal Assets for \$1,477,070 (net of \$496,441 of deposits paid in 1998). CAT, LLC paid \$195,000 in cash at closing and executed and delivered a promissory note in the amount of \$1,282,070. This promissory note is payable in 84 equal monthly installments of \$20,627 beginning on February 1, 1999, and ending on January 1, 2006. The note bears interest at the rate of 9% and is secured by a deed of trust encumbering the Cowboy Terminal Property.

The Company and Foreland initially owned sharing ratios ("sharing ratios") of 66.67% and 33.33%, respectively, in the profits, losses and obligations of CAT, LLC. However, the Company has assigned its sharing ratios and ownership interests in CAT, LLC to Crown Distribution. In connection with the transfer of the 66.67% interest in CAT, LLC to Crown Distribution, Crown Distribution assumed payment obligations under this promissory note. See Item 1. Business - Crown Asphalt Distribution, L.L.C.

The Cowboy Terminal Property has been divided into portions dedicated: (i) to the exclusive uses of the Company for its asphalt paving products business and; (ii) to the exclusive uses of Foreland for its asphalt roofing products business. Revenues or profits generated by such exclusive uses will belong to the Company or Foreland, as the case may be, and the other party will have no right to participate in the revenues, profits or income generated by the business of the other with respect to such exclusive uses. Further, the use of the Cowboy Terminal Property by the Company and by Foreland is free of charge or other cost above the parties' respective operating costs.

The CAT, LLC Operating Agreement obligates both the Company and Foreland to make additional capital contributions equal to one-half of any additional amounts needed for: (i) CAT, LLC to fulfill its obligations, not to exceed \$650,000, under any corrective action plan that may be accepted by CAT, LLC and the Utah Department of Environmental Quality with respect to certain environmental conditions at the Cowboy Terminal Property; and (ii) legal costs

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incurred in the purchase or related to the environmental matters in (i) of this paragraph. The CAT, LLC Operating Agreement also obligates Crown Distribution and Foreland to make additional capital contributions, in proportion to their ownership percentages, in order to fund any additional amounts required for CAT, LLC to fulfill its obligations under the purchase contract for the Cowboy Terminal Assets, for environmental management and containment costs, expenses for operations, or the construction of certain approved capital improvements to the Cowboy Terminal Property. None of the foregoing additional contributions will result in an increase in the number of units or percentage interests held by the Company or Foreland.

CAT, LLC has title to the Cowboy Terminal Property and the Company has the exclusive right to use portions thereof for its asphalt terminal operations. Refinery Technologies did, however, retain certain contract rights with respect to the Cowboy Terminal Assets, certain rights to receive payments upon any liquidation of CAT, LLC and a right of first refusal to purchase the Cowboy Terminal Property or membership interests in CAT, LLC under certain conditions.

Management of Cowboy Asphalt Terminal, LLC. CAT, LLC is operated by Capco. The operator generally has authority to conduct the day-to-day business

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and affairs of CAT, LLC. Certain matters must be approved by members holding 75% or more of the outstanding units of CAT, LLC. The Company is not compensated for its services as operator.

Crown Asphalt Ridge, L.L.C.

Formation and Current Development Status. Effective August 1, 1997, the Company jointly formed Crown Ridge with MCNIC to construct and operate an oil sand processing facility for the production of premium asphalt oil at Asphalt Ridge in Uintah County, Utah.

The Facility constructed by Crown Ridge is located on a portion of the Oil Sand Resources known as the "A" tract, which is believed to contain in excess of 18 million barrels of surface minable reserves with an average oil saturation of 11% by weight. There is a partially opened pit on this tract that has been mined since the 1940's for native asphalt material for road surfaces.

Under the Crown Ridge Operating Agreement, MCNIC initially funded 75% and the Company 25% of the amounts required by Crown Ridge to construct the Facility. The Company was initially required to contribute: (i) \$500,000 of oil sand leases and technology; and (ii) the obligation to lease certain mining equipment for the Facility up to \$3,500,000 in value. Both MCNIC and the Company made additional contributions as were required pursuant to the contract for the construction of the Facility and as otherwise unanimously agreed to by the Company and MCNIC. As of December 31, 2001, the Company had made cash contributions of approximately \$5,663,985 to Crown Ridge and has invested a total of approximately \$6,904,086 in the development of Crown Ridge, which includes costs incurred prior to the joint venture with MCNIC.

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Because operations at Crown Ridge did not yet require it, the Company did not contribute as part of its capital contribution, the leased mining equipment contemplated when the entity was formed. To replace the foregoing obligation to lease certain mining equipment as its required capital contribution, on July 20, 1999, the Company's CAC subsidiary, at the demand of MCNIC, executed a promissory note in the amount of \$2,991,868 (the "CAC Loan"), bearing interest at the prime rate plus 1% per annum, adjusted monthly, and providing for interest only payments of \$20,757 per month through July 20, 2004. On August 20, 2001, CAC and MCNIC agreed that the Facility would not be able to operate commercially and the interest only period was extended under the CAC Loan and no principal payments were due until July 20, 2004. The CAC Loan was secured by that portion of CAC's sharing ratio in Crown Ridge directly attributable to the proceeds of the loan. The gross proceeds of the CAC Loan (\$2,991,868.66) were treated as a capital contribution by CAC to Crown Ridge. As a result of the execution of the Settlement Agreement, the Company's obligations under the CAC Loan have been discharged.

During the start-up of the Facility mechanical and process difficulties were experienced that affected production economics. Extensive research and engineering to develop a solution to these problems was conducted and tested in a pilot study at the Facility during 2000. MCNIC, as the majority owner of Crown Ridge, has solely managed the operation of the pilot plant and study. In order for the Facility to achieve commercial production, significant capital investment in the Facility will be required. The Company does not now have, or expect to have in the near future, the financial wherewithal to contribute its pro rata share of the capital investment.

The Company has previously impaired the value of its Crown Ridge interest in its Consolidated Financial Statement for the year ending December 31, 2000. On March 8, 2002, the Company assigned its interest in Crown Ridge to

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MCNIC pursuant to the Settlement Agreement in return for: (i) the granting to CAC of a one percent (1%) non-cost bearing overriding royalty interest in the "A" tract at Asphalt Ridge; (ii) the assignment to CAC of a three percent (3%) non-cost bearing overriding royalty interest in Crown Ridge's other properties at Asphalt Ridge; (iii) the elimination of the CAC Loan; and (iv) the payment by MCNIC of a judgment against CAC by Morrison Knudsen (the "MK Judgment") which arose out of the construction of the Facility, and the indemnification of the Company against the MK judgment. Given the: (i) extreme financial and legal pressures confronting the Company, and Crown Ridge specifically; and (ii) continuing technical difficulties experienced at Crown Ridge, Management of the Company believes that its actions with regard to Crown Ridge are in its best interests. See Item 3 Legal Proceedings.

Environment

The Company and its subsidiaries are subject to federal, state and local requirements regulating the discharge of materials into the environment, the handling and disposal of solid and hazardous wastes, and protection of

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health and the environment generally (collectively "Environmental Laws"). Governmental authorities have the power to require compliance with these Environmental Laws, and violators may be subject to civil or criminal penalties, injunctions or both. Third parties may also have the right to sue for damages and/or enforce compliance and to require remediation for contamination.

The Company and its subsidiaries are also subject to Environmental Laws that impose liability for costs of cleaning up contamination resulting from past spills, disposal and other releases of substances. In particular, an entity may be subject to liability under the Federal Comprehensive Environmental Response, Compensation and Liability Act and similar state laws that impose liability - without a showing of fault, negligence or regulatory violations - for the generation, transportation or disposal of hazardous substances that have caused or may cause environmental contamination. In addition, an entity could be liable for cleanup of property it owns or operates even if it did not contribute to contamination of such property.

The Company expects that it may be required to expend funds to comply with federal, state and local provisions and orders which relate to the environment. Based upon information available to the Company at this time, the Company believes that compliance with such provisions will not have a material effect on the capital expenditures, earnings and competitive position of the Company.

Subsidiaries of the Company

Crown Asphalt Corporation, a Utah corporation which is a wholly owned subsidiary of the Company, was organized October 24, 1985, and was acquired by the Company on September 30, 1992. Crown Asphalt Corporation owns an overriding royalty interest in the properties of Crown Ridge. See Item 1. Crown Asphalt Ridge, L.L.C.

Capco is a wholly owned subsidiary of the Company that was formed in 1991. Until 1998, Capco was a dormant entity. The Company activated Capco for the purpose of conducting an asphalt marketing and distribution business. Capco is a member of and holds 50.01% of the membership interests in Crown Distribution and currently owns the Rawlins Asphalt Terminal.

On July 2, 1998, Crown Distribution was formed as a second joint venture between the Company and MCNIC. Crown Distribution is owned 50.01% by the

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Company and 49.99% by MCNIC. Crown Distribution was formed to acquire the inventory and assets of PSAC. Crown Distribution is a member of and holds 66.67% of the membership interests in CAT, LLC. The Company includes within its consolidated financial statements the accounts and results of operations of both Crown Distribution and CAT, LLC.

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Employees

As of April 1, 2001, the Company had 44 full and part-time employees. None of the Company's employees are represented by a union or other collective bargaining group. Management believes that its relations with its employees are good.

Segments

The Company considers its principal business to be within one industry segment. For information regarding the breakdown of revenues and operating results for the Company and its operational units, see Note 17 to the Consolidated Financial Statements of Crown Energy Corporation.

ITEM 2. PROPERTIES

The Company conducts its business operations at 215 South State, Suite 650, Salt Lake City, Utah, where it has approximately 10,284 square feet of office space under lease until July 31, 2001. On October 30, 2000, the Company notified the landlord of the lease that it would exercise its option under the lease to terminate the lease effective July 31, 2001, and is currently leasing the space on a month-to-month basis. The Company has an obligation to pay the landlord the unamortized cost of the tenant improvements and commissions as of the July 31, 2001, termination date. On November 17, 2000, the Company purchased a building in Woods Cross, Utah adjacent to the Cowboy Terminal Property executing a promissory note of \$264,750.00 payable over 120 payments for the purchase price. The Company plans to relocate its offices to this building, and management of the Company believes that building will be sufficient for its needs and believes that it will be able to obtain suitable other space in the Salt Lake City area in the alternative.

Crown Distribution owns asphalt distribution facilities located in Utah, Colorado, Nevada and Arizona. These properties are used by the Company to store, process, blend, manufacture and sell finished asphalt products in its western United States target market. All of Crown Distribution's assets are encumbered by the Damage Award judgment and security interest of MCNIC. See Item 1. Business - Crown Asphalt Distribution, L.L.C. and Item 3. Legal Proceedings.

The Company, through its subsidiary Capco, owns the Rawlins Asphalt Terminal. These properties are used to store, process, blend, manufacture and sell finished asphalt products. All of the Rawlins Asphalt Terminal assets are encumbered by the lien and security interest of Community First National Bank, which advanced the purchase price for such assets.

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CAT, LLC's asphalt distribution and storage facility is located in Woods Cross, Utah, just north of Salt Lake City. CAT, LLC owns all of the assets and underlying real property of the Cowboy Terminal Property, which is encumbered by a Deed of Trust in favor of the seller.

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ITEM 3. LEGAL PROCEEDINGS

On May 21, 1998, Road Runner Oil, Inc. ("Road Runner") and Gavilan Petroleum, Inc. ("Gavilan") filed an action in the Third Judicial District Court, Salt Lake County, State of Utah, as Civil #98-0905064 against the Company and its President. The action relates to the purchase by Road Runner of 100% of the stock of Gavilan in 1997, and generally seeks to: (i) obtain corporate records of Gavilan in the Company's possession relating to the amount of oil and gas royalties potentially owed to third parties prior to the sale of Gavilan Stock to Roadrunner, and (ii) to determine the amount of royalties owed. The action further alleges, on behalf of Gavilan, claims of breach of fiduciary duty, professional negligence and mismanagement against the Company's President for alleged mismanagement of Gavilan's affairs. The Plaintiffs seek injunctive relief requiring the tendering by the Company of the referenced records and such damages as may be proven at trial. The Company believes that the Plaintiff's claims are groundless and that it is entitled to payment of the \$75,000, plus accrued interest, still owed by Road Runner as part of the purchase price for Gavilan. In addition, since the action was filed, the Company has tendered the corporate records to the Plaintiffs. On March 8, 2000, the Company filed an answer denying liability and filed a counterclaim against Road Runner and Gavilan for breach of contract and declaratory judgment. The Company is not certain as to whether or not the outstanding balance under the promissory note is collectible by the Company. No evaluation presently can be made as to the final outcome of this case or the likelihood or range of potential loss or recovery, in any.

On July 12, 1999, Morrison Knudsen Corporation ("MK") filed a Complaint in the Eighth Judicial District Court, Uintah County, State of Utah, alleging that CAC had breached an agreement whereby MK would provide certain mining services for CAC at Crown Ridge's Facility in Uintah County, Utah (the "Project"). Judgment in favor of MK was entered on January 30, 2001, in the principal amount of \$303,873.39, \$49,062.33 of pre-judgment interest and \$2,033.14 of costs, which totals \$354,968.86. The Settlement Agreement obligates MCNIC to pay the MK Judgment and indemnify the Company from any associated cost, and the case has been subsequently dismissed.

In late July and August, 2001, the Company participated in a binding arbitration proceeding (the "Arbitration") in Salt Lake City, Utah against MCNIC, its related entities and certain of their officers. The Arbitration addressed all claims previously asserted between the parties either in the Third Judicial District Court of Salt Lake County in a proceeding entitled MCNIC Pipeline & Processing Company v. Crown Asphalt Distribution Civil No. 00904867 (the "State Action") and the proceeding filed in the United States District Court for the District of Utah Central Division entitled Crown Energy Corporation, et al. v. MCN Energy Group, Inc. et al., Civil No. 2CV-0583ST (the "Federal Action"). In summary, in the State Action, MCNIC alleged that funds

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previously advanced by it to Crown Distribution in an amount in excess of \$14 million, plus interest, were immediately due and payable. MCNIC also sought the appointment of a receiver for Crown Distribution's assets and sought to foreclose on security interests in the assets of Crown Distribution.

In contrast, the Company asserted that the funds previously advanced to Crown Distribution by MCNIC were part of a revolving credit facility which was not due and payable at that time and from which Crown Distribution should be able to make additional draws. Further, the Company sought recovery against MCNIC, its related entities and certain of its officers under other causes of action, including breach of fiduciary duties, economic duress, breach of implied covenants of good faith and fair dealing, breach of contracts and intentional

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interference with business relations.

On October 31, 2001, the Arbitrator issued a damage award (the "Damage Award") in which he held that MCNIC's loans were due and payable with interest accruing on such loans from 8% to 18%, depending upon the particular loan involved. The decision also failed to find for the Company on its claims against MCNIC, its related entities and officers. The Damage Award was subsequently confirmed by the Third Judicial District Court of Salt Lake County, state of Utah on February 7, 2002. The amount of the Damage Award as of March 29, 2002, is \$20,266,822.71, with interest accruing daily in the amount of \$5,102.84.

In addition, the Arbitrator awarded \$2,609,518.69 in fees and costs (the "Fee Award") to MCNIC against the Company and its related entities on a joint and several basis. The Fee Award has yet to be confirmed by the appropriate Utah state court and proceedings regarding it have been stayed as further explained below.

On March 8, 2002, the Company and MCNIC, its related entities and certain of its officers executed the Settlement Agreement. Pursuant to the Settlement Agreement, the Company transferred all of its interests in Crown Ridge and the leases relating to the Asphalt Ridge properties to MCNIC. In addition, the Company and its officers agreed not to compete with Crown Ridge in the Western United States and Western Canada in any way with regard to tar sands leasing, mining, extraction or processing for a period of three years. However, the Settlement Agreement provides that the Company may continue to conduct its present business of buying, storing, blending and selling asphalt.

In exchange for the assignment of the Crown Ridge interest, the Company received (i) MCNIC's commitment to pay the MK Judgment and its indemnification of the Company from the MK Judgment, (ii) the assignment from Crown Ridge of a 1% non-cost bearing, overriding royalty interest in the sales proceeds received by Crown Ridge or its successors and assigns from any products produced on the assigned leases of "Tract A" at Asphalt Ridge and a 3% non-cost bearing, overriding royalty interest in proceeds received by Crown Ridge or its successors and assigns from any other lands which are currently leased by Crown Ridge or the Company, and (iii) the mutual release between the parties of any known or unknown claims between them relating to Crown Ridge, including the obligation of the Company to pay the CAC Loan.

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Pursuant to the Settlement Agreement, the Company also acquired an option to purchase all of MCNIC's rights, title and interests in, or relating to, Crown Distribution (including its right to receive the Damage Award and the Fee Award) for an amount equal to \$5,500,000 (the "Purchase Price"). The Settlement Agreement provides that the Purchase Price shall be paid through the payment of \$200,000 at execution with the balance due upon the closing of the Option (if such closing occurs on or before April 30, 2002). After April 30, 2002, the Company shall have the right to extend the Option until September 30, 2002, by making an additional \$100,000 payment for each 30 days by which the Option is extended. If the Company closes under the Option, then all payments made to MCNIC shall be credited against the Purchase Price. If, however, the Company does not exercise the Option, the initial \$200,000 payment shall be credited against the Company's ultimate liability under the Fee Award.

Promptly following the execution of the Settlement Agreement, the Company and MCNIC stayed all pending litigation relating to the Arbitration or any enforcement of its conclusion issued as a result of it. The Settlement Agreement provides that if the Company does not exercise the Option, MCNIC may execute on the Damage Award and that the parties may either move to confirm or appeal, as the case may be, the Fee Award.

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Management of the Company believes that under the severe legal and financial constraints facing the Company as a result of the Arbitration's outcome, the negotiation and execution of the Settlement Agreement were in the best interests of the Company and its shareholders. Management of the Company is presently taking actions intended to permit it to exercise the Option but cannot assure that it will be successful in obtaining the requisite financing on terms which are acceptable to the Company. Further, the Company cannot describe what form future financing might take.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matters were submitted to the Company's shareholders for vote during the fourth quarter of fiscal year 2001.

ITEM 4A. EXECUTIVE OFFICERS OF THE COMPANY

The executive officers and directors of the Company, their ages and their positions are set forth below:

NAME ----	AGE ---	POSITION -----
Jay Mealey	45	Chairman of the Board of Directors, Chief Executive Officer, President, Treasurer
Stephen J. Burton	56	Secretary
Andrew W. Buffmire	55	Director

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Jay Mealey has served as President and Chief Operating Officer and as a director of the Company since 1991. Mr. Mealey was appointed as Chief Executive Officer in April 1999, treasurer in October 2000, and will serve as Chief Executive Officer, President and Treasurer and as a director, until a new officer and director, respectively, are appointed or elected and qualified. Mr. Mealey has been actively involved in the oil and gas exploration and production business since 1978. Prior to employment with the Company, Mr. Mealey served as Vice President of Ambra Oil and Gas Company and prior to that worked for Belco Petroleum Corporation and Conoco, Inc. in their exploration divisions. Mr. Mealey is responsible for managing the day-to-day operations of the Company.

James A. Middleton has served as a director since February 1996 and served as Chief Executive Officer from December 1996 through April 16, 1999. As of March 29, 2002, Mr. Middleton resigned as a director for personal reasons.

Stephen J. Burton was elected Secretary in October 2000. Mr. Burton has held various accounting positions with the Company since 1989. He is currently responsible for the Company's Human Resources Department. Mr. Burton graduated from Utah State University in 1986.

Andrew W. Buffmire is the Vice President Business Development for publicly traded Ubiquitel, Inc., a wireless telecommunications company headquartered in Conshohocken, Pennsylvania. Prior to joining Ubiquitel, Buffmire was a Director in the business development group at Sprint PCS, a national wireless telecommunications service provider from October 1997 until May 2001. Before joining Sprint PCS, Buffmire was an attorney in private legal practice in Salt Lake City, Utah for 16 years, with the exception of two years (1985-1987), when he was the founder, general counsel and registered principal of an NASD-registered investment-banking firm.

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PART II.

ITEM 5. MARKET PRICE FOR THE COMPANY'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

The Company's Common Stock has been traded in the over-the-counter market since 1980. The common stock is currently listed on the NASD OTC Bulletin Board under the symbol CROE. At the present time, only the common stock is publicly traded. The following table sets forth the range of high and low bid quotations, as adjusted for stock splits, of the Company's common stock as reported by the National Quotation Bureau for each full quarter during the two most recent fiscal years. The table represents prices between dealers, and does not include retail markups, markdowns or commissions, and may not represent actual transactions:

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CALENDAR QUARTER ENDED	HIGH BID	LOW BID
-----	-----	-----
March 31, 2001	.02	.015
June 30, 2001	.125	.035
September 30, 2001	.075	.06
December 31, 2001	.085	.02
March 31, 2000	.0625	.0625
June 30, 2000	.468	.017
September 30, 2000	.187	.125
December 31, 2000	.125	.06

As of March 31, 2002, the high bid and low offer quotations reported by the National Quotation Bureau were \$.04 and \$.011, respectively. On April 1, 2002, approximately 739 shareholders of record held the Company's common stock. The Company declared and paid no dividends in 2001.

The Company has not paid any dividends or made any other distributions on its common shares. It is the present policy of the Board of Directors of the Company to retain any earnings for use in the business, and therefore, the Company does not anticipate paying any cash dividends on its common stock in the foreseeable future. The terms of the Company's Series A Preferred Stock prohibit the payment of dividends on common stock at any time that dividends on the Series A Preferred Stock are due yet unpaid.

ITEM 6. SELECTED FINANCIAL DATA

The financial data included in the following table has been derived from the financial statements for the periods indicated. The financial statements as of and for the year ended December 31, 1997, were audited by Pritchett, Siler & Hardy, P.C., independent public accountants. The financial statements as of and for the year ended December 31, 1998 and December 31, 1999, were audited by Deloitte & Touche, LLP, independent public accountants. The financial statements as of and for the year ended December 31, 2000, and December 31, 2001, were audited by Tanner + Co., independent public accountants. The following financial data should be read in conjunction with the financial statements and related notes and with management's discussion and analysis of financial conditions and results of operations included elsewhere herein.

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	Year Ended December 31			

	(In thousands except per share)			
	2001	2000	1999	1998
	----	----	----	----
Net Revenues	\$27,033	\$22,787	\$35,519	\$23,836
Income (Loss) from				
Continuing Operations	(\$6,488)	(\$18,361)	(\$3,054)	(\$498)
Income (Loss) Per Share				
From Continuing Operations	(\$0.51)	(\$1.39)	(\$0.26)	(\$0.07)
Total Assets	\$15,717	\$17,052	\$33,114	\$23,571
Total Long-Term Obligations	\$11,130	\$11,337	\$11,333	\$4,326
Redeemable Preferred Stock	\$4,953	\$4,896	\$4,840	\$4,783
Cash Dividends Per Common Share				
	\$0.00	\$0.00	\$0.00	\$0.00
Common Stockholders' Equity	(\$27,994)	(\$21,050)	(\$2,276)	\$767

The foregoing selected financial data is presented on a historical basis and may not be comparable from period to period due to changes in the Company's operations.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULT OF OPERATIONS

The following discussion and analysis of the Company's financial condition, results of operations and related matters includes a number of forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Forward-looking statements include, by way of illustration and not limitation, statements containing the words "anticipates," "believes," "expects," "intends," "future" and words of similar import which express, either directly or by implication, management's beliefs, expectations or intentions regarding the Company's future performance or future events or trends which may affect the Company or its results of operations.

Forward-looking statements are subject to known and unknown risks, uncertainties and other factors, including but not limited to changes in economic conditions generally or with respect to the Company's asphalt products market in particular, new or increased governmental regulation, increased competition, shortages in labor or materials, delays or other difficulties in shipping or transporting the Company's products, risks related to the financing of the Company's operations (including the risk of loss of certain operating assets serving as collateral to secure such financing), and other similar risks inherent in the Company's operations or in business operations generally. Any such risks or uncertainties, either alone or in combination with other factors, may cause the actual results, performance or achievements of the Company to

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differ materially from its anticipated future results, performance or achievements (which may be expressed or implied by such forward looking statements). Consequently, the following management's discussion and analysis, including all forward-looking statements contained therein, are qualified and limited by the foregoing cautionary factors. Interested persons are advised to consider all forward-looking statements within the context of such cautionary factors.

Liquidity and Capital Resources

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At December 31, 2001, the Company had cash and other current assets of \$5,502,842 as compared to cash and other current assets of \$6,761,595 at December 31, 2000. The decrease of \$1,258,753 was generally due to a reduction in year end asphalt inventory levels. The Company's wholly owned subsidiary, Capco, is the majority owner of Crown Distribution, and also conducts asphalt distribution independent of Crown Distribution. Together Capco and Crown Distribution accounted for most of the companies cash and other current assets. As of December 31, 2001, Capco and Crown Distribution had cash and other current assets of approximately \$5,343,836, consisting primarily of \$2,536,048 in cash, \$1,358,022 in inventory and \$1,363,883 in accounts receivable, excluding related party balances. The Company's business is capital intensive and requires a working capital credit facility to operate efficiently. The Company has not had such a credit facility since 1999, which has resulted in lowered profitability. Until 1999, MCNIC provided loans to Crown Distribution for inventory purchases and general working capital requirements. As of December 31, 2001, those loans had a principal balance of \$14,935,222. The Company plans to diminish part of its working capital constraints by structuring favorable supply arrangements with its suppliers in 2002.

On March 27, 2000, MCNIC delivered to the Company a notice of default demanding payment of the outstanding principal balance of the amounts loaned to Crown Distribution plus all interest accrued thereon. On June 20, 2000, MCNIC filed a Complaint in the Third Judicial District Court, Salt Lake County, Utah, against Crown Distribution. The action sought to foreclose on a mortgage and security interest claimed by MCNIC in and to the real and personal property of Crown Distribution. See Item 3. Legal Proceedings.

The Company and Crown Distribution acted to defend against MCNIC's actions. On July 25, 2000, the Company filed suit in the United States District Court for the state of Utah, Central Division, against MCNIC, MCN and certain officers of MCN. In its Complaint (the "Crown Complaint"), the Company alleged claims against the defendants under a wide variety of causes of action. An Answer and Counterclaim to the MCNIC Complaint were filed by the Company on August 1, 2000, and named additional counterclaim defendants, MCN Energy Group, Inc. ("MCN") and certain officers of MCN and MCNIC. The Answer and Counterclaims substantially denied all of the allegations set forth in the MCNIC Complaint and asserted defenses, claims and counterclaims. The Answer and Counterclaims further argued that certain of MCNIC's allegations were lacking in either legal or factual basis.

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MCNIC, MCN and the Company agreed to submit the Complaint, the Crown Complaint and the Answer and Counterclaim to binding arbitration. The arbitration concluded in August 2001. On November 5, 2001, the Company received a decision of the Arbitrator in the dispute between the Company and MCNIC where it was ruled that the loans made by MCNIC to Crown Distribution are currently due and payable along with accrued interest ("Damage Award"). On February 07, 2002, the Third Judicial Court, Salt Lake County, Utah confirmed the Damage Award and entered a judgment in favor of MCNIC

On February 05, 2002, the Company received a final decision of the Arbitrator awarding legal fees and costs incurred in the dispute between MCNIC and the Company to MCNIC in the amount of \$2,609,519 (the "Fee Award"). The Fee Award was entered jointly and severally against Crown Distribution, Crown, Capco, CAC, and Crown Ridge.

Crown Distribution also owed MCNIC an additional \$5,325,723 at December 31, 2001, with respect to the Preferential Capital Contribution that funded Crown Distribution's acquisition of the assets of PSAC. See Item 1. Business -

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Crown Asphalt Distribution, L.L.C. The Preferential Capital Contribution requires payment solely from 50% of the cash flow from Crown Distribution's operations until repayment of the face amount plus a 15% rate of return.

On March 8, 2002, the Company and MCNIC entered into an agreement ("Settlement Agreement") in which the execution of the Damage Award judgment and the proceedings to confirm the Fee Award in the Third Judicial Court, Salt Lake County, Utah were both stayed. The terms of the Settlement Agreement also provide that the Company will have the option to purchase all of MCNIC's interest in Crown Distribution by the payment of certain amounts on or before September 30, 2002, and that the stay of the execution of the Damage Award judgment and the proceeding relating to the Fee Award will continue as long as the option to purchase remains valid. Upon execution of the option to purchase and closing by the Company, both MCNIC and the Company will mutually release the other party from and against all claims, obligations and liabilities (including the Damage Award, Fee Award and Preferential Capital Contribution). See Item 3. Legal Proceedings. The Company will be required to raise substantial additional capital to exercise the option to purchase MCNIC's interest in Crown Distribution. This may require the Company to sell all or part of its assets to finance the capital requirements. There is no assurance that the Company will be able to raise the necessary capital or that the Company will be able to complete the purchase of MCNIC's interest. This could result in the foreclosure by MCNIC of substantially all of the assets of Crown Distribution. Although the Company would vigorously defend against confirmation of the Fee Award against Crown, Capco and CAC, there can be no assurance that the Company would prevail due to the inherent risks of litigation. If MCNIC were to prevail and receive a joint and several judgment for the Fee Award, substantially all of the remaining assets of the Company would be at risk of loss to satisfy such a judgment. This would place the Company at serious risk of insolvency and interested parties are encouraged to note the significant risk of complete loss.

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The Company remains open to other asphalt related business opportunities to complement its existing asphalt distribution capabilities. There can be no assurance that the Company can obtain additional capital financing required to finance such transactions on acceptable terms and conditions.

The Company has a portion of its accounts receivable subject to the risks and uncertainties of litigation (see Item 3. Legal Proceedings) and subject to related collection risks. The Company is seeking other ways to finance its working capital requirements, but there can be no assurance that such working capital financing can be secured by the Company. In the event that the Company is unable to collect its current accounts receivables, or the Company is unable to secure the necessary working capital line of credit for its operations from third party sources, or if the Company's operating losses and working capital deficits continue, or if the Company is unable to recoup the losses, the Company may not have sufficient capital to operate through 2002.

As part of the Settlement Agreement, the Company assigned to MCNIC all of its interest in Crown Ridge. In return the Company received: (i) the assignment to CAC of a one percent (1%) non-cost bearing overriding royalty interest in the "A" tract at Asphalt Ridge; (ii) the a assignment to CAC of a three percent (3%) non-cost bearing overriding royalty interest in Crown Ridge's other properties at Asphalt Ridge; (iii) the elimination of the promissory note from CAC to MCNIC; and (iv) the payment by MCNIC of the MK judgment and indemnification of the Company against the MK judgment. The Company will have no further costs in Crown Ridge. See Item 3. Legal Proceedings.

Results of Operations

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2001 vs. 2000

Total revenue increased from \$22,787,103 for the year ended December 31, 2000, to \$27,032,658 for the year ended December 31, 2001, an increase of 18.63%. This increase was primarily due to an increase in sales volume which was a direct result of the Companies ability to purchase inventory from cash flow and as a result of supply arrangements reached with its suppliers.

The Company's gross profit increased from approximately (\$817,960) or -3.59% for the year ended 2000 to approximately \$2,906,468 or 10.75% for the year ended 2001. This increase was due to an overall reduction in the Company's cost of basestock asphalt, because of the ability to bring in asphalt inventory during the winter months when cost is significantly lower which it was not able to do in 2000 due to financing difficulties resulting from working capital constraints. (See "Item 3. - Legal Proceedings"). Another factor contributing to the increased profit was improved operating efficiencies at the facilities. The Company believes continued cost cutting procedures will favorably impact gross margins in 2002, but the lack of an adequate working capital credit facility could partially offset those margins.

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General, administrative and provision for bad debt expenses decreased from \$4,590,523 for the year ended December 31, 2000, to \$3,479,104 for the year ended December 31, 2001, a decrease of \$1,111,419. This decrease was primarily the result of having to increase the reserve for doubtful accounts in 2000 as a result of the decline in the credit worthiness of certain account balances. Cost cutting procedures in 2001 and a reduction in administrative staff also contributed to the decrease. These were partially offset by the increase in legal expenses in 2001.

The loss from operations decreased from \$16,084,230 in 2000 to \$572,636 in 2001 an improvement of \$15,511,594.

Interest and other income (expenses) increased from net expenses of \$2,315,344 for the year ended December 31, 2000, to net expenses of \$5,964,153 for the year ended December 31, 2001, an increase of \$3,648,809. The 2001 total was comprised of \$3,326,549 in interest costs related to the Crown Distribution's Credit Facility, Preferential Capital Contribution to MCNIC and the Damage Award. Other interest expense was \$692,189 on various other debt. Interest and other income was \$664,104. Other expenses in the amount of \$2,609,519 resulting from a final decision of the Arbitrator awarding legal fees and costs incurred in the dispute between MCNIC and the Company to MCNIC on February 05, 2002.

Minority interest of \$48,808 represents Foreland's approximate 33% interest in the loss in CAT, LLC.

Crown Distribution had losses for the year ended December 31, 2001, of \$8,669,457. The Company, through its wholly owned subsidiary Capco, owns 50.01% and MCNIC owns 49.99% of Crown Distribution. Capco is the manager and operating agent of Crown Distribution. Because there is no agreement requiring the minority shareholder, MCNIC, to guarantee the subsidiary's debt or such cumulative losses or a commitment to provide additional capital, other than working capital, all of the loss attributable to Crown Distribution, including MCNIC's 49.99% interest in the losses totaling \$4,333,861.55 are included as a loss in the Company's Financial Statements.

2000 vs. 1999

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Total revenue decreased from \$35,518,541 for the year ended December 31, 1999, to \$22,787,103 for the year ended December 31, 2000, a decrease of 35.84%. This decrease was primarily due to a reduction of the volume of asphalt sold during 2000. This decrease in sales volume was a direct result of a reduction in the ability of the Company to purchase inventory in a timely fashion and its resulting inability to submit competitive bids due to the loss of its working capital credit facility previously provided by MCNIC and loss of funds and disruption caused by MCNIC.

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The Company's gross margins decreased from approximately 4.81% for the year ended 1999 to approximately -3.59% for the year ended 2000. This decrease was due to an increase in the Company's cost of basestock asphalt that resulted from a reduction in the purchase of asphalt inventory during the winter months when the cost is significantly lower.

General, administrative and provision for bad debt expenses increased from \$2,745,029 for the year ended December 31, 1999, to \$4,590,523 for the year ended December 31, 2000, an increase of \$1,845,494. This increase was primarily due to increased legal expenses and an increase in the reserve for doubtful accounts as a result of the decline in the credit worthiness of certain account balances. These were partially offset by cost cutting procedures and a reduction in administrative staff.

During the year ended December 31, 2000, the Company evaluated the carrying value of its investments in and advances to Crown Ridge. The evaluation has been complicated by the fact that the Company's joint venture partner has effectively taken control of Crown Ridge and has not shared information relative to its activities pertaining to Crown Ridge, including financial information and feasibility studies relative to the Asphalt Ridge Project. Based on the lack of a firm business plan for the Asphalt Ridge Project at this time, the Company determined that its investment in and advances to Crown Ridge were potentially impaired. Accordingly, an aggregate non-cash expense for the impairment or \$6,904,085 was recorded.

At year-end December 31, 2000, the company also re-assessed the recoverability of goodwill associated with the PSAC Acquisition. Due to the litigation with MCNIC, the Company was unable to secure financing needed to build up inventory at favorable prices. This lack of funding and the ongoing dispute with MCNIC has resulted in losses from operations in 1999 and 2000. Because of these circumstances the Company could not estimate the full carrying value which could be recovered through the undiscounted future cash flows from products generated from related assets. Accordingly, an impairment of \$3,625,848 was recognized in the statements of operations for the year ended December 31, 2000.

Due to the items discussed above, including the impairments, the loss from operations increased from \$1,907,779 in 1999, to \$16,084,230 in 2000.

Interest and other income (expenses) decreased from net expenses of \$2,494,073 for the year ended December 31, 1999, to net expenses of \$2,315,344 for the year ended December 31, 2000, a decrease of \$178,729. The 2000 total was comprised of \$1,999,138 in interest costs related to the Preferential Capital Contribution and other loans to MCNIC, other interest expense of \$577,248 on various loans, and \$261,042 of interest income and other incomes

Minority interest of \$38,653 represents Foreland's approximate 33% interest in the loss in CAT, LLC.

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Crown Distribution had losses for the year ended December 31, 2000, of \$11,365,018. The Company, through its wholly owned subsidiary, Capco owns 50.01% and MCNIC owns 49.99% of Crown Distribution. Capco is the manager and operating agent of Crown Distribution. Because there is no agreement requiring the minority shareholder, MCNIC, to guarantee the subsidiary's debt or such cumulative losses or a commitment to provide additional capital, other than working capital, all (100%) of the loss attributable Crown Distribution, including MCNIC's 49.99% interest in the losses totaling \$5,681,372 are included as a loss in the Company's Financial Statements.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company does not believe it is subject to material risks of loss related to certain market risks, such as interest rate risks, foreign currency exchange rate risks or similar risks, and, therefore, the Company does not engage in transactions, such as hedging or similar transactions in derivative financial instruments, intended to reduce its exposure to such risks. However, the Company is subject to general market fluctuations related to the purchase of its base stock asphalt and may suffer reduced operating margins to the extent its increased costs are not passed through to its customers. Such prices generally fluctuate with the price of crude oil. The Company has been prevented from utilizing any hedging strategies to minimize any market price changes by the terms of the Operating Agreement with MCNIC. See Item 7. Management's Discussion and Analysis Results of Operations - 2000 vs. 1999.

The Company is also subject to certain price escalation and de-escalation clauses in its asphalt distribution sales contracts. The Company supplies asphalt to projects in certain states where regulations provide for escalation and de-escalation of the price for such asphalt relative to the price difference from the time the project is awarded to the successful bidding company and the time the project is completed. The Company includes such de-escalation risk into its bid prices and does not believe it has material exposure to risk resulting from these regulations.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATE

The financial statements required by this item are set forth following Item 14 hereof.

As indicated below, pursuant to Instruction G(3) to Form 10-K, portions of Items 10 through 13 of Part III of this Form 10-K are incorporated by reference from the Company's definitive proxy statement to be filed with the Commission pursuant to Regulation 14A of the Securities Act of 1933 within 120 days after the close of the Company's most recent fiscal year (the "Proxy Statement").

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PART III.

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT.

Information regarding directors of the Company required by this Item 10 will be set forth in the Proxy Statement, which information is incorporated herein by reference. Information regarding the executive officers of the Company required by this Item 10 is included as Item 4A of Part I of this Form 10-K as permitted by Instruction 3 to Item 401(b) of Regulation S-K. Information required by Item 405 of Regulation S-K will be set forth in the Proxy Statement, which information is incorporated herein by reference.

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ITEM 11. EXECUTIVE COMPENSATION.

Information required by this Item 11 will be set forth in the Proxy Statement, which information is incorporated herein by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT.

Information required by this Item 12 will be set forth in the Proxy Statement, which information is incorporated herein by reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS.

Information required by this Item 13 will be set forth in the Proxy Statement, which information is incorporated herein by reference.

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PART IV.

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K.

Documents filed as part of this Report:

- (1) Financial statements, as set forth on the attached Index to Financial Statements.
- (2) Exhibits, as set forth on the attached Exhibit Index.

Schedule II: Valuation and Qualifying Accounts

The Company filed a form 8-K on November 1, 2001, to report a final settlement, effective October 23, 2001, had been reached in the litigation between the Company's wholly owned subsidiary, Crown Asphalt Products Company ("Capco"), its majority owned subsidiary Crown Asphalt Distribution, L.L.C. ("Crown Distribution") and Santa Maria Refining Company ("SMRC"), Saba Petroleum Company ("Saba") and Greka Energy Corporation ("Greka"). The Settlement Agreement between the parties requires that the terms of the settlement not be disclosed.

The Company filed a Form 8-K on November 6, 2001, to report a decision in the arbitration conducted by it and its majority owned affiliate, Crown Asphalt Distribution, L.L.C. ("Crown Distribution") against MCN Energy Group, Inc. ("MCN") and MCNIC Pipeline and Processing Company ("MCNIC") and related parties.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this Annual Report on Form 10-K to be signed on its behalf by the undersigned, thereunto duly authorized.

CROWN ENERGY CORPORATION
(Registrant)

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/s/ Jay Mealey

Jay Mealey
Chief Executive Officer,

Date: April 15, 2002

Pursuant to the requirements of the Securities Exchange Act of 1934, this Report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

/s/ Jay Mealey

Jay Mealey
Chief Executive Officer and Director

Date: April 15, 2002

/s/ Alan Parker

Alan L. Parker
Controller

Date: April 15, 2002

/s/ Andrew Buffmire

Andrew W. Buffmire
Director

Date: April 15, 2002

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CROWN ENERGY CORPORATION

SCHEDULE II: VALUATION AND QUALIFYING ACCOUNTS ADDITIONS

Description	Balance at Beginning Of Year	Charge to Cash and Expenses	Charge to Other Accounts	Deducti
-----	-----	-----	-----	-----
Year ended December 31, 2001:				
Deducted from assets accounts				
Accounts receivable:				
Allowance	\$1,827,896			\$105
Deferred tax assets:				
Valuation allowance	7,372,000	736,000		
Year ended December 31, 2000:				
Deducted from assets accounts				
Accounts receivable:				

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Allowance	\$298,000	\$1,529,896
Deferred tax assets:		
Valuation allowance	2,738,000	4,634,000

Year ended December 31, 1999:

Deducted from assets accounts

Accounts receivable:				
Allowance	\$150,000	\$77,000	\$161,000	\$90
Deferred tax assets:				
Valuation allowance	1,704,000	1,034,000		

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EXHIBIT INDEX

EXHIBIT NO.	DOCUMENT
2.1	Purchase and Sale Agreement regarding Petro Source Asphalt Company, dated July 2, 1998 (15)
2.2	Memorandum of Closing regarding Refinery Technologies, Inc. (18)
2.3	Assignment and Agreement with Refinery Technologies, Inc. (18)
2.4	Asset Purchase Agreement (S&L Industrial) dated May 12, 1999, regarding S&L Industrial
3.1	Articles of Incorporation (6)
3.2	Certificate of Voting Powers, etc. of the Company's Preferred Stock (10)
3.3	Amended Bylaws (1)
4.1	Convertible Debenture - Agreement dated May 6, 1997, between Crown Energy Corporation and Oriental New Investments, Ltd. (7)
4.2	Warrant with Encap Investments, L.C. (12)
4.3	Form of Stock Option Agreements between the Company and (1) Jay Mealey, (2) Richard Rawdin and (3) Thomas Bachtell (12)
4.4	The Crown-Energy Long Term Equity Basic Incentive Plan (13)
4.5	Common Stock Purchase Warrant dated November 4, 1997 issued to Enron Capital & Trade Resources Corp. (10)
4.6	Form of Warrant issued to principals of IBEX Group, Inc. and Hoffman Partners, Inc. (18)
4.7	May 1998 Warrant issued to Ladenburg Thalmann (18)
10.1	License Agreements with Park Guymon Enterprises, Inc., dated January 20, 1989, June 1, 1990 and June 1, 1990 (3)
10.2	Amendment to License Agreement with Park Guymon Enterprises, Inc. (6)
10.3	Employment Agreement with Jay Mealey (12)
10.4	Consulting Agreement with IBEX Group, Inc. and Hoffman Partners, Inc. (6)
10.5	Promissory Note issued to Jay Mealey 12/31/95 (6)
10.6	Promissory Note issued to Thomas W. Bachtell 12/31/95 (6)
10.7	Promissory Note issued to Thomas W. Bachtell 12/31/95 (6)
10.8	Oil and Gas Minerals Lease, dated September 1, 1991 with Wembco, Inc. (4)
10.9	Crown Office Space Lease (5)
10.10	First Amendment to Crown Office Space Lease (12)
10.11	Investment Banking Agreement with Fortress Financial Group, Ltd. (12)
10.12	Promissory Note from Jay Mealey (12)
10.13	Promissory Note from Rich Rawdin (12)
10.14	Stock Pledge Agreement with Jay Mealey (12)

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- 10.15 Stock Pledge Agreement with Rich Rawdin (12)
- 10.16 Assignment of Assets to Crown Asphalt Ridge, L.L.C. by Crown Asphalt Corporation (12)
- 10.17 Assignment to Crown Asphalt Ridge, L.L.C. by Crown Asphalt Corporation (12)

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- 10.18 Asphalt Ridge Project Operating and Management Agreement with Crown Asphalt Ridge L.L.C., dated August 1, 1997 (12)
- 10.19 Sublicense and Agreement between Crown Asphalt Ridge, L.L.C. and Crown Asphalt Corporation (12)
- 10.20 Stock Purchase Agreement with Enron Capital & Trade Resources Corporation (10)
- 10.21 Engineering, Construction, and Procurement Agreement with CEntry Constructors & Engineers, LLC (12)
- 10.22 Revised Right of Co-Sale Agreement between Jay Mealey and Enron Capital & Trade Resources Corp. (11)
- 10.23 Guaranty Agreement in favor of MCNIC Pipeline & Processing Company (12)
- 10.24 Crown Office Space Sublease (12)
- 10.25 Stock Purchase Agreement dated July 2, 1997, between Crown Energy Corporation and Road Runner Oil, Inc. (8)
- 10.26 Letter Agreement with EnCap Investments L.C. (12)
- 10.27 Purchase and Sale Agreement dated July 2, 1998, between Petro Source Asphalt Company and Crown Asphalt Distribution LLC (15)
- 10.28 Saba Petroleum Processing Agreement for Santa Maria Refinery in California dated May 1, 1997, between Petro Source Refining Corporation and Santa Maria Refining Company and Saba Petroleum Company, which was assigned to the Company on or about July 2, 1998. (16)
- 10.29 MetLife Equipment Lease dated May 1, 1997, between Petro Source Refining Corporation and MetLife Capital Corporation, which was assigned to the Company on or about July 2, 1998. (16)
- 10.30 PacifiCorp Property Lease dated April 1, 1996, between Petro Source Refining Corporation and PacifiCorp, which was assigned to the Company on or about July 2, 1998. (16)
- 10.31 GATX Rail Car Lease dated December 10, 1987, between Petro Source Corporation and General American Transportation Corporation, assigned to the Company on or about July 2, 1998 (16)
- 10.32 Office Space Lease (16)
- 10.33 Operating Agreement for Crown Asphalt Ridge, L.L.C. (17)
- 10.34 Operating Agreement for Crown Asphalt Distribution L.L.C. (18)
- 10.35 Operating and Management Agreement for Crown Asphalt Distribution L.L.C. (18)
- 10.36 Operating Agreement for Cowboy Asphalt Terminal L.L.C. (18)
- 10.37 April 3, 1998, Agreement regarding investment banking services with Ladenburg Thalmann (18)
- 10.38 Indemnification Agreement with Ladenburg Thalmann (18)
- 10.39 Letter Agreement between CAC, Capco, and MCNIC Pipeline & Processing Company dated July 20, 1999 (19)
- 10.40 Letter Agreement between Capco and MCNIC Pipeline & Processing Company dated July 20, 1999 (19)
- 10.41 First Amendment to Operating Agreement (Crown Asphalt Distribution, L.L.C.) (19)

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- 10.42 Loan Agreement: MCNIC Pipeline & Processing Company loan to Crown Asphalt Corporation dated July 20, 1999 (19)
- 10.43 CAR Promissory Note (19)
- 10.44 \$1,800,000 Loan Agreement: Community First National Bank to Crown Asphalt Products Company (19)
- 10.45 Letter Amendment to Community First National Bank Loan Agreement dated June 2, 1999 (19)
- 10.46 Crown Energy Corporation Guaranty of Community First National Bank Loan (19)
- 10.47 Assignment & Assumption Agreement (19)
- 10.48 Offsite Services Agreement (19)
- 10.49 Amendment to Mealey Employment Agreement (19)
- 10.50 MCNIC election to proceed with additional pilot plan (1/7/00) (19)
- 10.51 Settlement Agreement with Zimmerman (19)
- 10.52 Amendment to Settlement Agreement with Zimmerman (19)
- 10.53 5th Amendment to Building Lease (19)
- 10.54 January 20, 2000, Letter to MCNIC (20)
- 10.55 January 7, 2000, Election to Proceed with Pilot Plant Letter to MCNIC (20)
- 10.56 January 7, 2000, Additional Costs Letter to MCNIC (20)
- 10.57 Agreement with Refinery Technologies, Inc. (20)
- 10.58 Notice of Termination of Building Lease (20)
- 10.59 Arbitration Agreement (20)
- 10.60 Settlement Agreement between the Company, MCNIC and related parties
- 11 Statement regarding computation of per share earnings (the information required for Exhibit 11 is set forth on page F-25 of the Financial Statements of Crown Energy Corporation of this Form 10K)
- 16 Letter of Pritchett, Siler & Hardy, P.C. dated June 5, 1998 (14)
- 21 Subsidiaries of the Company (the information required for Exhibit 21 is set forth in Item 1. Subsidiaries of the Company)

-
- (1) Incorporated by reference from the Company's Registration Statement on Form 10 filed with the Commission on July 1, 1991, amended August 30, 1991, and bearing Commission file number 0-19365.
 - (2) Incorporated by reference from the Company's Annual Report on Form 10-K for the year ended December 31, 1991, bearing Commission file number 0-19365.
 - (3) Incorporated by reference from the Company's Report on Form 8-K filed with the Commission on or about September 30, 1992, bearing Commission file number 0-19365.
 - (4) Incorporated by reference from the Company's Annual Report on Form 10-K for the year ended December 31, 1992, bearing Commission file number 0-19365.
 - (5) Incorporated by reference from the Company's Annual Report on Form 10-K for the year ended December 31, 1992, bearing Commission file number 0-19365.
 - (6) Incorporated by reference from the Company's Registration Statement on Form S-1 filed with the Commission on or about March 13, 1996, bearing Commission file number 0-19365.

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- (7) Incorporated by reference from the Company's Form 8-K filed with the Commission on or about June 12, 1997, bearing Commission file number 0-19365.
- (8) Incorporated by reference from the Company's Form 8-K filed with the

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- Commission on or about July 21, 1997, bearing Commission file number 0-19365.
- (9) Incorporated by reference from the Company's Form 8-K filed with the Commission on or about November 18, 1997, bearing Commission file number 0-19365.
 - (10) Incorporated by reference from Enron Capital & Trade Resources Corp. Form 13D filed with the Commission on or about October 10, 1997.
 - (11) Incorporated by reference from Enron Capital & Trade Resources Corp. Form 13D/A filed with the Commission on or about November 12, 1997.
 - (12) Incorporated by reference from the Company's Annual Report on Form 10-K for the year ended December 31, 1997, filed with the Commission on or about March 31, 1998, bearing Commission file number 0-19365.
 - (13) Incorporated by reference from the Company's Amended Annual Report on Form 10-K for the year ended December 31, 1997, filed with the Commission on or about April 30, 1998, bearing Commission file number 0-19365.
 - (14) Incorporated by reference from the Company's Form 8-K filed with the Commission on or about June 9, 1998, bearing Commission file number 0-19365.
 - (15) Incorporated by reference from the Company's Form 8-K filed with the Commission on or about July 17, 1998, bearing Commission file number 0-19365.
 - (16) Incorporated by reference of the Company's Amended Form 10-Q filed with the Commission for the period ending September 30, 1998, filed with the Commission on November 25, 1998.
 - (17) Incorporated by reference from the Company's Amended Form 8-K filed with the Commission on or about November 18, 1997, bearing Commission file number 0-19365.
 - (18) Incorporated by reference from the Company's Annual Report on Form 10-K for the year ended December 31, 1998, filed with the Commission on or about June 14, 1999.
 - (19) Incorporated by reference from the Company's Annual Report on Form 10-K for the year ended December 31, 1999, filed with the Commission on or about April 4, 2000.
 - (20) Incorporated by reference from the Company's Annual Report on Form 10-K for the year ended December 31, 2000, filed with the Commission on or about April 17, 2001.
- o The Company agrees to furnish supplementally to the Commission a copy of any omitted schedule or exhibit to such agreement upon request by the Commission.

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Consolidated Balance Sheet	F-3
Consolidated Statement of Operations	F-4
Consolidated Statement of Shareholders' Deficit	F-5
Consolidated Statement of Cash Flows	F-6
Notes to consolidated Financial Statements	F-8

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Stockholders
of Crown Energy Corporation

We have audited the consolidated balance sheet of Crown Energy Corporation as of December 31, 2001 and 2000, and the related consolidated statements of operations, stockholders' deficit and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes 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 consolidated financial position of Crown Energy Corporation as of December 31, 2001 and 2000, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in note 2 to the consolidated financial statements, the Company has had substantial recurring losses from operations, is involved in significant litigation and has relied upon financing from debt to satisfy its obligations. These conditions raise substantial doubt about the ability of the Company to continue as a going concern. Management's plans in regard to that matter are also described in note 2. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

/s/ TANNER + CO.

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Salt Lake City, Utah
February 15, 2002, except for
Note 19 which is dated February 28, 2002

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Crown Energy Corporation
Salt Lake City, Utah

We have audited the accompanying consolidated statements of operations, stockholders' deficit, and cash flows of Crown Energy Corporation and Subsidiaries (the Company) for the year ended December 31, 1999. Our audit also included the financial statement schedule for the year ended December 31, 1999 listed in the Index at Item 14. These financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on the financial statements and financial statement schedule based on our audit.

We conducted our audit 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 examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the Company's results of operations and its cash flows for the year ended December 31, 1999, in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, such financial statement schedule for the year ended December 31, 1999, when considered in relation to the basic consolidated financial statements taken as a whole, present fairly in all material respects the information set forth therein.

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. The Company's recurring losses from operations, stockholders' deficiency, and negative working capital raise substantial doubt about its ability to continue as a going concern. Management's plans concerning these matters are described in Note 2. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

/s/ Deloitte & Touche LLP

Salt Lake City, Utah
March 29, 2000

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CROWN ENERGY
Consolidated

Assets	2001
<hr/>	
Current assets:	
Cash and cash equivalents	\$ 2,652,858 \$
Accounts receivable, net of allowance for doubtful accounts of \$1,722,482 and \$1,827,896, respectively	1,378,610
Inventory	1,358,022
Prepaid and other current assets	87,652
Related party receivable	25,700
	<hr/>
Total current assets	5,502,842
Property, plant, and equipment, net	9,590,787
Intangible assets, net	340,430
Other assets	283,206
	<hr/>
Total	\$ 15,717,265 \$ =====
<hr/>	
Liabilities and Stockholders' Deficit	
Current liabilities:	
Accounts payable	\$ 410,564 \$
Preferred stock dividends payable	1,200,000
Accrued expenses	175,794
Accrued arbitration costs	2,609,519
Accrued interest	7,473,512
Current portion of long-term debt	347,153
Working capital loan to related party	14,935,222
	<hr/>
Total current liabilities	27,151,764
Commitments and contingencies	-
Long-term debt principally due to related party	11,130,056
Redeemable preferred stock	4,952,831
Minority interest in consolidated joint ventures	476,793
Stockholders' deficit:	
Common stock \$.02 par value 50,000,000 shares authorized, 13,635,581 shares outstanding	272,711
Additional paid-in capital	4,915,370
Stock subscriptions receivable from officers	(549,166)
Stock warrants	243,574
Accumulated deficit	(32,876,668)
	<hr/>
Stockholders' deficit	(27,994,179)
	<hr/>

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Total \$ 15,717,265 \$

 See accompanying notes to consolidated financial statements.

CROWN ENERGY CORP
 Consolidated Statement of Operations

Years Ended

	2001	2000
Sales, net	\$ 27,032,658	\$ 22,787,103
Cost of sales	24,126,190	23,605,063
Gross profit (loss)	2,906,468	(817,960)
General and administrative expenses	(3,449,053)	(3,060,627)
Provision for bad debt expenses	(30,051)	(1,529,896)
Loss on impairment of investment in equity affiliate	-	(6,904,085)
Loss on impairment of goodwill	-	(3,625,848)
Equity in losses from unconsolidated equity affiliate	-	(145,814)
Loss from operations	(572,636)	(16,084,230)
Other income (expense):		
Interest income	65,857	157,042
Interest expense	(4,018,738)	(2,576,386)
Other income (expense)	598,247	104,000
Arbitration expense	(2,609,519)	-
Total other expense, net	(5,964,153)	(2,315,344)
Loss before income taxes and minority interests	(6,536,789)	(18,399,574)
Deferred income tax benefit	-	-
Minority Interest in losses of consolidated joint venture	48,808	38,653
Net loss	(6,487,981)	(18,360,921)
Redeemable preferred stock dividends	(400,000)	(400,000)
Net loss applicable to common shares	\$ (6,887,981)	\$ (18,760,921)

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Net loss per common share - basic and diluted	\$	(.51)	\$	(1.39)	\$
Weighted average common shares - basic and diluted		13,635,000		13,455,000	

See accompanying notes to consolidated financial statements.

	Common Stock		Additional	Stock	Commo
	Shares	Amount	Paid-In Capital	Subscription Receivable	Warran
Balance, December 31, 1998	12,968,512	\$ 259,370	\$ 5,787,340	(549,166)	683
Dividends on preferred stock accrued from prior years	317,069	6,341	461,092	-	-
Preferred stock accretion	-	-	(56,604)	-	-
Dividends on preferred stock	-	-	(400,000)	-	-
Net loss	-	-	-	-	-
Balance, December 31, 1999	13,285,581	265,711	5,791,828	(549,166)	683
Stock issued for legal services	350,000	7,000	36,750	-	-
Preferred stock accretion	-	-	(56,604)	-	-
Dividends on preferred stock	-	-	(400,000)	-	-
Net loss	-	-	-	-	-
Balance, December 31, 2000	13,635,581	272,711	5,371,974	(549,166)	683
Stock issued for legal services	-	-	-	-	-
Preferred stock accretion	-	-	(56,604)	-	-
Dividends on preferred stock	-	-	(400,000)	-	-
Net loss	-	-	-	-	-
Balance, December 31, 2001	13,635,581	\$ 272,711	\$ 4,915,370	(549,166)	683

See accompanying notes to consolidated financial statements.

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CROWN ENERGY
 Consolidated Statement of
 Years Ended D

	2001	2000
Cash flows from operating activities:		
Net loss	\$ (6,487,981)	\$ (18,360,921)
Adjustments to reconcile net loss to net cash (used in) provided by operating activities:		
Depreciation, depletion, and amortization	763,607	903,864
Provision for doubtful accounts receivable	(105,414)	1,529,896
Stock issued for services	-	43,750
Impairment on investment in equity affiliate	-	6,904,085
Impairment on goodwill	-	3,625,848
Equity in losses of unconsolidated joint venture, net of distributions to minority interest shareholders	-	145,814
Minority interest in losses of consolidated joint venture, net of distributions to minority interest shareholders	48,808	126,286
Other expenses paid through equity instruments	-	-
Changes in operating assets and liabilities (net of effect of acquisitions, see note 6) :		
Accounts receivable	146,064	2,237,169
Inventory	1,012,865	(237,021)
Prepaid and other current assets	(20,045)	(32,025)
Related party receivable	-	(25,700)
Other assets	(58,197)	(161,241)
Accounts payable	(906,658)	184,971
Accrued interest	3,486,256	1,999,140
Accrued arbitration expense	2,609,519	-
Accrued expenses	48,428	(166,510)
Net cash provided by (used in) operating activities	537,252	(1,282,595)
Cash flows from investing activities:		
Purchase of property, plant, and equipment	(442,212)	(729,477)
Acquisition of Rawlins Terminal	-	-
Acquisition of Cowboy Terminal	-	-
Investment in and advances to Crown Asphalt Ridge, LLC	-	64,377
Net cash used in investing activities	(442,212)	(665,100)
Cash flows from financing activities:		
Proceeds from borrowings on working capital loan from related party	-	-
Payments on long-term debt	(320,323)	(153,141)
Sale of equity interest in subsidiary to a minority shareholder	-	-
Net cash (used in) provided by financing activities	(320,323)	(153,141)

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Net (decrease) increase in cash and cash equivalents	(225,283)	(2,100,836)
Cash and cash equivalents at beginning of year	2,878,141	4,978,977
Cash and cash equivalents at end of year	\$ 2,652,858	\$ 2,878,141
Supplemental disclosure of cash flow information:		
Cash paid for interest	\$ 555,330	\$ 587,783

See accompanying notes to consolidated financial statements.

CROWN ENERGY CORPORATION
Consolidated Statement of Cash Flows
Continued

Supplemental disclosure of non-cash investing and financing activities:

For the year ended December 31, 2001:

- o The Company issued debt of \$187,038 in exchange for equipment
- o The Company accrued dividends to preferred stockholders of \$400,000
- o The Company increased preferred stock and decreased additional paid-in capital for \$56,604 related to preferred stock accretion.

For the year ended December 31, 2000:

- o The Company issued debt of \$264,750, in exchange for property
- o The Company accrued dividends to preferred stockholders of \$400,000
- o The Company increased preferred stock and decreased additional paid-in capital for \$56,604 related to preferred stock accretion.

For the year ended December 31, 1999:

- o The Company issued 317,069 shares of common stock totaling \$467,433 as a dividend distribution to preferred stockholders and accrued dividends totaling \$400,000 on the redeemable preferred stock.
- o The Company incurred long-term debt of \$1,282,070 in connection with the acquisition of the Cowboy Terminal (see note 6).
- o The Company incurred long-term debt of \$2,025,000 in connection with the acquisition of the Rawlins Terminal (see note 6).
- o The Company incurred long-term debt of \$2,991,868 to fund its ongoing capital investment requirements in Crown Asphalt

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Ridge.

- o The Company increased preferred stock and decreased additional paid-in capital for \$56,604 related to preferred stock accretion.

See accompanying notes to consolidated financial statements.

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CROWN ENERGY CORPORATION
Notes to Consolidated Financial Statements
December 31, 2001, 2000, and 1999

1. Organization

Crown Energy Corporation (CEC) and its wholly-owned subsidiaries, Crown Asphalt Corporation (CAC) and Crown Asphalt Products Company (CAPCO) (collectively referred to as the "Company"), are engaged in the mining, production, and selling of asphalt products. Prior to 1998, the Company was engaged in the production and selling of oil and gas from leases it operated in the state of Utah through its previously owned subsidiary, Gavilan Petroleum, Inc. (Gavilan). By December 31, 1997, the Company had divested itself of all oil and gas properties and related operations.

Majority-Owned Subsidiaries

CAPCO is the majority-owner of Crown Asphalt Distribution, LLC (Crown Distribution). Crown Distribution is a joint venture formed on July 2, 1998, between CAPCO and MCNIC Pipeline and Processing Company (MCNIC) for the purpose of acquiring certain assets of Petro Source Asphalt Company (Petro Source) (see note 6).

CAPCO owns 50.01% and MCNIC owns 49.99% of Crown Distribution. CAPCO is the general manager and operating agent of Crown Distribution. Because there is no agreement requiring the minority shareholder to guarantee the subsidiary's debt or a commitment to provide additional capital, other than working capital, all losses related to Crown Distribution (including MCNIC's 49.99% interest in the losses totaling \$4,334,600 and \$5,681,372 for the years ended 2001 and 2000, respectively) are included in the Company's financial statements.

CAT LLC is a joint venture formed on June 16, 1998 between CAPCO and Foreland Asphalt Corporation (Foreland). CAT LLC owns an asphalt terminal and storage facility. On December 21, 1998, CAPCO assigned its interest in CAT LLC to Crown Distribution. Crown Distribution owns 66.67% and Foreland owns 33.33% of CAT LLC.

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CROWN ENERGY CORPORATION

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Notes to Consolidated Financial Statements
Continued

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1. Organization Continued
- Principles of Consolidation
- The consolidated financial statements include the accounts of the Company and its wholly-owned and majority-owned subsidiaries. All significant inter-company transactions have been eliminated in consolidation.
2. Significant Accounting Policies
- Going Concern
- The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As of December 31, 2001, the Company had a significant working capital deficit, an accumulated deficit and has had substantial recurring losses. The consolidated operations of the Company have not had sustained profitability and the Company has relied upon debt financing to satisfy its obligations. As described in note 8, the Company did not prevail in litigation, which resulted in the default of certain debt obligations and requires the Company to pay substantial legal costs. These conditions raise substantial doubt about the ability of the Company to continue as a going concern. The consolidated financial statements do not include any adjustments that might result from the outcome of these uncertainties.
- The Company's ability to continue as a going concern is subject to the attainment of profitable operations or obtaining necessary funding from outside sources and settlement of certain legal obligations. Management's plan with respect to this uncertainty include inventory purchase strategies, evaluating new products and markets, minimizing overhead and other costs and obtaining settlement of certain legal obligations. However, there can be no assurance that management will be successful.
- Cash and Cash Equivalents
- For the purposes of the statements of cash flows, the Company considers all highly liquid debt investments purchased with a maturity of three months or less to be cash equivalents.
- Inventory
- Inventory consists principally of refined products and chemical supplies which are valued at the lower of cost (computed on a first-in, first-out basis) or market.

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CROWN ENERGY CORPORATION
Notes to Consolidated Financial Statements
Continued

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2. Significant Accounting Policies Continued

Property, Plant, and Equipment

Property, plant, and equipment are recorded at cost and are depreciated over the estimated useful lives of the related assets. Depreciation is computed using the straight-line method for financial reporting purposes. The estimated useful lives of property, plant, and equipment are as follows:

Plant and improvements and tankage	10-30 years
Equipment	7 years
Vehicles	5 years
Computer equipment, furniture, and fixtures	3 years

Investment in and Advances to Equity Affiliate

The Company's investment in Crown Asphalt Ridge LLC (Crown Ridge) is accounted for using the equity method (see notes 4 and 5). Accordingly, the Company's investment is recorded at cost and adjusted by the Company's share of undistributed earnings and losses. Due to the circumstances discussed in note 4, an impairment of the Company's investment in Crown Ridge was recorded during the year ended December 31, 2000.

Revenue Recognition

Revenue for sales of product is recognized when a valid purchase order has been received, product has been shipped, the selling price is fixed or determinable, and collectibility is reasonably assured.

Income Taxes

Income taxes are determined using the asset and liability method, which requires recognition of deferred income tax liabilities and assets for the expected future tax consequences of events that have been included in the financial statements or tax returns. Under this method, deferred income tax liabilities and assets are determined based on the difference between financial statement and tax bases of assets and liabilities using estimated tax rates in effect for the year in which the differences are expected to reverse. Deferred tax assets are recognized only if it is more likely than not that the asset will be realized in future years.

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CROWN ENERGY CORPORATION
Notes to Consolidated Financial Statements
Continued

2. Significant Accounting Policies Continued

Concentration of Credit Risk

Financial instruments which potentially subject the Company to concentration of credit risk consist primarily of receivables. In the normal course of business, the Company provides credit terms to its

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customers. Accordingly, the Company performs ongoing credit evaluations of its customers and maintains allowances for possible losses which, when realized, have been within the range of management's expectations.

The Company maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. The Company has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash and cash equivalents.

Loss Per Common Share

The computation of basic earnings (loss) per common share is based on the weighted average number of shares outstanding during each year.

The computation of diluted earnings per common share is based on the weighted average number of shares outstanding during the year, plus the common stock equivalents that would arise from the exercise of stock options outstanding, using the treasury stock method and the average market price per share during the year. Options and warrants to purchase 3,163,148, 3,463,148, and 2,911,898 shares of common stock at prices ranging from \$.10 to \$2.50 per share were outstanding at December 31, 2001, 2000, and 1999, respectively, but were not included in the diluted earnings (loss) per share calculation because the effect would have been antidilutive.

Use of Estimates in Preparing Financial Statements

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosures of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reporting periods. Actual results could differ from those estimated.

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CROWN ENERGY CORPORATION
Notes to Consolidated Financial Statements
Continued

2. Significant
Accounting
Policies
Continued

Long-Lived Assets

The Company evaluates the carrying value of long-term assets including intangibles based on current and anticipated undiscounted cash flows and recognizes impairment when such cash flows will be less than the carrying values. Measurement of the amount of impairments, if any, is based upon the difference between carrying value and fair value.

Goodwill and Intangible Assets

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The Company has recorded the amount paid in excess of the fair value of net tangible assets acquired at the date of acquisition as goodwill. For the years ended December 31, 2001, 2000, and 1999 Goodwill is amortized using the straight-line method over 20 years. After December 31, 2001 goodwill will no longer be amortized but will be evaluated annually, or as changes in circumstances may warrant for impairment according to Statement of Financial Accounting Standards No. 142 "Goodwill and Other Intangibles". Other intangible assets consist of a non-competition agreement that is being amortized over its five-year term using the straight-line method.

Asphalt Demerits

Crown's subsidiary, CAPCO, blends asphalt for sale to contractors and state agencies. The asphalt sold must meet certain specifications for a particular application. If the asphalt sold does not meet these specifications, for whatever reason, the asphalt supplier may be held liable for possible damages (asphalt demerits). Management believes that the Company's product liability insurance would cover any significant damages.

Environmental Expenditures

Environmental related restoration and remediation costs are recorded as liabilities when site restoration and environmental remediation and clean-up obligations are either known or considered probable, and the related costs can be reasonably estimated. Other environmental expenditures, that are principally maintenance or preventative in nature, are recorded when expended and expensed or capitalized as appropriate.

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CROWN ENERGY CORPORATION
Notes to Consolidated Financial Statements
Continued

2. Significant
Accounting
Policies
Continued

Comprehensive Income

Comprehensive income is reported in accordance with SFAS No. 130, "REPORTING COMPREHENSIVE INCOME". SFAS 130 requires that an enterprise (a) classify items of other comprehensive income by their nature in a financial statement and (b) display the accumulated balance of other comprehensive income separately from additional paid-in capital, retained earnings, and stockholders' equity. The Company does not currently have any components of comprehensive income other than net loss.

Recent Accounting Pronouncements

In August 2001, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 144 "Accounting for the Impairment of

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Long-Lived Assets". This Statement addresses financial accounting and reporting for the impairment of long-lived assets and for long-lived assets to be disposed of. This Statement supercedes FASB Statement 121 and APB Opinion No. 30. However, this Statement retains certain fundamental provisions of Statement 121, namely; recognition and measurement of the impairment of long-lived assets to be held and used, and measurement of long-lived assets to be disposed of by sale. The Statement also retains the requirement of Opinion 30 to report discontinued operations separately from continuing operations. This Statement also Amends ARB No. 51 to eliminate the exception of consolidation for a temporarily controlled subsidiary. The provisions of this statement are effective for financial statements issued for fiscal years beginning after December 15, 2001. The Company is currently assessing the impact of this statement.

In June 2001, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 143, "Accounting for Asset Retirement Obligations". This Statement addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. This Statement is effective for financial statement issued for fiscal years beginning after June 15, 2002. the Disposal of Long-Lived Assets. This Statement addresses financial accounting and reporting for the disposal of long-lived assets. Management does not expect the adoption of SFAS No. 143 to have a significant impact on the financial position or results of operations of the Company. The Company is currently assessing the impact of this statement.

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CROWN ENERGY CORPORATION
Notes to Consolidated Financial Statements
Continued

2. Significant
Accounting
Policies
Continued

In June 2001, the Financial Accounting Standards Board issued Statements of Financial Accounting Standards No. 141 "Business Combinations" (SFAS No. 141) and No. 142 "Goodwill and Other Intangibles" (SFAS No. 142). SFAS No. 141 and No. 142 are effective for the Company on July 1, 2001. SFAS No. 141 requires that the purchase method of accounting be used for all business combinations initiated after June 30, 2001. The statement also establishes specific criteria for recognition of intangible assets separately from goodwill and requires unallocated negative goodwill to be written off immediately as an extraordinary gain. SFAS No. 142 primarily addresses the accounting for goodwill and intangible assets subsequent to their acquisition. The statement requires that goodwill and indefinite

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lived intangible assets no longer be amortized and be tested for impairment at least annually. The amortization period of intangible assets with finite lives will no longer be limited to forty years. Management does not expect the adoption of SFAS No. 141 and 142 to have a significant impact on the financial position or results of operations of the Company.

Stock-Based Compensation

The Company has elected to continue to apply Accounting Principles Board (APB) Opinion 25 (as permitted by SFAS No. 123, ACCOUNTING FOR STOCK-BASED COMPENSATION). The appropriate disclosures required by SFAS No. 123 are included in note 13.

Reclassification

Certain amounts in the 2000 and 1999 consolidated financial statements have been reclassified to conform with classifications adopted in the current year.

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CROWN ENERGY CORPORATION
Notes to Consolidated Financial Statements
Continued

3. Property,
Plant and
Equipment

The following is a summary of property, plant, and equipment as of December 31:

	2001	2000
	-----	-----
Land	\$ 1,000,000	\$ 1,000,000
Plant and improvements and tankage	7,229,051	6,801,650
Equipment	2,838,476	2,640,438
Computer equipment, furniture, and fixtures	351,909	348,098
Vehicles	29,148	29,148
	-----	-----
Total property, plant, and equipment	11,448,584	10,819,334
Less accumulated depreciation	(1,857,797)	(1,158,160)
	-----	-----
Total	\$ 9,590,787	\$ 9,661,174
	=====	=====

4. Investments
In and
Advances to
an Equity
Affiliate

In August 1997, the Company, through its wholly owned subsidiary, CAC, entered into a joint venture with MCNIC for the purpose of developing, mining, processing, and marketing asphalt, performance grade asphalt, diesel fuel, hydrocarbons, bitumen, asphaltum, minerals, mineral resources, and other oil

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sand products. The joint venture resulted in the formation of Crown Ridge, which is a development stage company. During the year ended December, 31, 1997, the Company contributed cash of \$433,219 and the right to its oil sand properties and a license agreement, which allows the Company to use certain patented oil extraction technology and oil sand property leases, with a book value of \$2,715,428 to Crown Ridge. This technology was recorded at \$500,001 by Crown Ridge. During the year ended December 31, 2001, and 2000, the Company made no contributions to Crown Ridge. MCNIC and the Company initially own interests of 75% and 25%, respectively, in the profits and losses of Crown Ridge. According to a settlement agreement entered into by CAC (see note 16) with MCNIC, CAC has assigned its interest in Crown Ridge which would have increased CAC's interest in Crown Ridge to 50% once operations of Crown Ridge were generating sufficient cash flows to pay specific returns, as defined, to MCNIC.

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CROWN ENERGY CORPORATION
Notes to Consolidated Financial Statements
Continued

4. Investments
In and
Advances to
an Equity
Affiliate
Continued

Crown Ridge has experienced certain difficulties relating to its production plant. Crown Ridge has conducted extensive research and engineering to develop a solution to these difficulties which was tested in a pilot study during 2000. The results of the pilot study are being evaluated to determine if certain modifications or retrofit of the plant are technically and economically viable. Certain modifications to the Facility will be required, provided financing for the modifications is available and contributed to Crown Ridge.

During the year ended December 31, 2000, the Company evaluated the carrying value of its investments in and advances to Crown Ridge. The evaluation has been complicated by the fact that the Company's joint venture partner has effectively taken control of Crown Ridge and has not shared information relative to its activities pertaining to Crown Ridge, including financial information and feasibility studies relative to the Asphalt Ridge Project. The Company determined that its investment in and advances to Crown Ridge were potentially impaired. Accordingly, an aggregate non-cash expense for the impairment or \$6,904,085 was recorded.

Net investments in and advances to Crown Ridge are summarized as follows:

2001

2000

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The Company's equity in net assets	\$	-	\$ 4,878,264
Excess of investment over the Company's equity in net assets totaling \$60,644 in 2000.		-	2,025,640
Advances to affiliate		-	181
Impairment on investment in equity affiliate		-	(6,904,085)
		-----	-----
Total investment in and advances to an equity affiliate	\$	-	\$ -
		=====	=====

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CROWN ENERGY CORPORATION
Notes to Consolidated Financial Statements
Continued

5. Losses From Equity Affiliate

The Company's 25% equity in net loss plus amortization of excess of investment over the Company's equity in net assets is reported in the accompanying consolidated statement of operations as follows:

	2001	2000	1999
	-----	-----	-----
Equity in losses of unconsolidated equity affiliate	\$ -	\$ (145,814)	\$ (870,2
Amortization of excess investment included in general and administrative expense	-	(60,644)	(60,6
	-----	-----	-----
Total	\$ -	\$ (206,458)	\$ (930,9
	=====	=====	=====

Crown Ridge may have recorded certain expenses, the majority of which relate to the pilot project conducted at the Asphalt Ridge facility, that the Company believes were not approved by the Management Committee of Crown Ridge and thus are not considered expenses related to the Company's portion of Crown Ridge. MCNIC, the majority interest owner and current acting operator of Crown Ridge, has been unwilling to provide the Company with sufficient financial information through December 31, 2001 and 2000. Consequently, the Company has prepared estimates to record its share of approved expenses.

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6. Acquisitions

Acquisition of Cowboy Terminal

On January 9, 1999, CAT LLC acquired a controlling interest in the Cowboy Terminal for a total purchase price of \$1,973,511. CAT LLC paid cash deposits on the purchase price totaling \$496,441 during 1998, paid \$195,000 in cash at closing, and executed and delivered a promissory note in the amount of \$1,282,070 in 1999. The assets acquired were recorded at their estimated fair values at the date of acquisition and the results of operations are included in the accompanying consolidated statement of operations from the date of acquisition. The acquisition was accounted for as a purchase. The preliminary purchase price was allocated entirely to property and equipment.

The CAT LLC Operating Agreement obligates both Crown Distribution and Foreland to make additional capital contributions equal to one-half of any additional requirements, not to exceed \$650,000, required for (i) CAT LLC to fulfill its obligations under any corrective action plan that may be accepted by CAT LLC and the Utah Department of Environmental Quality with respect to certain environmental conditions at the Cowboy Terminal and (ii) any additional amounts required to cover legal costs incurred in obtaining title to the Cowboy Terminal or otherwise relating to the environmental remediation work potentially needed.

The CAT LLC Operating Agreement also obligates Crown Distribution and Foreland to make additional capital contributions in proportion to their ownership percentages in order to fund any additional amounts required for CAT LLC to fulfill its obligations under the purchase contract for the Cowboy Terminal Assets, for environmental management and containment costs, expenses for operations, or the construction of certain approved capital improvements to the Cowboy Terminal. None of the foregoing additional contributions will result in an increase in the number of units or percentage interests held by Crown Distribution or Foreland.

CAT LLC is managed by CAPCO. CAPCO has authority to conduct the day-to-day business and affairs of CAT LLC. However, certain matters considered to be protective rights must be approved by members holding 75% or more of the outstanding units of CAT LLC. CAPCO is not compensated for its services as manager.

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Notes to Consolidated Financial Statements
Continued

6. Acquisitions
Continued

Rawlins Asphalt Terminal

On May 12, 1999, the Company acquired the Rawlins Asphalt Terminal and inventory for \$2,291,571 from S&L Industrial (S&L). The purchase price consists of the Company assuming S&L's debt of approximately \$1,800,000, entering into a note payable to S&L for \$225,000, and a cash payment of \$266,571. The acquisition was accounted for as a purchase. The assets acquired were recorded at their estimated fair values at the date of acquisition and the results of operations are included in the consolidated statements of operations from the date of acquisition. The preliminary purchase price was allocated \$1,770,200 to property, plant, an equipment, \$216,571 to inventory, and \$304,800 to goodwill.

Petro Source Asphalt Company

On July 2, 1998, Crown Distribution acquired the inventory and assets of Petro Source Asphalt Company (Petro Source) for \$14,235,726. The acquisition was accounted for as a purchase. The assets acquired were recorded at their estimated fair values at the date of acquisition and the results of operations are included in the accompanying consolidated statements of operations from the date of acquisition. In conjunction with the acquisition, the Company recorded goodwill of \$4,143,827. Due to circumstances described in note 7, the remaining goodwill balance of \$3,625,848 was impaired and written off as of December 31, 2000. The assets acquired relate to the refining, production, and distribution of asphalt products.

Crown Distribution is governed by a management committee consisting of three managers. The Company is entitled to appoint two managers and MCNIC is entitled to appoint one manager. Management decisions are generally made by the management committee. However, one of the managers appointed by the Company serves as the operating manager and has the powers, authority, duties, and obligations specified in the operating agreement, which generally requires the operating manager to implement the policies and pursue the objectives specified in the annual operating plan.

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CROWN ENERGY CORPORATION
Notes to Consolidated Financial Statements
Continued

6. Acquisitions
Continued

The annual operating plan is adopted by the management committee on an annual basis and addresses

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all aspects of Crown Distribution's operations for the coming year, including the nature and extent of the proposed activities, marketing plans, capital expenditure plans, and similar matters. In the event the management committee is unable to unanimously approve an annual operating plan for any given calendar year, a majority of the managers shall have the authority to continue to maintain Crown Distribution's operations at levels comparable to those approved in its most recent annual operating plan.

7. Intangibles

Intangible assets consist of the following:

	December 31, 2001	2000
	-----	-----
Goodwill	\$ 304,800	\$ 304,800
Non-compete agreement	250,000	250,000
Accumulated amortization	(214,370)	(150,400)
	-----	-----
	\$ 340,430	\$ 404,400
	=====	=====

At December 31, 2000, the Company re-assessed the recoverability of goodwill associated with the Petro Source acquisition (see note 6). Due to litigation with MCNIC, the Company has been unable to secure financing needed to build up inventory at favorable prices. This lack of funding and the ongoing dispute with MCNIC has resulted in losses from operations in 1999 and 2000. Because of these circumstances the Company could not estimate the full carrying value which could be recovered through undiscounted future cash flows from products generated from related assets. Accordingly, an impairment of \$3,625,848 has been recognized in the statement of operations for the year ended December 31, 2000.

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CROWN ENERGY CORPORATION
Notes to Consolidated Financial Statements
Continued

8. Litigation and Borrowings From Related Party

Pursuant to an arbitration judgment relating to a claim filed by MCNIC against CAD LLC, CAD LLC is in default of its obligation to repay MCNIC the working capital loan of which had a balance of \$14,935,222 at December 31, 2001 and 2000. The judgment determined that \$5,810,581 of the loan is in default and will accrue interest at 18% retroactively from December 31, 1999, compounded annually. The remaining balance of \$9,124,641 is also in default and will accrue interest at 8% annually. Through the period ended

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December 31, 2001 and 2000, \$4,884,401 and \$2,356,711 in interest had been accrued, respectively.

9. Long-term Debt

Long-term debt principally due related party consists of the following at December 31:

	2001

<p>Preferential debt with MCNIC with interest at 15%, annual principal and interest installments equal to 50% of the net cash flows (as defined) of Crown Distribution. This debt is secured by all of the assets of Crown Distribution. The Total amount is included in the thereafter portion of the debt maturity schedule below due to uncertainty of payment terms.</p>	\$ 5,325,7
<p>Note payable to unrelated third party with interest at 9%, payable in 84 equal monthly principal and interest installments of \$20,627, maturing January 1, 2006. The debt is secured by assets at the Cowboy Terminal Facility.</p>	843,2
<p>Note payable with MCNIC with interest at prime plus 1% (5.75%) at December 31, 2001). Monthly principal and interest payments are due until the debt matures July 2014. The debt is secured by CAC's proportional increase in its interest in Crown Ridge resulting from the loan proceeds.</p>	2,970,4
<p>Note payable with interest at prime plus 1% (5.75% at December 31, 2001) to a bank. Monthly principal and interest payments are due until the debt matures in May 2014. The debt is secured by assets at Rawlins Terminal.</p>	1,742,4

CROWN ENERGY CORPORATION
Notes to Consolidated Financial Statements
Continued

9. Long-term Debt Continued

<p>Deferred purchase price on Rawlins Terminal acquisition (see note 6) with interest at the LIBOR rate (6.6% at December 31, 2000). The debt is due in monthly installments through February 2010. Due to a dispute over certain environmental remediation associated with the Rawlins Terminal this amount has been included in the thereafter portion of the debt maturities schedule below due to the uncertainty of payments</p>	225,0
<p>Deferred purchase price on the Cowboy Asphalt Terminal acquisition with interest at 8% per year over a 10-year term, with the principal and interest payments made to a company in monthly installments of \$3,212. The debt matures in</p>	

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November 2010. Debt is secured by property and equipment	244,1
Capital leases (See note 10)	126,2
Total	11,477,2
Less estimated current portion	(347,1
Long-term portion	\$ 11,130,0

The schedule maturities of long-term debt at December 31, 2001 are as follows:

Year Ending December 31:

2002	\$ 347,153
2003	358,745
2004	466,596
2005	502,919
2006	315,447
Thereafter	9,486,349

Total	\$ 11,477,209
	=====

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CROWN ENERGY CORPORATION
Notes to Consolidated Financial Statements
Continued

10. Capital Lease Obligations

The Company leases equipment under capital lease agreements. The leases provide the Company the option to purchase the equipment at the end of the initial lease terms. The equipment under capital lease is included in property and equipment at a cost of approximately \$187,000 and accumulated amortization of approximately \$27,000 and \$0 at December 31, 2001 and 2000, respectively.

Amortization expense for the equipment under capital lease for the years ended December 31, 2001, 2000, and 1999 was approximately \$27,000 \$0, and \$0, respectively. Future minimum payments on the capital lease obligations are as follows:

Year Ending December 31:	
2002	\$ 68,913
2003	60,011
2004	8,531
	137,455

Less amount representing interest	(11,186)

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Present value of future minimum capital lease payments	\$ 126,269 =====
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11. Operating
Leases

The Company leases certain premises and equipment under operating leases. Approximate future minimum lease payments under non-cancelable operating leases as of December 31, 2001 are as follows:

Year Ending December 31:	
2002	\$ 1,121,000
2003	1,108,000
2004	576,000
2005	64,000
2006	64,000
Thereafter	9,000 -----
Total	\$ 2,942,000 =====

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CROWN ENERGY CORPORATION
Notes to Consolidated Financial Statements
Continued

11. Operating
Leases
Continued

Lease expense for the years ended December 31, 2001, 2000, and 1999 totaled \$1,046,000, \$1,129,000 and, \$762,000, respectively.

12. Redeemable
Preferred
Stock

Redeemable preferred stock consists of 500,000 issued and outstanding Series A cumulative convertible shares with a par value of \$.005 and a stated value of \$10.00. The Company has authorized 1,000,000 shares of preferred stock. The original estimated fair value of the outstanding shares is \$4,716,981 with annual accretion of \$56,604 for the years ended December 31, 2001, 2000, and 1999 toward the stated and liquidation value of \$5,000,000. At December 31, 2001 and 2000 the redeemable preferred stock had a balance of \$4,952,831 and \$4,896,227, respectively.

The Company is authorized to issue 1,000,000 preferred shares, par value \$.005 per share. On November 4, 1997, the Company completed the sale of 500,000 shares of its Series A Cumulative Convertible Preferred Stock ("Series A Preferred") pursuant to a stock purchase agreement dated September 25, 1997 for an aggregate sales price of \$5,000,000. Each share of Series A Preferred is convertible at the option of its holder, at any time, into 8.57 shares of common stock of the Company. At the date of the issuance of the preferred stock, the embedded conversion price was \$1.17 and the estimated fair value of the common stock was \$1.03. Dividends accrue on the outstanding Series A Preferred at the rate of 8% per annum and may be declared by the Company and paid through cash

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or common shares of the Company at the option of the holder. At December 31, 2001 and 2000 the Company owed \$1,200,000 and \$800,000, respectively, in dividends. Dividends accrued interest at 8% per annum for any unpaid balance. Subject to the holder's right to convert the Series A Preferred, the Company may redeem the Series A Preferred at any time from the date on which it is issued at a percentage of the Series A Preferred's stated value of \$10 per share; 130% of stated value if redemption occurs within thirty-six months of the date of issuance, 115% of stated value if redemption occurs between thirty-six and forty-eight months after the date of issuance, 110% of stated value if redemption occurs between forty-eight and sixty months after the date of issuance, and 100% if redemption occurs thereafter.

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CROWN ENERGY CORPORATION
Notes to Consolidated Financial Statements
Continued

12. Redeemable
Preferred
Stock
Continued

The holder of the Series A Preferred may also require the Company to redeem the Series A Preferred after the eighth anniversary of the Series A Preferred's issuance. The holders of the Series A Preferred shall have the right, but shall not be obligated, to appoint 20% of the Company's Board of Directors. The Company may not alter the rights and preferences of the Series A Preferred, authorize any security having liquidation preference, redemption, voting or dividend rights senior to the Series A Preferred, increase the number of Series A Preferred, reclassify its securities or enter into specified extraordinary events without obtaining written consent or an affirmative vote of at least 75% of the holders of the outstanding shares of the Series A Preferred stock. All voting rights of the Series A Preferred expire upon the issuance by the Company of its notice to redeem such shares. The shares of common stock issuable upon conversion of the Series A Preferred are subject to adjustment upon the issuance of additional shares of the Company's common stock resulting from stock splits, share dividends, and other similar events as well as upon the issuance of additional shares or options which are issued in connection with the Company's equity investment (see note 4) or as compensation to any employee, director, consultant, or other service provider of the Company or any subsidiary, other than options to acquire up to 5% of the Company's common stock at or less than fair market value.

13. Stock
Options and
Warrants

Stock Options
The Company has a stock option plan for directors and salaried employees. Options are granted at a price not less than the fair market value on the date of grant, become exercisable between one to four years

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following the date of grant, and generally expire in ten years. Fair market value is determined based on quoted market prices.

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CROWN ENERGY CORPORATION
Notes to Consolidated Financial Statements
Continued

13. Stock
Options and
Warrants
Continued

A summary of the stock option and warrant activity for fiscal years 2001, 2000, and 1999 is as follows:

	Options		
	Number of Shares	Weighted Average Exercise Price	Number of Shares
Outstanding at January 1, 2000	2,228,148	0.88	683,7
Granted	1,040,000	0.13	
Cancelled	(208,750)	0.78	
Forfeited	(280,000)	1.05	
Outstanding at December 31, 2000	2,779,398	\$ 0.59	683,7
Granted	-	-	
Cancelled	-	-	
Forfeited	(300,000)	0.66	
Outstanding at December 31, 2001	2,479,398	\$ 0.59	683,7

When accounting for the issuance of stock options and warrants financial accounting standards allows entities the choice between adopting a fair value method or an intrinsic value method with footnote disclosures of the pro forma effects if the fair value method had been adopted. The Company has opted for the latter approach. Had the Company's options and warrants been determined based on the fair value method, the results of operations would have been reduced to the pro forma amounts indicated below:

	Years Ended December 31,		
	2001	2000	
Net loss - as reported	\$ (6,487,981)	\$ (18,360,921)	\$ (
Net loss - pro forma	\$ (6,591,506)	\$ (18,483,982)	\$ (
Diluted income (loss) per			

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share - as reported	\$	(.48)	\$	(1.36)	\$
Diluted loss per share - pro forma	\$	(.49)	\$	(1.37)	\$
	=====		=====		=====

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CROWN ENERGY CORPORATION
Notes to Consolidated Financial Statements
Continued

13. Stock
Options and
Warrants
Continued

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option pricing model with the following assumptions:

		2000	
		-----	-----
Expected dividend yield	\$	-	\$
Expected stock price volatility		73%	
Risk-free interest rate		5.75%	
Expected life of options		4 years	1.

No options were granted in 2001. The weighted average fair value of options and warrants granted during 2000, and 1999 are \$.10, and \$.43 respectively.

The following table summarizes information about stock options and warrants outstanding at December 31, 2001:

Range of Exercisable Prices	Number Outstanding	Outstanding		Number Exercisable
		Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price	
\$.10 - .13	1,540,000	7.86	\$ 0.12	1,400,000
\$.38 - 1.13	1,148,148	4.63	\$ 0.58	1,148,148
\$1.50 - 2.50	475,000	1.33	\$ 1.87	475,000
\$.10 to 2.50	3,163,148	5.71	\$ 0.55	3,023,148

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CROWN ENERGY CORPORATION
Notes to Consolidated Financial Statements
Continued

13. Stock
Options and
Warrants

Common Stock Warrant

In conjunction with the issuance of the preferred stock described in note 10, the Company issued a warrant to the holders of the preferred stock. The fair Continued value of the warrant at the date of issuance was estimated to be \$283,019 and was recorded to additional paid-in capital and as a reduction to the stated value of the preferred stock. The reduction in preferred stock is being accreted over the five-year period from the date of issuance to the earliest exercise date of the warrant. Upon the fifth anniversary of the issuance of the preferred stock, the warrant becomes exercisable, at \$.002 per share, into the number of common shares of the Company equal to (a) [\$5,000,000 plus the product of (i) (\$5,000,000 multiplied by (ii) 3% (internal rate of return) multiplied by (iii) 5 years] (14,750,000), minus (b) the sum of (i) all dividends and other distributions paid by the Company on the preferred stock or on the common stock received upon conversion of the preferred stock plus (ii) the greater of the proceeds from the sale of any common stock received by the holder upon the conversion of the preferred stock prior to the fifth anniversary date or the terminal value (as defined below) of such common stock sold before the fifth anniversary plus (iii) the terminal value of the preferred stock and common stock received upon conversion of the preferred stock then held, divided by (c) the fair market value of the Company's common stock on a weighted average basis for the 90 days immediately preceding the fifth anniversary date of the issuance of the preferred stock. Terminal value is defined as the sum of (i) the shares of common stock into which the preferred stock then held is convertible, plus (ii) shares of common stock received upon conversion of preferred stock, multiplied by the fair market value of the Company's common stock on a weighted average basis for the 90 days immediately preceding the fifth anniversary date of the issuance of the preferred stock. The warrants will expire in 2007.

Conversion of Preferred Dividends to Common Stock

On January 27, 1999, the Company issued 317,069 shares of common stock to its preferred stockholders as payment in full of preferred stock dividends payable totaling \$467,433.

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CROWN ENERGY CORPORATION
Notes to Consolidated Financial Statements
Continued

14. Income Taxes

The components of income tax benefit for the years ended December 31 are summarized as follows:

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	2001	2000	1999
Current	\$ -	\$ -	\$ -
Deferred:			
Federal	-	-	-
State	-	-	-
	-----	-----	-----
	-	-	-
	-----	-----	-----
Total	\$ -	\$ -	\$ -
	=====	=====	=====

Income tax expense (benefit) differed from amounts computed by applying the federal statutory rate to pretax loss as follows:

	Years Ended December 31,	
	2001	2000
	-----	-----
Loss before income taxes and minority interest - computed tax at the expected federal statutory rate, 34%	\$ (2,205,000)	\$ (6,332,000)
State income taxes, net of federal income tax benefits	(194,000)	(461,000)
Minority interest	1,605,000	2,087,000
Expiration of net operating losses	22,000	38,000
Other	36,000	34,000
Change in valuation reserve	736,000	4,634,000
	-----	-----
Total income tax benefit	\$ -	\$ -
	=====	=====

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CROWN ENERGY CORPORATION
Notes to Consolidated Financial Statements
Continued

14. Income Taxes
Continued

Deferred tax assets (liabilities) are comprised of the following:

	December 31,	
	2001	2000
	-----	-----
Net operating loss carryforwards	\$ 3,094,000	\$ -
Impairment of investment in equity affiliate	2,555,000	-
Impairment of goodwill	671,000	-
Allowance for doubtful accounts	638,000	-
Accrued interest	1,353,000	-
Start-up costs	99,000	-
Capital loss carryforwards	203,000	-

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Differences between tax basis and financial reporting basis of investment in equity affiliate	439,000	
Amortization of goodwill	(319,000)	
Depreciation	(730,000)	
Other	105,000	
Valuation allowance	(8,108,000)	

	\$ -	\$
	=====	==

The Company has available at December 31, 2001, unused tax operating loss carryforwards of approximately \$8,361,000 which may be applied against future taxable income and expire in varying amounts through 2012. The Company also has unused capital loss carry-forwards of approximately \$550,000 which may be applied against future taxable income and expire in 2002.

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CROWN ENERGY CORPORATION
Notes to Consolidated Financial Statements
Continued

15. Related Party Transactions not Otherwise Disclosed

The Company has an employment agreement (amended November 1, 1999) with a director who is also an officer of the Company. The employment agreement expires December 31, 2003. The agreement includes a base salary of \$150,000 subject to various increases as of November 1 of each year provided that the Company achieves positive cash flows from operations before interest, debt service, taxes, depreciation, amortization, extraordinary, and non-recurring items and dividends. In addition to the base salary, the director is entitled to receive a bonus for each fiscal year of the agreement provided certain earnings levels are obtained or the underlying price of the Company's stock increases to determined levels subject to certain limitations. In addition to the bonuses, the director and officer was granted an option to purchase 450,000 shares of the Company's common stock at an exercise price of \$.125 per share in 1997. With the amended agreement, the director and officer was granted an option to purchase an additional 450,000 shares of the Company's common stock at an exercise price based on the average fair market price of the Company's common stock for the three months immediately preceding and following the options grant date. The option exercise price approximated the average fair market value of the Company's common stock at the date of grant. The options vest over a three year period commencing on May 1, 2001, subject to accelerated vesting should the Company's common stock market price exceed certain defined levels.

The Company entered into an employment agreement, effective January 26, 1996 with the former Chief

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Executive Officer and Chairman of the Board of Directors of the Company. The agreement expired February 26, 1999. The agreement included a base salary of 5% of the Company's net profits from operations before depletion, depreciation, tax credits, and amortization, but after interest expense on debt; not to exceed \$1,000,000 per year. The agreement also called for the Company to grant 300,000 stock options to purchase the Company's unregistered common stock at \$.66 per share and an additional 75,000 options for each year of executive employment which is completed after funding is achieved. In 1996, 300,000 options were issued at \$.66 per share. In 1999 and 1998, 75,000 options were issued at \$1.15 and \$1.50 per share, respectively. Additionally, other benefits were provided including participation in certain insurance, vacation, and expense reimbursements.

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CROWN ENERGY CORPORATION
Notes to Consolidated Financial Statements
Continued

15. Related Party Transactions not Otherwise Disclosed Continued Pursuant to the operating agreement of Crown Ridge, while operator of Crown Ridge the Company received \$104,000 for management services and overhead charges.
16. Commitments and Contingencies Litigation
On May 21, 1998, Road Runner Oil, Inc. ("Road Runner") and Gavilan Petroleum, Inc. ("Gavilan") filed an action in the Third Judicial District Court, Salt Lake County, State of Utah, as Civil # 98-0905064 against the Company and its President. The action relates to the purchase by Road Runner of 100% of the stock of Gavilan in 1997, and generally seeks to (i) obtain corporate records of Gavilan in the Company's possession relating to the amount of oil and gas royalties potentially owed to third parties prior to the aforementioned stock sale, and (ii) to determine the amount of royalties owed. The action further alleges, on behalf of Gavilan, claims of breach of fiduciary duty, professional negligence and mismanagement against the Company's President for alleged mismanagement of Gavilan's affairs. The Plaintiffs seek injunctive relief requiring the tendering by the Company of the referenced records and such damages as may be proven at trial. The Company believes that the Plaintiff's claims are groundless and that it is entitled to payment of the \$75,000, plus accrued interest, still owed by Road Runner as part of the purchase price for Gavilan. In addition, since the action was filed, the Company has tendered the corporate records to the Plaintiffs. On March 8, 2000, the Company filed an answer denying

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liability and filed a counterclaim against Road Runner and Gavilan for breach of contract and declaratory judgment. The Company is not certain as to whether or not the outstanding balance under the promissory note is collectible by the Company.

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CROWN ENERGY CORPORATION
Notes to Consolidated Financial Statements
Continued

16. Commitments
and
Contingencies
Continued

On July 12, 1999, Morrison Knudsen Corporation ("MK") filed a Complaint in the Eighth Judicial District Court, Uintah County, State of Utah, alleging that CAC had breached an agreement whereby MK would provide certain mining services for CAC at Crown Ridge's Facility in Uintah County, Utah (the "Project"). Judgment in favor of MK was entered on January 30, 2001, in the principal amount of \$303,873.39, \$49,062.33 of pre-judgment interest and \$2,033.14 of costs, which totals \$354,968.86. The Settlement Agreement obligates MCNIC to pay the MK Judgment and indemnify the Company from any costs associated therewith.

On July 14, 1999, Crown Distribution and CAPCO filed an action in the United States District Court for the Central District of California, Southern Division, against Santa Maria Refining Company ("SMRC"), SABA Petroleum Company ("SABA") and Greka Energy Corporation ("Greka"). The claims included causes of action for breach of contract, breach of the covenant of good faith and fair dealing, conversion, fraud, claim and delivery, unjust enrichment and constructive trust, unfair competition, declaratory relief and specific performance. These claims arose out of the Defendant's alleged termination of the Processing Agreement and subsequent refusal to deliver asphalt to Crown Distribution. On November 20, 2001 Crown Distribution and CAPCO entered into a settlement agreement with SMRC. The Company believes the matter was amicably resolved.

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CROWN ENERGY CORPORATION
Notes to Consolidated Financial Statements
Continued

16. Commitments
and
Contingencies
Continued

In late July and August, 2001, the Company participated in a binding arbitration proceeding (the "Arbitration") in Salt Lake City, Utah against MCNIC, its related entities and certain of their officers. The Arbitration addressed all claims previously asserted between the parties either in the Third

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Judicial District Court of Salt Lake County in a proceeding entitled MCNIC Pipeline & Processing Company v. Crown Asphalt Distribution Civil No. 00904867 (the "State Action") and that certain proceeding filed in the United States District Court for the District of Utah Central Division entitled Crown Energy Corporation, et al. v. MCN Energy Group, Inc. et al., Civil No. 2CV-0583ST (the "Federal Action"). In summary, in the State Action, MCNIC alleged that funds previously advanced by it to Crown Distribution in an amount in excess of \$14 million, plus interest, were immediately due and payable. MCNIC also sought the appointment of a receiver for Crown Distribution's assets and sought to foreclose on security interests in the assets of Crown Distribution.

In contrast, the Company asserted that the funds previously advanced to Crown Distribution by MCNIC were part of a revolving credit facility which was not due and payable at that time and from which Crown Distribution should be able to make additional draws. Further, the Company sought recovery against MCNIC, its related entities and certain of its officers under other causes of action, including breach of fiduciary duties, economic duress, breach of implied covenants of good faith and fair dealing, breach of contracts and intentional interference with business relations.

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CROWN ENERGY CORPORATION
Notes to Consolidated Financial Statements
Continued

16. Commitments
and
Contingencies
Continued

On October 31, 2001, the Arbitrator issued the Damage Award in which he held that MCNIC's loans were due and payable with interest accruing on such loans from 8% to 18%, depending upon the particular loan involved. The decision also failed to find for the Company on its claims against MCNIC, its related entities and officers. The Damage Award was subsequently confirmed by the Third Judicial District Court of Salt Lake County, state of Utah on February 7, 2002. The amount of the Damage Award as of March 29, 2002 is \$20,266,822.71, with interest accruing daily in the amount of \$5,102.84.

In addition, the Arbitrator awarded \$2,609,518.69 in fees and costs (the "Fee Award") to MCNIC against the Company and its related entities on a joint and several basis. The Fee Award has yet to be confirmed by the appropriate Utah state court and proceedings regarding it have been stayed as further explained below.

On March 8, 2002, the Company and MCNIC, its related entities and certain of its officers executed the

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Settlement Agreement. Pursuant to the foregoing agreement, the Company transferred all of its interests in Crown Ridge and the leases relating to the Asphalt Ridge properties to MCNIC. In addition, the Company and its officers agreed not to compete with Crown Ridge in the Western United States and Western Canada in any way regards to tar sands leasing, mining, extraction or processing for a period of three years. Notwithstanding the following, it was agreed that the conducting by the Company of its present business of buying, storing, blending and selling asphalt did not constitute a breach of the foregoing covenant.

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CROWN ENERGY CORPORATION
Notes to Consolidated Financial Statements
Continued

16. Commitments
and
Contingencies
Continued

In exchange for the assignment of the Crown Ridge interest, the Company received (i) MCNIC's commitment to pay the MK Judgment and its indemnification of the Company from the MK Judgment, (ii) the assignment from Crown Ridge of a 1% non-cost bearing, overriding royalty interest in the sales proceeds received by Crown Ridge or its successors and assigns from any products produced on the assigned leases of "Tract A" at Asphalt Ridge or a 3% non-cost bearing, overriding royalty interest in proceeds received by Crown Ridge or its successors and assigns from any other lands which are currently leased by Crown Ridge or the Company, and (iii) the mutual release between the parties of any known or unknown claims between them relating to Crown Ridge, including the obligation of the Company to pay the CAC Loan.

Pursuant to the Settlement Agreement, the Company also acquired the Option to purchase all of MCNIC's rights, title and interests in, or relating to, Crown Distribution (including its right to Damage Award and the Fees Award) for an amount equal to \$5,500,000 (the "Purchase Price"). The Settlement Agreement provides that the Purchase Price shall be paid through the payment of \$200,000 at execution with the balance due upon the closing of the Option (if such closing occurs on or before April 30, 2002). After April 30, 2002 the Company shall have the right to extend the Option until September 30, 2002 by making an additional \$100,000 payment for each 30 days by which the Option is extended. If the Company closes under the Option, then all payments made to MCNIC shall be credited against the Purchase Price. If, however, the Company does not exercise the Option, the initial \$200,000 payment shall be credited against the Company's ultimate liability under the Fee Award.

Promptly following the execution of the Settlement

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Agreement, the Company and MCNIC stayed all pending litigation relating to the Arbitration or any enforcement of its conclusion issued as a result of it. The Settlement Agreement provides that if the Company does not exercise the Option, MCNIC may execute on the Damage Award and that the parties may either move to confirm or appeal, as the case may be, the Fee Award.

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CROWN ENERGY CORPORATION
Notes to Consolidated Financial Statements
Continued

16. Commitments
and
Contingencies
Continued

Management of the Company believes that under the severe legal and financial constraints facing the Company as a result of the Arbitration's outcome, that the negotiation and execution of the Settlement Agreement were in the best interests of the Company and its shareholders. Management of the Company is presently taking actions intended to permit it to exercise the Option but cannot assure that it will be successful in obtaining the requisite financing on terms which are acceptable to the Company. Further, the Company cannot describe what form future financing might take.

Other

The Company may become or is subject to other investigations, claims, or lawsuits ensuing out of the conduct of its business, including those related to environmental, safety and health, commercial transactions, etc. Management of the Company is currently not aware of any other investigations, claims, or lawsuits which it believes could have a material adverse affect on its financial position.

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CROWN ENERGY CORPORATION
Notes to Consolidated Financial Statements
Continued

17. Segment
Reporting

In accordance with the provisions of SFAS No. 131, the Company makes key financial decisions based on certain operating results of certain of its subsidiaries. Segment information as reviewed by the Company is as follows:

Year Ended December 31, 2003

Crown Asphalt
Crown Asphalt Products

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	Distribution -----	Company -----	-----
Revenues from external customers	\$ 572,965	\$ 26,459,693	\$
Gross profit (loss)	\$ (1,838,969)	\$ 4,745,437	\$
Interest expense	\$ 3,411,221	\$ 232,360	\$
Depreciation and amortization	\$ 566,241	\$ 169,407	\$
Segment net loss	\$ (9,191,518)	\$ 3,090,477	\$
Segment total assets	\$ 11,009,753	\$ 7,981,851	\$ (

	Year Ended December 3 -----		
	Crown Asphalt Distribution -----	Crown Asphalt Products Company -----	CAC -----
Revenues from external customers	\$ 20,464,624	\$ 2,322,479	\$
Gross profit (loss)	\$ (1,119,221)	\$ 301,261	\$
Interest expense	\$ 2,096,565	\$ 180,715	\$ 298,06
Depreciation and amortization	\$ 708,614	\$ 109,840	\$ 62,03
Segment net loss	\$ (11,365,018)	\$ 712,126	\$ (7,328,76
Segment total assets	\$ 13,461,698	\$ 3,500,902	\$ 15,87

	Year Ended Decemb -----		
	Crown Asphalt Distribution -----	Rawlins Terminal -----	-----
Revenues from external customers	\$ 32,934,592	\$ 2,583,949	\$
Gross profit	\$ 2,458,780	\$ 48,758	\$
Interest expense	\$ 1,933,359	\$ 146,884	\$
Depreciation and amortization	\$ 595,168	\$ 64,089	\$
Segment net loss	\$ (1,325,229)	\$ (344,661)	\$
Segment total assets	\$ 23,341,506	\$ 2,454,902	\$

CROWN ENERGY CORPORATION
Notes to Consolidated Financial Statements
Continued

17. Segment Reporting

2001

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Continued

Reconciliation of assets		
Total assets for reportable segments	\$	2,669,360
Elimination of investment in subsidiaries		15,192,849
Elimination of intercompany receivables		(2,144,944)
Total consolidated assets		\$ 15,717,265

During 2001, 2000 and 1999, the Company operated primarily in the production and distribution of asphalt. The Company's operations and sales are dispersed throughout Utah, Arizona, California, Nevada, Wyoming, New Mexico, Nebraska and Colorado and could be adversely affected by economic downturns in these states and by federal or state funding policies related to road construction or improvements.

18. Employee Benefit Plan

In 1999, the Company established a defined contribution plan which qualifies under Section 401(k) of the Internal Revenue Code. The plan provides retirement benefits for employees meeting minimum age and service requirements. Participants may contribute up to the lesser of \$10,000 or 15 percent of their gross wages, subject to certain limitations. The plan provides for a discretionary amount to be contributed to the plan each year. The contribution for the years ended December 31, 2001, 2000, and 1999 totaled approximately \$35,000, \$36,000 and \$35,000, respectively.

18. Subsequent Event

Pursuant to the Series A Preferred Stock's Certificate of Voting Powers, Designation, and Preferences, accrued dividends on Preferred Series A Stock may be paid in common stock of the Company at the option of the holder upon a written and timely request before payment of the quarterly dividend. On February 28, 2002 an entity controlled by the president of the Company which holds all of the Series A Preferred Stock requested payment of \$200,000 of accrued dividends in shares of common stock. Accordingly 13,793,103 shares of the Company's common stock were issued as payment of \$200,000 of accrued dividends.

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